The next generation of financial advisors
Growing the next generation of financial advisors: securing talent for a new millennium

The wealth management industry is facing one of its greatest challenges in decades as demographic and cultural shifts are simultaneously increasing the demand for investment services and thinning the ranks of qualified financial advisors. The retirement of the baby boomers has driven the need for wealth management and will contribute to the 32% growth the industry is expected to experience over the next decade. However, the simultaneous aging and retirement of financial advisors (FAs) has reduced the number ready to service that growth by 4.3% over the last decade.

Firms that want to keep pace with industry growth and serve the baby boomers and their heirs must fully understand the drivers of the “Next Gen” challenge within the wealth management industry.

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<th>Topic area</th>
<th>Driver</th>
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<td>Younger clients desire young FAs</td>
<td>The oldest baby boomers have begun wealth transfer to their children. That younger client base, in turn, favors a younger FA base.</td>
<td>• Generation X and Y investors will accumulate close to US$46 trillion in assets by the end of the decade, including US$18 trillion in inherited assets from baby boomer parents.</td>
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<td>• Younger advisors know instinctively what will get the attention of younger clients.</td>
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<td>• Generation X and Y clients have the strongest relationship with advisors and provide 80% more referrals.</td>
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<td>Aging population of FAs</td>
<td>The average age of FAs has been steadily increasing in recent years. Little or no attention has been paid to succession planning and client retention when FAs retire.</td>
<td>• The average age of an FA is now 50 years old and continues to rise every year.</td>
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<td>• Only 22% of financial advisors are under 40 (only 5% are younger than 30).</td>
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<td>• Just 40% of older FAs say that they have a completed succession plan.</td>
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<td>• One in three firms experienced client retention of less than 50% during FA succession – well below the ideal target rate of 90%.</td>
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<td>Insufficient FA replenishment</td>
<td>The industry is expected to grow at a dramatic speed over the next decade, but FA replenishment by younger advisors has been decreasing.</td>
<td>• For every graduate of a financial planning college program who enters the industry, there are two advisors who just became eligible for Social Security benefits.</td>
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<td>• The total population of FAs has decreased by 4.3% over the last decade.</td>
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<td>• The number of jobs for personal financial advisors is expected to grow by 66,400 by 2020.</td>
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Six strategies to fill the “Next Gen” gap

There is no shortage of information or opinion on the impending advisor shortage and the reluctance of young people to join the wealth management industry. Factors like the stigma of salesmanship, outdated technology and models, the intimidation of working with clients twice their age and so forth continue to limit the number of talented graduates and young professionals joining the wealth management industry. Indeed, two-thirds of students majoring in financial planning opt for jobs such as budget analysts, brokerage agents and investment bankers rather than pursuing a CFP. However, a thoughtful review of the body of information around the Next Gen challenge reveals a number of recurring themes that suggest six strategies for attracting and retaining Gen X and Gen Y advisors:

1. Targeting technology advances that appeal to younger FAs
2. Defining the career path from student to FA
3. Catering to next-generation priorities in the workplace
4. Realigning the compensation structure
5. Enhancing the FA on-boarding and transition process
6. Establishing a mentorship structure to grow young FAs through collaboration with their veteran counterparts

The firms that move first to leverage these strategies and cultivate young advisors will have a significant advantage during the next decade of unprecedented growth and transition. The table below summarizes these strategies, as well as the key trends within each strategy.

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| **Attract young FAs through technology investments** | Gen Y planners want to hear that their prospective firms have strong technical support in place; greater efficiency means they’ll be able to spend time on their clients. | • Firms are adopting advanced customer relationship management (CRM) systems that continuously mine industry and social media to provide FAs with new information on their clients.  
• Seventy percent of advisors still perform transactional activities on paper while industry leaders have begun migrating all FAs to new transactional platforms that can be accessed from digital devices.  
• Digital growth is becoming more prevalent across advisor servicing functions, such as reviewing order status, reports, balance checks and alerts. Access from mobile devices allows FAs to seamlessly view asset allocation, analyze top accounts and detach from the network while on the go. |
| **Define career path from student to FA** | The organic growth of the industry with the baby boomers means that there is no clear path from finance student to FA. The advisory industry lacks well-written job descriptions and the recognition on campus enjoyed by services like investment banking. | • Industry leaders have begun giving scholarships and grants to financial planning schools and inviting students to conferences to raise awareness about wealth management careers.  
• Some firms have established new internship programs that provide prospective FAs with experience on critical systems and education about the industry, profession and end-investor needs.  
• Other firms have initiated seminars for younger investors, getting them on the right path toward saving and investing, while “planting the seed” for interest in the industry. |
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| Cater to younger FA priorities    | Firms must understand and cater to the priorities, values and strengths of younger FAs in order to increase recruitment.                                                                          | • Organizations are increasingly marketing the independence and flexibility of being an FA as Gen Y employees will often choose a lower-paying job that “feels right” versus a higher-paying job that has potentially less job satisfaction.  
  • Many advisors are laboring to dissociate their jobs from the “stigma on sales” that Gen X and Y applicants fear.  
  • Industry leaders have begun encouraging young planners to be more broadly involved in areas from marketing initiatives to client meetings and interactions. |
| Realigning the compensation structure | Gen Y FAs value a transparent compensation structure in which their incentives better align with those of their clients.                                                                            | • The focus that Next Gen FAs have placed on transparency, outcomes and client interests has proven to be a substantial driver in the growing trend toward fee-based compensation.  
  • The fee-based revenues in the wealth management industry are expected to grow from 59% today to 66% by the end of 2015.  
  • Many firms are balancing their objective of attracting young FAs with retaining veteran talent by providing fee-based programs for new FAs while enabling more gradual migration to such programs for veteran FAs accustomed to commission-based compensation.  
  • Organizations are creating a larger initial salary component for recent college graduates in order to remain competitive with the starting salaries of similar finance-based careers and to support young FAs as they begin building their book of business. |
| Improve formalized on-boarding and transition programs | Advisors must increase investment in extended training programs to improve younger FA transitioning, build client-readiness and strengthen retention.                                                       | • Firms have begun reconstituting training programs that suffered severe neglect and down-sizing during the volatility of the financial crisis.  
  • Industry leaders are establishing rigorous three- to four-year Practice Management Development Programs that provide consistent touch points, seminars and feedback forums for new FAs. Veteran advisors offer extensive mentoring during the programs to provide participants with exposure, support and enhanced professional development.  
  • It appears that increasing the length of training from three years to closer to five years has improved retention of trainees who are licensed during the program, with some firms increasing retention to 42%, up from 28% in the period from 2000 to 2007. |
| Establish mentorship and growth programs | Organizations can improve the younger FA experience, better service clients, and help retain intellectual capital by investing in formal mentorship programs.                                    | • Advisors have increased their efforts to allow young FAs to gain earlier client exposure as they have found this notably increases young FA engagement and loyalty.  
  • Organizations are also approaching mentorship as a benefit to senior FAs as they often lack the cutting-edge technology and understanding of analytics that their younger peers possess; this partnership can often result in a richer overall experience for the client.  
  • Firms have also begun setting up regularly scheduled meetings with young new hires to discuss not just the firm, but also the advisor’s evolving ideas, concerns and challenges. |
Where EY is involved

EY has been helping wealth management firms across the industry to leverage these five strategies to meet the challenges of developing the next generation of financial advisors. Specifically, EY has targeted unique approaches to overcome each aspect of the Next Gen challenge by:

1. Assisting firms in benchmarking their technological capabilities against those considered to be most important to young FAs
2. Reviewing current recruiting strategies and initiatives and identifying key focus areas for Next Gen FAs
3. Supporting organizational change activities to understand current FA needs and how they can be better served
4. Leveraging expertise to improve the FA on-boarding experience and training programs
5. Analyzing the current support structure to determine where mentorship is most needed and how FA engagement can be improved
6. Assessing current FA compensation systems and incentive models to identify opportunities for improvement

The following table summarizes some of the Next Gen focus areas where EY is already involved and provides examples of what we are doing to help our clients in this area.

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<th>Focus area</th>
<th>Technology enhancements</th>
<th>Training and on-boarding</th>
<th>Supporting FA priorities</th>
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<td>Technology enhancements</td>
<td>Over the last several years, EY’s Wealth Management practice has worked across the top 10 wealth management firms to help target and implement strategic technology updates</td>
<td>EY has found that the Gen X and Y focus on soft skills often comes at the expense of some of the core financial knowledge needed to guide client investments</td>
<td>EY’s Human Capital Group has conducted current-state workshops, interviews, compensation analyses and surveys to understand young FAs’ priorities and where they feel they need more support</td>
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<td>Training and on-boarding</td>
<td>・Administer new-hire orientation on the various topics that are relevant to young FAs who are new to the industry ・Re-focus and modernize FAs’ ongoing training, client readiness and mentoring through resources like the EY Tax Desk ・Design recruitment programs, workforce strategies and career advancement structures that will attract recent college graduates and younger FAs</td>
<td>・Analyze compensation structures and vendors to identify where incentives can better align to Next Gen FA priorities ・Assist firms in understanding the needs and concerns of FAs early in their careers and establish a support structure around those needs ・Support clients in the creation of seminars and mentorship programs to help employees use their varying generational perspectives and interests as a mutually beneficial tool</td>
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<td>Supporting FA priorities</td>
<td>・Redesigning and improving technological offerings through competitive benchmarking, vendor and platform assessment, target operating models, model redesign and new product review/implementation ・Facilitating business function/technology workshops to identify FA priorities, perform current state assessment, benchmark against technological offerings of peers and outline pain points</td>
<td>・Modernized tools and resources sought by Next Gen FAs ・Improved on-boarding experience and better young FA retention ・Enhanced young FA experience and greater client readiness</td>
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Recent work with clients

- Redesigning and improving technological offerings through competitive benchmarking, vendor and platform assessment, target operating models, model redesign and new product review/implementation
- Facilitating business function/technology workshops to identify FA priorities, perform current state assessment, benchmark against technological offerings of peers and outline pain points
- Administer new-hire orientation on the various topics that are relevant to young FAs who are new to the industry
- Re-focus and modernize FAs’ ongoing training, client readiness and mentoring through resources like the EY Tax Desk
- Design recruitment programs, workforce strategies and career advancement structures that will attract recent college graduates and younger FAs
- Analyze compensation structures and vendors to identify where incentives can better align to Next Gen FA priorities
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Modernized tools and resources sought by Next Gen FAs

Improved on-boarding experience and better young FA retention

Enhanced young FA experience and greater client readiness
We have found that, if managed correctly, the younger FA priorities of work-life balance, teaming and client engagement have actually proven to be a source of positive change in wealth management practices. Those changes, in turn, become key drivers to make firms more appealing to younger clients and current client beneficiaries, whose priorities and loyalties will define the wealth management landscape of the future.

Key Ernst & Young LLP Wealth Management contacts

Marcelo Fava
Principal, Financial Services
marcelo.fava@ey.com
+1 704 350 9124

Jacqueline Boersema
Executive Director, Financial Services
jacqueline.boersema@ey.com
+1 704 331 1867

Ugur Hamaloglu
Senior Manager, Financial Services
ugur.hamaloglu@ey.com
+1 212 773 8386

Sources
The following sources were used for data throughout this article on the future of the wealth management industry and on the next wave of financial advisors.

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