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Advisers home in on HENRYs overlooked by banks, retirement-plan providers

The 'high earner, not rich yet' segment is slipping through the cracks at some financial firms, according to Cerulli research

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By **Jeff Benjamin**

Banks and retirement-plan providers are missing the mark when it comes to capturing an attractive client segment of younger high earners who haven't yet reached wealthy status — and it's creating an opportunity for financial advisers.

The so-called HENRYs, as in **"high earners, not rich yet,"** are slipping through the cracks at firms that often have the initial contact with this segment of consumers, according new research by Cerulli Associates.

"Banks and retirement-plan providers have the first shot at these investors, but they are often resorting to robo-platforms to serve them," said Scott Smith, Cerulli's director of advice relationships.

Cerulli categorized HENRYs as individuals under 45 earning more than $125,000 per year.

"I think this is very much an underserved market, and I love the lack of competition," said Eric Roberge, founder of financial advisory firm Beyond Your Hammock. "They have amazing wealth-building potential. If smart choices are made now, that compounding effect is incredible."

Mr. Smith said banks often drop the ball with this market because consumers without a lot of assets typically see one side of a banking relationship, which includes "fees for everything."

In terms of **retirement-plan providers**, Mr. Smith said firms are doing little to build and maintain relationships with the high earners, which means they usually move their accounts with them to their next job.

"The first decision point that emerging investors face is what type of firm they will use as their primary financial services provider," he said. "Investors in the purest HENRY segment, with incomes in excess of $125,000 but investable assets of less than $250,000, indicate the highest reliance on both bank deposits and retirement-plan providers compared with any other cohort."

But these channels are least likely to provide much in the way of personalized financial advice, according to Cerulli. Thus, many bank programs struggle to retain these high-earning clients as they graduate into greater wealth and their appetite for personalized advice grows.

Independent advisers, meanwhile, are falling over themselves to attract and cater to **young, high earners**, regardless of their current portfolio size.

"There are lots of folks who get out of school with a lot of debt, but they might be working as doctors or lawyers," said Dennis Nolte, vice president at Seacoast Investment Services.

Like a lot of financial advisers, Mr. Nolte is adjusting as the financial planning industry places less emphasis on investment management, which plays right into the hands of working with clients who don't yet have a lot of money to manage.

"If you're charging these people an asset-based fee it can be a challenge getting paid," he said. "We're finding more people who think they can do as well as us on the asset management side, so there tends not to be a lot of value in investment management."

Mr. Nolte's strategy is to charge a flat fee for financial planning around things like cash-flow management, paying down debt, and traditional versus Roth IRA contributions.

Ignoring younger high earners is a symptom of "short-termism," according to Kashif Ahmed, president of American Private Wealth.

"Far more financial advisers are chasing folks who are already rich, and by that time they already have solidified relationships with financial service providers," he said. "I am very fortunate that I never fell into the trap of insisting on a minimum investment, and as a result have a carefully curated client base full of these HENRYs."

According to Cerulli's research, banks and retirement plan providers could learn a few things from the way independent financial advisers are catering to the younger and higher-earning market.

The report states that to minimize attrition, providers must ensure their advice offerings are both recognized and appreciated by the younger segment of their client base as their needs escalate.

"The most important part of building market share within this segment is maintaining relationships as these investors accumulate assets," Mr. Smith said. "Providers targeting HENRYs will need to take the long view and realize that the benefits of reaping what they sow will accumulate over years rather than quarters."

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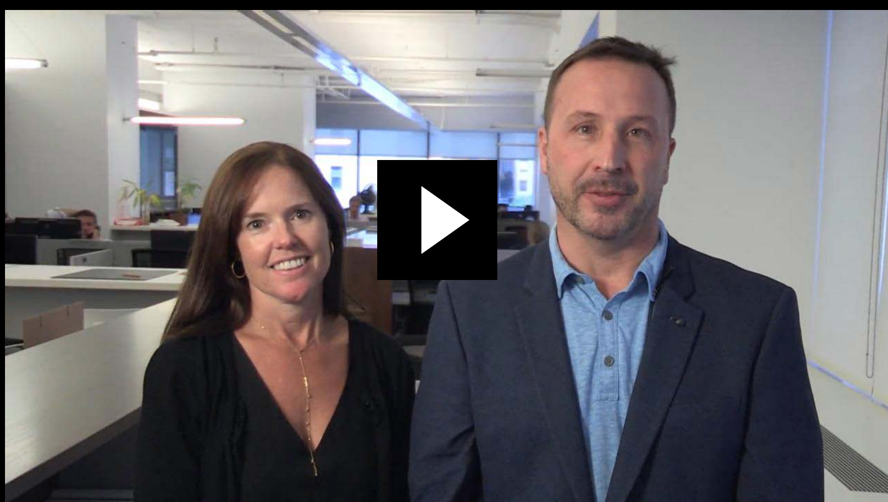

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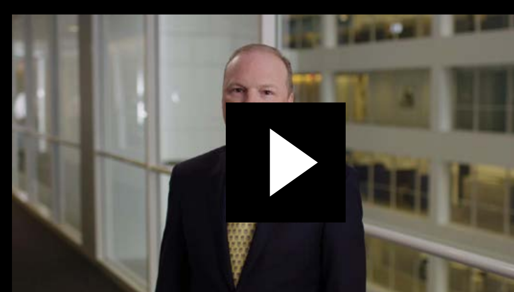

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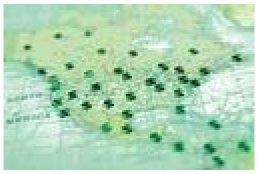

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