Generation Game: Financial Tribes in Family Finance

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netwealth

Wealth management as it should be

Contents

Introduction

Our individual relationship with money is personal and unique to us. No one person's goals, fears, motivations or challenges are the same.

Even within families, we often take varying approaches to our respective finances or, in other words, belong to different 'financial tribes'.

While these differences are normal, they can lead to a lack of understanding within families that do not engage in open, transparent conversations about money.

This disconnect – particularly between generations – can have a significant impact on family financial planning, creating challenges over the short and long-term.

Navigating family 'financial tribes'

This report explores the relationship between parents and adult children, focusing on their individual approaches to their finances and how they compare and contrast with one another.

We explore the impact their respective 'financial tribes' have on their relationships and how they can influence the wider family dynamic when it comes to financial planning. We also share practical guidance on how to have more open conversations about money to enable families to best plan for the future as a unit.

The report uses insights from consumer research of 1,000 25-35-year-olds and 1,000 parents of 25-35-year-olds, as well as third-party data, Netwealth's own experience and expertise from leading financial coach Emma Maslin.

More detail on the methodology can be found on page 14.

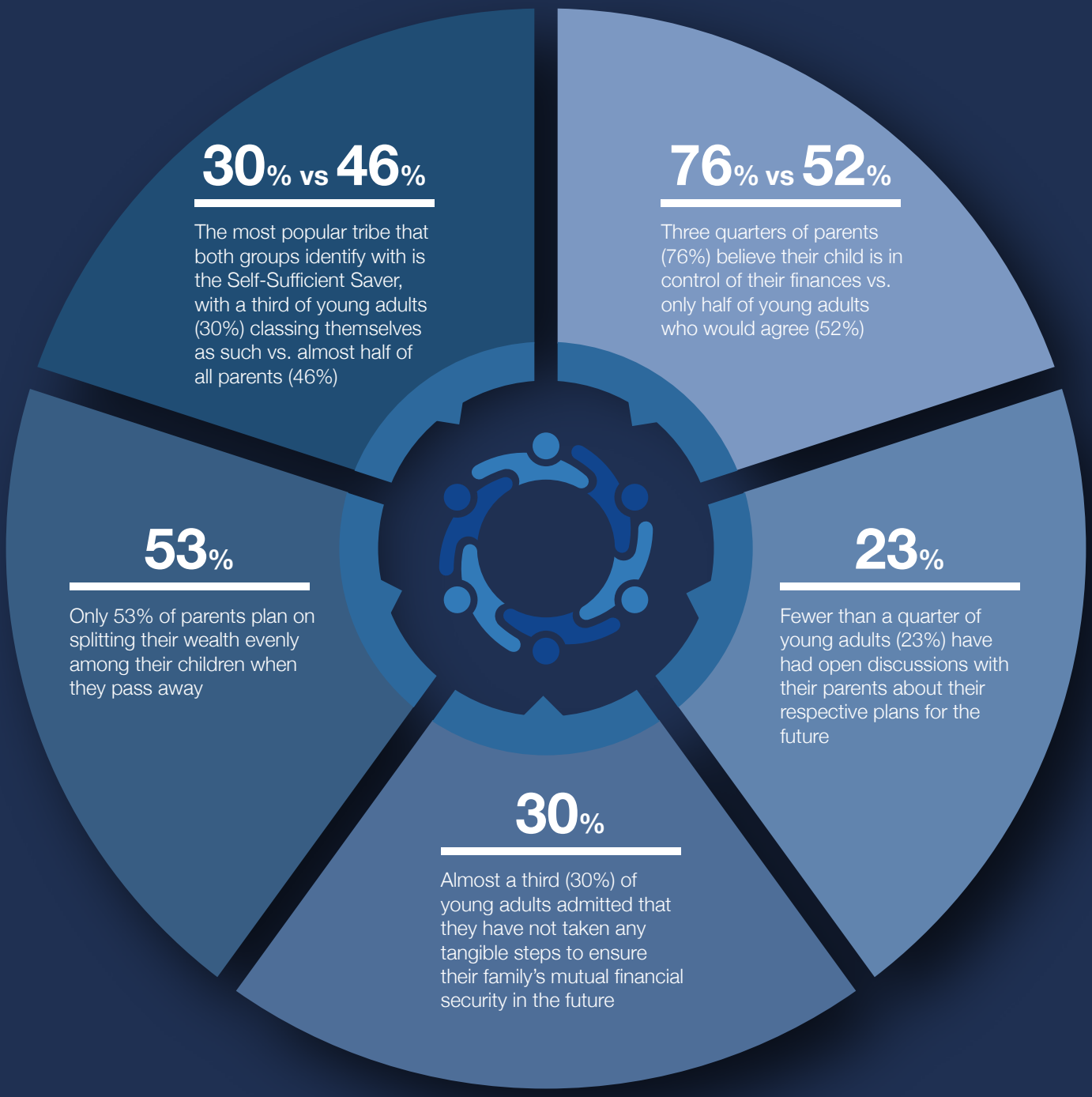
"Learning about different 'financial tribes' enables us to interpret the psychology behind our varying approaches to wealth and better understand our individual motivators, hopes and fears when it comes to money. Improving our understanding of these characteristics is key to facilitating better conversations about our finances and, ultimately, enables us to plan more effectively for the future, both as individuals and as an overall family unit."

Charlotte Ransom, CEO, Netwealth

"Every life opportunity we face is filtered through the lens of our unique money personality – or 'financial tribe' – but we often assume that others think about money in the same way that we do. This study highlights that families need to talk more, be cognisant of differences between family members, and for parents especially, be aware of behavioural patterns they are passing on to their children in order to improve understanding of one another and our respective approaches to our finances."

Emma Maslin, Financial Coach

Key stats at a glance



What's your 'financial tribe'?

'Financial tribes' help characterise our individual relationships with money and how we manage our finances. Although most people usually identify strongly with one tribe in particular, in reality we often demonstrate the characteristics and behaviours of multiple tribes over the course of our lifetime.

This can depend on various factors – including our life stage, external circumstances and our relationships with those around us – demonstrating the complexity of juggling the wants and needs of multiple, ever-developing 'financial tribes' within a family unit.

Before exploring how best to navigate these differences, which tribe(s) do you think you and your family members belong to?

The Head in the Sand Avoider

Though they know that they need to take action with their finances, they don't feel capable of doing so.

They're not necessarily bad with money, but lack motivation to find out how to make what they have work harder for them.

They find the whole concept of personal finance overwhelming.

The Self-Sufficient Saver

Saving is about feeling in control, safe and secure.

They're organised and responsible with money and enjoy living within a budget.

They're good at delaying gratification and will save up over time for a big purchase.

They will tend to be overly cautious with their finances, preferring to save rather than invest.

The Big Spender

Adventurous by nature, they thrive on the adrenaline hit from what spending can deliver.

Financial decisions are made based on emotions. Sometimes spend more than they earn.

They don't plan for the unexpected and tend not to see the point in saving or investing.

The Lifestyle Lover

They're influenced by their environment, what they see on social media, and what others are buying.

They're happy to spend money for gratification.

They can feel pressure to keep up with peers and this may lead to spending beyond their means or sacrificing saving for the future.

The Calculated Risk Taker

They have a healthy appreciation of taking calculated risks to reap rewards. But as they enjoy the thrill of investing, they may be prone to taking excessive risk.

They're financially literate, pay close attention to their finances, set clear financial goals and plans to achieve them.

They're comfortable bringing in qualified people to support them, although they may be less likely to heed advice.

The Wealth Sceptic

They find the concept of being wealthy uncomfortable but will often budget carefully.

They do not equate money with happiness and it doesn't feature high on the list of things they value most in life.

They may feel conflicted if they were suddenly in possession of a large sum of money.

The Generous Giver

Often the 'caretaker' in their relationships, providing emotional and financial support.

They're happy to share their money with loved ones and worthy causes.

They want to help others even when doing so isn't always in their own best interests.

1

Like parent, like child

Young adults most likely to identify with the same financial tribe as their parents, leading to cross-generational money trends

1. Like parent, like child:

Young adults most likely to identify with the same financial tribe as their parents, leading to cross-generational money trends

- Most young adults identify with the same financial tribe that they believe their parents belong to, illustrating how people model financial personas on their parents
- This can have mixed results depending on the characteristics and behaviours that are picked up and how families navigate them
- The most popular tribe that both groups identify with is the Self-Sufficient Saver, with a third of young adults (**30%**) classing themselves as such vs. almost half of all parents (**46%**)

As young adults identify with the same financial tribe as their parents identify, financial behaviours are filtering through generations. Families should be cognisant of this early on to ensure the best possible financial outcomes for everyone.

Childhood learning is essential to positive financial development

Table 1. Young adults' perception of their parents' 'financial tribe'

"According to the Money Advice Service, by the age of seven most children have formed the core behaviours that will affect the financial decisions they make throughout the rest of their lives. Studies have found that when parents model positive financial behaviours, their children imitate them as they move into adulthood. When parents saved, paid their bills on time and avoided unnecessary debt, their children were more likely to do the same later in life too".

Emma Maslin, Financial Coach

"Young adults adopting similar practices to those shown by their parents could prolong inefficiencies or negative habits within families. A household of savers may not get round to investing when they should do, while a family who prefer not to engage with their finances at all – those with their heads in the sand – will reduce the likelihood of younger generations being well enough prepared for their financial futures. For those with multiple tribes under one roof, while there will be challenges as a result of different approaches, there may also be the benefit of more dynamic discussion leading to effective planning".

Charlotte Ransom, CEO, Netwealth

Saving for the right reasons?

Delving into the Self-Sufficient Saver mindset further – the most common 'financial tribe' – we ask financial coach Emma Maslin and CEO of Netwealth Charlotte Ransom what these traits can mean for families and ultimately how to best navigate these within the family unit.

"Fear can be a hugely powerful motivator for many when it comes to managing our finances. Self-Sufficient Savers fear that they will not have 'enough' money, so they look to save a large pot to alleviate their concerns. However, problems can arise if it turns out that 'enough' is never really enough and other positive financial habits start to suffer as a result.

While fear can be a great ally when it comes to building wealth, like everything in life, there needs to be a healthy dose of balance and reflection. Ask yourself what 'enough' really looks like and whether your fear of running out is justified?"

Emma Maslin, Financial Coach

"While there are many positive characteristics among Self-Sufficient Savers, this tribe needs to be careful not to allow their conservatism to become an unnecessary millstone which holds them back from achieving their overall financial goals.

Our research shows evidence of Self-Sufficient Savers tending to over-save rather than allowing their money to work harder for them over time through investing. This could result in reducing their longer-term wealth potential and should be avoided across the family unit".

Charlotte Ransom, CEO, Netwealth

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Reality check

Parents' overconfidence in their adult children's financial capabilities risks creating a dangerous disconnect

2. Reality check:

Parents' overconfidence in their adult children's financial capabilities risks creating a dangerous disconnect

- Young adults are far less confident in their financial capabilities and long-term prospects than their parents think they are
- Three quarters of parents (**76%**) believe their child is in control of their finances vs. only half of young adults who would agree (**52%**)
- While better communication is needed across the board, Wealth Sceptics and Calculated Risk Takers are more positive about their finances than others

A rose-tinted view

Although many parents and their adult children employ a similar approach to money as a result of belonging to the same 'tribe', there's a significant inter-generational disconnect in financial reality vs. perception.

Most parents believe their child is in control of their finances (**76%**) with clear financial goals and plans to achieve them (**64%**), but in reality, only half of young adults would agree (**52%** and **55%**).

The divide widens into the future, with more than two thirds of parents confident in their child's financial prospects over the next 10-20 years and throughout retirement (**69%** and **68%**), compared to just half of young adults who feel the same (**51%** and **46%**).

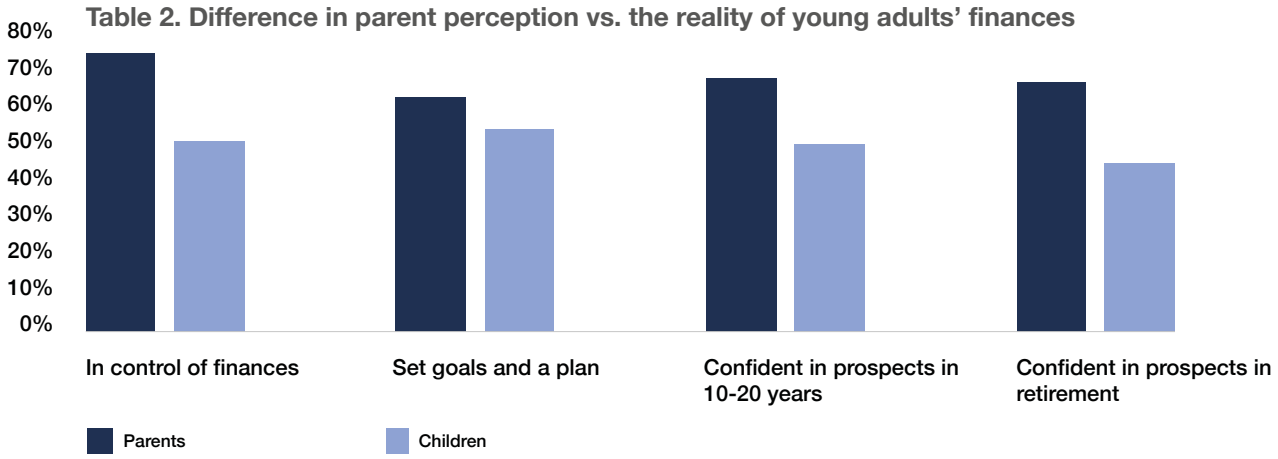
"This generational disconnect can be caused by a lack of effective communication on the topic of money which remains a taboo in many homes today. This leaves parents to make assumptions about their children's finances based on their own view of the world, which can often result in a rose-tinted view of their child's finances".

Emma Maslin, Financial Coach

"Most parents have the benefit of lived experience when it comes to their finances, giving them greater confidence than their children that over time their financial goals can be adjusted and met. We can help bridge this gap by talking about our experiences and ensuring finance is a topic which is discussed within the family unit to enable our children to learn and gain confidence. Such conversations are also informative from the parents' perspective, educating them on the reality of their child's financial situation and allowing for more informed, and therefore effective, financial planning as a result".

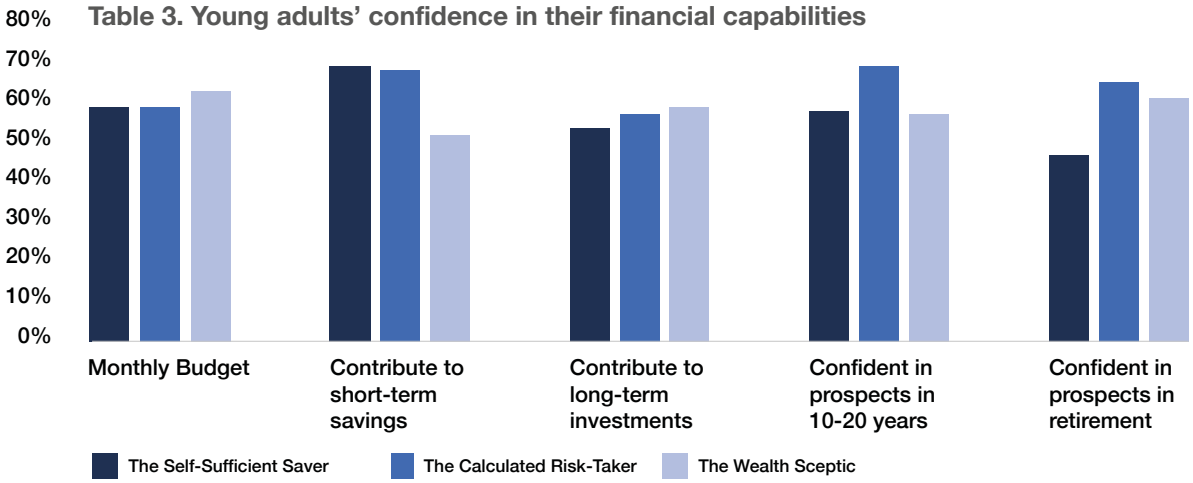
Charlotte Ransom, CEO, Netwealth

Table 2. Difference in parent perception vs. the reality of young adults' finances



Financial Tribe differences

While parents and children across the board stand to benefit from discussing their finances more openly and transparently with one another, each 'financial tribe' faces its own set of challenges



While young adults identifying as Self-Sufficient Savers felt most in control of their finances (**66%**), they were also more likely to focus on short-term goals rather than the bigger picture. Over two thirds (**68%**) regularly contributed to short-term savings via an easy access savings account, while just over half (**53%**) paid into a longer-term pot, such as a pension or Stocks & Shares ISA.

The Calculated Risk Taker is most confident about their ability to support themselves both over the next 10-20 years and in retirement (**68%** and **64%**), compared to the Self-Sufficient Saver who is much less confident (**57%** and **46%**).

For the Wealth Sceptic, these young adults are most likely to have a monthly budget for their immediate needs (**62%**) and they are also the most engaged with their longer-term finances with over half (**58%**) contributing to a pension or Stocks & Shares ISA on a regular basis. While this tribe may be uncomfortable with the idea of wealth, they are encouragingly engaged with their finances at a fundamental level. This should ultimately help stand them in good stead for the future; however, their discomfort with the notion of stored wealth might play into other decisions they make over time.

"Acknowledging which financial tribe you and your family members relate to most and recognising the pros and cons of their associated behaviours can be very valuable. For example, for Self-Sufficient Savers, anxiety about longer term financial security might be soothed by working through practical examples of different financial planning approaches and their respective outcomes to help make key decisions. Alternatively, a Wealth Sceptic may benefit from developing a better understanding of their possible longer term financial requirements. This would help them gain comfort in what could appear to them to be an overfunded position today, but is in reality necessary preparation for the future.

Charlotte Ransom, CEO, Netwealth

3

Communication gap

Parents and adult children risk missing out on long-term benefits of family planning by operating in silos

3. Communication gap:

Parents and adult children risk missing out on long-term benefits of family planning by operating in silos

- The generational disconnect grows with time, with young adults lacking clarity around their parents' plans for their wealth when they die and avoiding conversations on the topic
- With only **53%** of parents planning on splitting their wealth evenly between their children, this lack of engagement could lead to surprises for people later in life
- The 'financial tribe' parents identify with can also have a significant impact on their plans for their wealth, highlighting the need to have conversations early on

Young adults unaware of parents' plans for wealth

While parents can be overly optimistic about the reality of their child's current financial situation, many young adults are equally not as cognisant of their parents' wealth plans over the longer term.

Conversations about money can be difficult enough, particularly when combined with the added emotions around discussing the eventual death of a loved one, so many opt to avoid the topic altogether.

Less than a quarter of young adults (**23%**) have had open discussions with their parents about their respective plans for the future. Almost a third (**30%**) admitted they have not taken any tangible steps to ensure their own family's mutual financial security in the future.

Worryingly, most parents are unaware of this disconnect with two thirds (**66%**) believing their children have a clear understanding of their specific plans for their wealth when they die, compared to just **39%** of young adult children.

For instance, while **65%** of parents plan on transferring their wealth to their children over the course of a number of years, rather than in one lump sum when they die, only a quarter of young adults (**28%**) are aware of these plans.

When one child gets a bigger inheritance – financial favouritism or pragmatism?

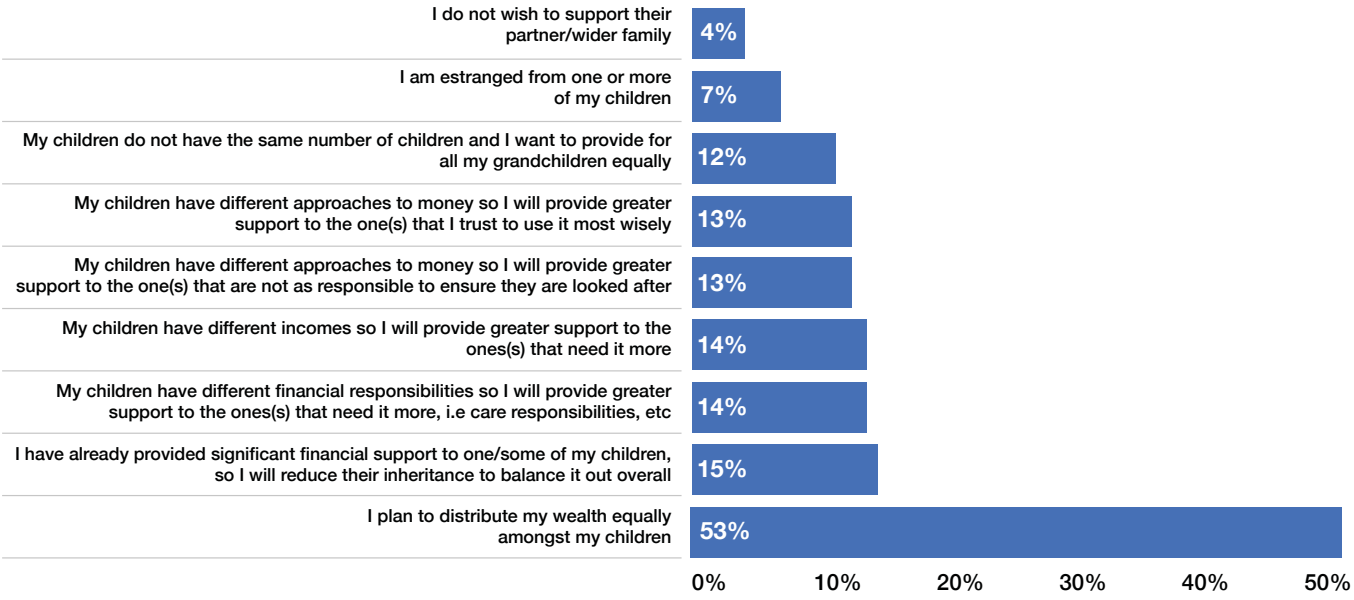
These risks are further complicated by the fact that, on average, only **53%** of parents plan on splitting their remaining wealth evenly among their children when they die.

Parents were most likely not to share their wealth equally between their children either because they had already provided significant financial support to one child (**15%**) or because they felt their children had different financial responsibilities and wanted to provide greater support to those that needed it more (**14%**).

"There is a tendency for parents to assume their children are aware of their inheritance plans, while young adults are understandably reticent to broach the topic given the broader connotations. However, this lack of clarity has the potential to create significant problems for the family unit which could be avoided. If young adults are aware that they will inherit some or most of their parents' wealth prior to their deaths, they could be afforded more financial freedom than they might otherwise have expected. This could have a significant impact on important financial decisions they make over the short and medium term. On the other hand, for parents who plan on splitting their wealth according to their children's needs, having such conversations early on would enable them to explain their rationale to their children, clarify the circumstances under which their plans would apply and enable all family members to plan their own finances accordingly".

Charlotte Ransom, CEO, Netwealth

Table 4. Reasons why parents plan to distribute different amounts of money to their adult children



Parents that identified as Lifestyle Lovers or Big Spenders were far less likely than their peers to share their wealth equally amongst their children (**4%** and **17%**). Instead, they would prefer to provide greater support to those that were not as confident with money to ensure they were taken care of later in life (**45%** and **34%**).

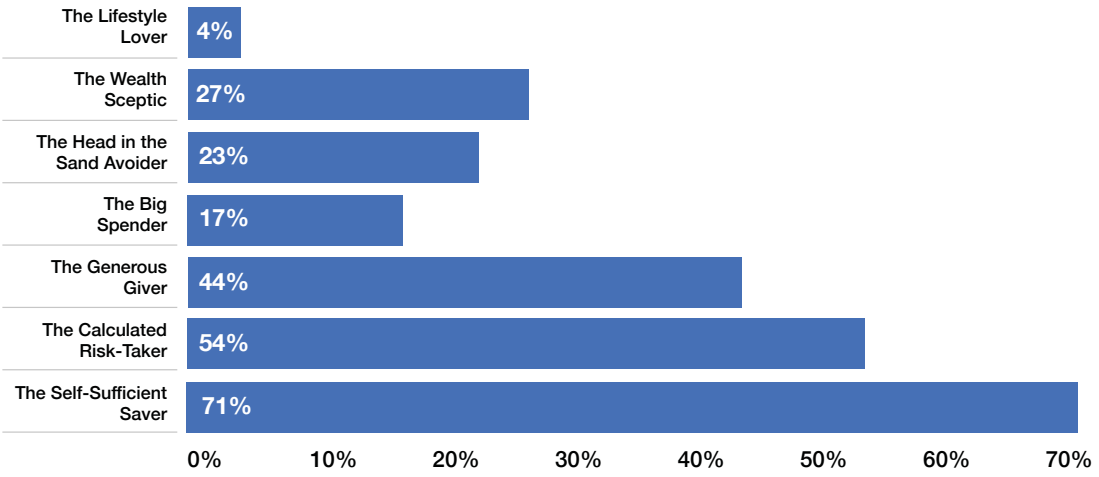
This is in stark contrast to Self-Sufficient Saver parents who were the most likely group to split their wealth down the middle (**71%**).

"While on the face of it, the Self-Sufficient Saver approach of splitting wealth equally appears to be the most straight-forward, this tribe were also least likely to believe their child had a clear understanding of their plans for their wealth when they die, as well as being least likely to transfer their wealth to their children over the course of their lifetime.

Despite being highly proactive with their day-to-day finances, this lack of engagement with their children on their long-term plans and the more simplistic approach to distributing their wealth may be indicative of a deeper concern that they will run out of money before they die, hence putting off making more tangible plans in the immediate term. This approach could put all parties at risk through lack of clarity and open dialogue about the future".

Emma Maslin, Financial Coach

Table 5. Percentage of parents who plan to distribute their wealth equally amongst their children, by which financial tribe the parents identify with



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Top tips for families

Charlotte Ransom, CEO of Netwealth, and financial coach Emma Maslin have shared their top tips to help parents and adult children better understand their individual and respective family members' 'financial tribes' to improve their ability to plan for the future as a unit

Top tips for families

Charlotte Ransom, CEO, Netwealth

Communication is the most important aspect to address

Once the subject of finance is no longer taboo, there will be far greater understanding of how different family members approach the topic which will help address concerns, biases and potential misunderstandings within the family.
Aim for a regular 'money session'. Set aside a regular time, for example, every six months to discuss your financial goals, hopes and fears, where you can all participate in the conversation openly and comfortably.

Try to put personal views about wealth to one side when listening to others' opinions

This will afford greater transparency around your own family's tribal splits and give you a better understanding of issues which might arise and need to be addressed.

Use the advantages of modern technology to help bring alive the subject of finance and investment

Tools with intuitive visual displays can be very powerful in helping to ease accessibility and bringing to life our financial goals and the path to achieving them. This can be especially true when working across generations, helping to blend the benefits of human advice with technology, which may be more appealing to a younger audience.

Consider working with an adviser to help draw out the differences within the family unit and discuss potential solutions

Once you've talked about your respective financial plans, an adviser can help set out clear steps to achieving them across the family unit as well as addressing differences of opinion, should they exist. An adviser can also help explain the benefits and drawbacks of certain approaches to wealth distribution and put the necessary framework in place to carry out the desired plan once agreed.

Top tips for families

Emma Maslin, Financial Coach

Be aware of the language you use around money

There are often 'scripts' we pass on within families for example, 'investing money is too risky', or 'there's enough money for everyone to become wealthy'. These messages can be a huge contributor to the belief system people develop so being aware of the impact they can have and making a conscious decision to introduce positive and realistic positioning around money discussions is essential.

Introduce joint family goals

This can be a great way to introduce financial conversations in a non-confrontational way and works particularly well within the context of tax planning and estate management. You could think about what lifetime gifting could enable the family as a whole to do, be and have in life. Looking at what constitutes a meaningful life for you and your family, from a home, job, health and social perspective, can help determine holistic financial goals for the overall group and start conversations about how to achieve them. For example, conversations about the generational differences in how much is now needed for a deposit to buy a home or today's education costs could prompt these discussions between generations and the role of gifting.

Awareness of the lens through which you approach your own finances is crucial for both parents and adult children

Every financial tribe has its own strengths and challenges. If, as a parent, you have habits or behaviours which could be optimised to improve your financial health and wealth generation capabilities, awareness is the first step to ensuring you make the appropriate changes to ensure that any bad habits or negative behaviours aren't passed on to your children. Write down a list of your 'positive' and 'negative' financial habits to help identify which tribe(s) you belong to, pinpoint the key areas you would most like to improve upon and jot down three key actions you can take to do so within a set timeframe, i.e. attend an introduction to investing webinar this month, read five personal finance articles a week, set-up a monthly direct debit to your savings account before your next pay check, etc.

Consider working with a financial coach or financial therapist

They can help you drill down into your money beliefs and the core characteristics that you uncovered in the step above, identify how they are impacting your behaviours and implement a more formal framework to help build improved financial habits. Where underlying emotion is very strong and dictates financial behaviours, for example fear or shame, a financial therapist can help break the generational cycle to develop more a positive, healthy approach to your finances.

Methodology and background information

Methodology

This report is based on the results of a survey conducted by Instinctif Partners on behalf of Netwealth by Censuswide. 2,000 people were surveyed, made up of 1,000 young adults aged 25 -35 and 1,000 parents of 25-35-year-olds with at least £50k of investible assets, who are planning on or open to transferring wealth to their children in the future. Fieldwork for the research was carried out between 15 July and 5 August. The questions were developed and analysed with leading money coach and mentor Emma Maslin, founder of The Money Whisperer ®. Censuswide abide by and employ members of the Market Research Society. All survey panellists are double opted in (with an opt-in and validation process) in line with MRS and ESOMAR standards.

About Netwealth

Netwealth is a wealth manager pioneering a hybrid model that combines deep human expertise with the power of modern technology. Netwealth was founded in 2015 by CEO Charlotte Ransom, a former partner at Goldman Sachs, and COO Thomas Salter, a former managing director at J.P. Morgan, to deliver a more transparent, cost-effective, and superior service to affluent and high net worth clients.

Netwealth offers clients the unique combination of a highly qualified team, a powerful online service underpinned by a robust investment framework and access to professional advisers. Having raised £38 million from four rounds of fundraising to date, Netwealth has a number of high-profile individual backers.

Netwealth's Board of Directors includes the recently appointed Chairman, Edward Bonham Carter, former Group CEO and Vice Chairman of Jupiter Fund Management, and Non-Executive Directors Michael Hartweg, an entrepreneur, investor and Founding Partner of Leonteq Securities, and Merryn Somerset Webb, a financial journalist and Editor-in-Chief of Moneyweek.

For more information please visit: www.netwealth.com

About Charlotte Ransom, CEO and Co-Founder of Netwealth

Charlotte launched Netwealth after having started her career at J.P. Morgan, and spending 20 years at Goldman Sachs, serving as a Partner for 10 years. During this time, her leadership roles included relationship management, marketing and product development for both institutional clients and private wealth management clients from across EMEA and Asia. From 2012, she explored the impact of digital technologies on a variety of industries before founding Netwealth.

About Emma Maslin, leading certified Financial Coach and Mentor, and Founder of The Money Whisperer®

Emma is a certified Financial Coach and Mentor, Financial Wellness Speaker and Founder of multi award-winning personal finance education website The Money Whisperer ®. A former Chartered Accountant, Emma believes financial health and wellbeing is a basic need for all of us. Her expertise and specialism in this area are increasingly seeing her educating and speaking on the psychology of money.

PAM Awards
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WealthBriefing Awards
WINNER 2019

PAM Awards
WINNER 2019

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WINNER 2019

Professional Advisor Awards
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