Financial Considerations and Engaging Millennials in Wealth Management

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Executive Summary

The millennial generation has unique cultural requirements primarily based on the fact they were born in the internet age. In addition to the unique cultural requirements, the millennial generation is estimated to generate over $200 billion annually in the United States (Larson, Eastman, & Bock, 2016) and requires whole life financial strategies from the wealth management community. In order for the wealth management organization to remain competitive in the market a robust recruitment, training, and retention program must be established to reflect the cultural requirements of the millennial generation. The establishment of culturally conscious and transformational leadership teams working in conjunction with the organization’s human resources department will ensure that the vision of the organization is accomplished. The recruiting, training, and retention of leadership and workforce are expensive, however, the overall commission earned from this generation is over $1 billion. The sooner the organization reflects the needs and wants of this potentially lucrative client the faster the organization can control a larger share of the millennial market from the competition.
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Financial Considerations and Engaging Millennials in Wealth Management

Introduction

The Millennials are comprised of those individuals born after 1980 (Havens, 2015, pp. 23-24) and are estimated to be contributing $200 billion annually to the United States economy (Larson, Eastman, & Bock, 2016). The problem is that wealth management organizations are comprised of older advisors and are not sensitive to the cultural needs of the Millennials (Horan, 2015). This problem can be solved by recruiting, training, and retaining individuals who reflect the cultural requirements of the Millennials and have the capability to implement the vision of the organization (Guillaume, Dawson, Otaye-Ebede, Woods, & West, 2017). The diversity-conscious and transformational leadership team working in conjunction with human resources personnel will increase diversity and emotional intelligence within the organization.

This paper will examine the costs associated with recruiting, training, and retention and evaluate the monetary benefits associated with attracting and maintaining the Millennials as a lifetime client.

The author is a student at Central Michigan University pursuing a graduate degree in Administration with a concentration in leadership.

Costs of Diversity

The solution to attracting and maintaining the Millennials as clients in the wealth management industry is to increase the workforce diversity of the wealth management industry in order to better serve the needs of this client (Horan, 2015). Research has disclosed that a diverse management and workforce has an average of 20 percent more profit over its competitors and can be accomplished by implementing aggressive recruitment, training, and retention
programs within the organization (Hunt, Layton, & Prince, 2015). The following will examine the costs associated with recruiting, training, and retention of the wealth management workforce.

**Recruiting**

The wealth management industry is facing the need to recruit Millennials to fill the void of the aging wealth management consultant and diversify from the traditional 50-year-old, white male consultant (Horan, 2015). The cost of recruiting incurs both internal and external costs to the organization. Examples of external costs include advertising, job fair fees, recruiting software fees, travel expenses, sign-on bonuses, and relocations fees. Examples of internal costs include salaries for recruiters and interviewers, employee referral bonuses, and fixed costs associated with recruitment locations. The average cost to hire an employee is 20 percent of the salary for those employees hired with an annual salary over $75,000 (Marcotti, 2017). The average annual recruitment rate is 10 percent which accounts for the 90 percent industry retention rate (Mahan, 2018).

**Training**

Voluntary training has been demonstrated as a valuable tool to increase diversity-consciousness and emotional intelligence within an organization (Dobbin & Kalev, 2016). Training, coaching, and mentoring programs reflecting scenario-based real-world situations have had a significant positive impact on productivity, self-awareness, emotional intelligence, and empowerment within the organization (Berg & Karlsen, 2012). The average annual cost to conduct training is estimated to be $1,000.00 per employee and the annual average number of personnel trained in an organization is 67 percent (“The 2017 Training Industry Report,” 2017).
Retention

The wealth management industry is based on experience. The ability to provide credible savings and investment strategies to the Millennials is positively impacted by the life experiences encountered by the seasoned wealth management consultant (Horan, 2015). In addition, in order for a wealth management consultant to be effective one must go through a 24-month training program before one is certified and permitted to legally provide savings and investment advice to customers (“Wealth Planning,” n.d.). The capabilities of the experienced advisor coupled with the training period required of new employees promote the need to retain the seasoned advisors until the new advisors are capable and effective in providing advice to the millennial client. During this training period of the new millennial advisors, they will be able to reverse mentor the seasoned advisor and impart knowledge of their generation to the seasoned advisor while the seasoned advisor imparts the knowledge and skills required to effectively advise the Millennials (Marcinkus, 2012). The average cost to replace a seasoned employee is approximately 50 percent of the salary (“JOLTS,” 2017; Mahan, 2018). The average retention rate is approximately 90 percent (Mahan, 2018).

Income Invested

In 2018, the Millennials are estimated to spend over $200 billion annually and $10 trillion over their lifespan in the United States alone and inherit over $40 trillion from the Baby Boomer generation in the upcoming decades (Larson, Eastman, & Bock, 2016; Wadhwa, 2016). The United Census Bureau estimated the Millennials at 73 million in 2018 and earning an average annual salary of $35,592 (Fry, 2018). Forty-eight percent of the millennial generation saves six percent of their annual income towards retirement (Brown, 2018).
Cost-Benefit Analysis

The following cost-benefit analysis will be accomplished on a United States based wealth management organization of 1000 advisors for a one year period. The assumption is that all newly hired advisors will earn an annual income of $75,000 and a seasoned advisor earns an annual salary of $100,000. The analysis will examine the expenses of recruiting, training, and retention of leadership and workforce that will attract and maintain the millennial client versus the potential revenue derived from this future client (See Appendix A).

Expenses

**Recruiting.** The recruiting expense is calculated by utilizing a retention rate of 90 percent (Mahan, 2018) and a 20 percent hiring expense for employees earning $75,000 per year or greater (Marcotti, 2017).

\[
1000 \text{ employees} \times (0.10) \times (0.20) \times 75,000/\text{employee} = 1.5 \text{ million}
\]

**Training.** The training expense is calculated by utilizing a 67 percent training factor of personnel within the organization and an average cost of $1000 per employee for training an organization the size of 1,000-9,999 people (“The 2017 Training Industry Report,” 2017).

\[
1000 \text{ employees} \times (0.67) \times 1000/\text{employee} = 670,000
\]

**Retention.** The retention expense is calculated by utilizing a 90 percent retention rate and a 50 percent salary replacement cost for an employee earning $100,000 (Mahan, 2018).

\[
1000 \text{ employees} \times (0.10) \times 50,000/\text{employee} = 5 \text{ million}
\]
Commission

The commission earned is calculated by utilizing the estimate of 73 million Millennials earning an annual average salary of $35,592 (Fontinelle, 2017), 48 percent of the Millennials investing six percent of their salary (Brown, 2018), a 14.4 percent market share (Thompson, 2017), and a 0.99 percent commission rate (Fontinelle, 2017).

Invested Income.

\[(0.48) \times (0.06) \times \frac{35,592}{	ext{employee}} \times 73 \text{ million employees} = 731 \text{ billion}\]

Market Share Invested.

\[(0.144) \times 731 \text{ billion} = 105.21 \text{ billion}\]

Commission.

\[(0.0099) \times 105.21 \text{ billion} = 1.04 \text{ billion}\]

Revenue

The revenue is calculated by subtracting total expenses from the total commission.

\[1.04 \text{ billion} - 7.17 \text{ million} = 1.033 \text{ billion}\]

The benefit of implementing aggressive recruiting, training, and retention programs outweigh the costs resulting in a potential $1.033 billion source of revenue.
Leadership

The organizational goal to attract and maintain the millennial client must include the enactment of a diverse-conscious leadership cadre within the recruiting, training, and retention elements of the organization. The implementation of a diverse-conscious leadership corps will enforce the recognition, understanding, and adjustment required to effect change to meet the organizational goal of attracting and maintaining the millennial client (Guillaume, Dawson, Otaye-Ebede, Woods, & West, 2017; Bucher, 2015, pp. 220-222).

Senior leadership is required to work closely with the recruiting, training, and retention elements of the organization to ensure the culturally diverse requirements are satisfied. The utilization of transformational leadership by senior leadership will compel the recruiting, training, and retention elements of the organization to comprehend the need for change and increase their emotional intelligence and empathy to strive for the vision of the organization (Ashikali & Groeneveld, 2015; Northouse, 2016, pp. 161-181).

Literature Review

The following examines literature related to recruiting, training, and retention of management and workforce within organizations.

Recruiting

A December 2017 report published by the Society for Human Resource Management disclosed that 15 percent of all Human Resource expenses are related to recruitment and 22 percent of all organizations utilize computerized prescreening of applicant’s resumes (Marcotti, 2017).
A 2015 article published in *CFA Institute* disclosed the average age of wealth management advisors is 51 years of age. The need to recruit a younger diverse wealth management cadre is directly influenced by the change in demographics and technology in the United States. In order for the wealth management organizations to remain competitive, they must recruit individuals who are able to adjust to the generational and technology needs of the Millennials (Horan, 2015).

**Training**

The 2017 Industry Training Report published by *Training Magazine* disclosed that the total amount of money spent in 2017 on training in the United States was $90.6 billion, 40 percent of training was conducted online, and mid-size companies spent approximately $941 per student in training (“The 2017 Training Industry Report,” 2017).

A 2015 article published in *Industrial and Commercial Training* detailed the results of a five-year research project investigating the optimum means by which to handle cultural diversity and change cultural attitudes and behavior in an organization. The results of the investigation concluded that the utilizing of performance support positively affects attitude and means of accomplishing tasks better than traditional training (Coulson-Thomas, 2015).

**Retention**

The 2018 Retention Report published by the *Work Institute* disclosed that due to the lowest unemployment rate (3.9 percent) in nearly a decade employees are leaving their positions faster than employers can find replacements. The report also disclosed that the workforce is aging and shrinking and the need for advanced degrees is increasing. Organizations project an annual 90 percent retention rate (Mahan, 2018).
A 2014 article published in *Journal of Business Studies Quarterly* disclosed that due to the decreased unemployment rate in the United States it is even more critical that organizations develop a Human Resource Department which employs recruiting and retention techniques which focus on retaining a workforce that meets both current and future requirements of the organization. This focus on recruiting and retention stresses the importance of the Human Resource Department working more closely with senior management (Oladapo, 2014).

**Conclusion/Recommendation**

The Millennials have different cultural requirements than any other previous generation. These cultural requirements stem from being born into the internet age. In addition to these cultural requirements, Millennials will have the largest population since the Baby Boomers and are estimated to be contributing over $200 billion annually to the United States economy. This potentially lucrative client requires advice for lifetime savings and investment decisions.

Based on the research the recommendation is that wealth management organizations must recruit, train, and retain a workforce and diversity-conscious and transformation leadership team that will inspire the organization to reflect the cultural diversity requirements of the Millennials. The recruiting, training, and retaining of individuals is costly and is estimated to be approximately $7.2 million annually, however; the expected annual commission earned is estimated to be $1.042 billion. The cost-benefit analysis demonstrates a potential $1.035 billion source of revenue from the millennial generation which dictates the necessity to change the cultural awareness of the organization to reflect the needs of the Millennials in order to attract and maintain this client and remain competitive and profitable in the upcoming decades.
References


# Appendix A

## Cost-Benefit Analysis

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<thead>
<tr>
<th>Expenses</th>
<th>Revenue</th>
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<tbody>
<tr>
<td>Recruitment</td>
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<tr>
<td>Training</td>
<td>$670,000.00</td>
</tr>
<tr>
<td>Retention</td>
<td>$5,000,000.00</td>
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| Total Expenses | $7,170,000.00 | Total Revenue | $1,042,113,600.00 |

Net Revenue | $1,034,943,600.00 |