What the rich think about money

By Editor Test *Tue, May 28, 2013*

56% of high net worth investors still hold lots of cash, according an extensive study of Americans with over $3 million by U.S. Trust. Just 12% like 'sitting on the sidelines,' but only 16% plan to move their cash soon. Two in five plan to gradually invest cash over the next two years; 35% have no plans to invest it.

Long-term care and out-of-pocket healthcare costs, combined with financial support for extended-family members pose a significant risk to retirees who are trying to protect accumulated wealth, according to the U.S. Trust 2013 *Insights on Wealth and Worth* study of 711 American adults with $3 million or more in investable assets.

The U.S. Trust findings support previous academic studies that found that protection products such as long-term care insurance and life annuities can help prevent the exhaustion of savings or potential legacies by a parents' or one's own unanticipated, open-ended health care costs or extreme longevity.

"The majority of people we surveyed grew up in middle-class families and created their own wealth. They don't see themselves as wealthy, and many are unaware of risks and circumstances that grow increasingly complex as wealth accumulates," said Keith Banks, president of U.S. Trust. "The wealthy have been disciplined about protecting their assets from market loss, but may have a false sense of financial security. They are not adequately planning for family health concerns or for the retirement that they want."

The wealthy have largely shifted their investment priorities from asset protection to asset growth, the *Insights on Wealth and Worth* study found. Yet fear still trumps greed in their investment practices. The survey found that:

- 47% of all respondents have created a financial plan to address long-term care needs that they and their spouse or partner might need, but only 18% have a financial plan that accounts for parents' long-term care costs.
- Only 27% of baby boomers and 16% of those over age 68 say they ever expected their parents might ask for financial assistance. Yet, one-third of Generation X and 46% of Generation Y expect their parents or in-laws to rely on them for financial assistance eventually.
- 63% of wealthy people feel obligated to support their parents or in-laws if needed, even if it jeopardizes their own financial security, and 55% feel a responsibility to provide financial assistance for siblings if necessary.
- 56% of wealthy parents say they provide financial support to their adult children.
- 46% of respondents have supported (not a loan) to adult family members other than their own spouse or partner
- 69% do not have a financial plan that accounts for the financial needs of any of these other adult family members.
- 88% of people surveyed say they feel financially secure right now, and 48% feel even more financially secure today than they did five years ago. Women, members of Gen X (adults aged 33 to 48) and the wealthiest of the wealthy feel less confident, and worry about income in retirement.

- 60% of HNW investors say asset growth is a higher priority than asset preservation, a reversal of goals from a year ago when 58% rated asset protection higher.
- 63% say however that reducing risk and achieving a lower rate of return is more important than pursuing higher returns by increasing risk.
- 56% of HNW investors have a large amount of funds still sitting in cash accounts. Only 12% are content leaving their cash on the sidelines, yet only 16% have immediate plans to move it. Two in five plan to gradually invest cash holdings over the next two years, and 35% have no plans to invest it.
- 57% of respondents say that pursuing higher returns regardless of the tax impact is a higher priority than minimizing taxes. Only 34% feel very well-informed about the impact of recent tax law changes on the total return of their investment portfolio.
- 37% of respondents (42% of men and 30% of women) feel very well-informed about how the tax law changes affect their income. And two in three respondents do not feel well-informed about strategies available to them to help minimize the impact of taxes on income, investments or their estate.
- 69% of high net worth investors aren’t changing investment strategy in order to minimize taxes.
- 86% of wealthy investors agree that a long-term buy-and-hold approach still is the best growth strategy, with 35% strongly agreeing with this.
- 62% of high net worth households, including 52% of those still working, are very confident they will have sufficient income in retirement, in contrast to the rest of the U.S. population.
- 60% of non-retirees have been calculating their retirement income by reviewing expected distributions from retirement savings accounts. Yet a large number have not adequately accounted for inflation (47%), taxes on investment income (52%), life expectancy (56%), the cost of long-term care (62%), or financial support their children (80%) or parents (82%) might need.
- 75% of respondents have not adequately factored into their retirement planning any increase or decrease in real estate values. Yet 23% of retirees and 52% of non-retirees (including 39% of baby boomers) say primary residential real estate is important to funding their retirement.
- 33% of high net worth adults under the age of 49 envisions working beyond age 65. Meanwhile, 60% of Boomers, many already in retirement, now have plans to work beyond age 65.
- Once retired from their current occupation, 11% of respondents say they are likely to continue working full-time in a new endeavor and 41% expect to continue working on a part-time basis. More than half (54%) of the wealthy would like to spend time volunteering.
- About 25% of survey respondents attribute the majority of their wealth to an inheritance. Those who have inherited wealth are more likely to want to leave an inheritance themselves.
- 77% of people who inherited the majority of their wealth, and 63% of those who earned it, consider it an important goal to leave a financial inheritance to the next generation.
  Two in three baby boomers do not expect to receive an inheritance; 57% of adults under the age of 32 do expect an inheritance.
- 64% of baby boomers, compared to 78% of adults younger than age 32 and 72% of those over age 68, think it’s important to leave an inheritance.
  Only 42% of wealthy parents agree strongly that their children are/will be well-prepared to handle their inheritance. Few wealthy parents believe their children will be mature enough to handle their wealth before the age of 25.
- Just 39% of parents whose children already are age 25 or older have fully disclosed their wealth to children, while 53% have disclosed just a little and 8% have disclosed nothing at all.
- 88% of parents agreed that their children would benefit from discussions with a financial professional. One in three (31%) respondents received formal financial training themselves from a professional advisor. Yet only 16% of parents have provided, or have plans to provide, their children

with access to formal financial skills training.
- Two-thirds of wealthy parents say they would rather have their children grow up to be charitable than to be wealthy.
- 89% of wealthy parents believe their children appreciate the value of a dollar and the privileges of growing up in a family with good fortune. However, half of parents (51%), particularly those with young children, think their children feel entitled to a lifestyle that was worked hard for, and 47% worry that, by growing up without knowing what it's like to go without, their children may not attain the same level of success.

Despite awareness of the importance of estate planning, *Insights on Wealth and Worth* found:

- 72% of respondents do not have a comprehensive estate plan, including 84% of those under the age of 49, and 65% age 49 or older.
- 55% have never established a trust of any kind, primarily for two reasons: procrastination and the mistaken notion that outlining wishes in one's will precludes the need for a trust.
- 60% of respondents have named, or intend to name, their spouse or partner as executor of their estate. Only 32% consider the financial knowledge and skills of the person they name as their executor. Having sufficient legal and financial knowledge was cited as the top difficulty in serving as an executor by those who already have served, particularly by women.
- 67% of respondents say they have organized their personal, financial, medical and legal records and information in one place, but 46% have not informed the executor of their estate about how to access the records.
- 55% of respondents say they have organized passwords for accessing digital records or accounts, but 63% have not specified their wishes authorizing access to the passwords or to any online assets.
- 65% of wealthy households surveyed own investments in some type of tangible asset, ranging from real estate to oil and gas properties to farmland, a trend particularly evident among younger investors. One-third (35%) of investors under the age of 32 say that tangible investments are important to their overall wealth strategy given the current tax, political and economic environment.
- 60% of wealthy individuals feel that they can have some influence on society by how they invest, and 45% agree that it's a way to express their social, political and environmental values.
- Nearly half (46%) of respondents feel so strongly about the impact of their investment decisions that they would be willing to accept a lower return from investments in companies that have a greater positive impact; 44% would be willing to take on higher risk.
- 51% of those surveyed, including 65% of women and 67% of investors under age 49, think it is important to consider the impact of investment decisions on society and the environment. Yet only one in four investors has reviewed their investment portfolio to evaluate its impact on these concerns.
- 59% of high net worth individuals dedicate a portion of their wealth to the collection of valuable assets such as such as fine art, watches and jewelry, antiques, fine wines and rare coins and books or classic and high-performance cars. Only about half of those with collections have insurance. Only 19% of collectors have discussed or outlined their wishes for the collection with future heirs.

Additional survey findings from the 2013 U.S. Trust Insights on Wealth and Worth can be found at www.ustrust.com/survey.
Findings are based on a nationwide survey of 711 high net worth and ultra high net worth adults with at least $3 million in investable assets, not including the value of their primary residence. Respondents were

equally divided among those with $3 million to $5 million, $5 million to $10 million, and $10 million or more in investable assets. The survey was conducted online by Phoenix Marketing International in February and March of 2013.