One of the largest transfers of wealth is estimated to occur within the next 40 years; however, many wealthy households are not prepared to appropriately pass their assets to the next generation.

While it is difficult to face these types of issues, it will become increasingly important for high net worth households to address their elder care and end-of-life issues to ensure they are appropriately investing and preparing not only to retain assets throughout their lifetime but also to pass these assets to their heirs in the manner most beneficial to future generations.

At year end 2014, there were approximately 10 million Millionaire households within the United States. Of these, 1.3 million households had more than $5 million of net worth (the “Ultra High Net Worth”) and 142,000 had in excess of $25 million of net worth (the “$25 Million plus”). Thirty-nine million households had $100,000 to $1 million of net worth, and these households will be referred to as the “Mass Affluent.”
Concerns of the High Net Worth

Most HNW households, with the exception of the Mass Affluent, feel they have enough assets to live comfortably through retirement. Because of their increasing age, health issues are growing in importance.

Financial advisors and providers must discuss these issues with their clients. While many advisory firms are experts in retirement planning and investments, actually living through retirement and dealing with the related health issues as one becomes older is a confusing and frightening process for individuals. Recent Spectrem research indicates that almost 50 percent of investors, regardless of wealth level, are concerned about spending their last days in a nursing home or similar facility. The fear is often related to the drain on the assets that they hope to leave to provide for their spouse or their children. An advisor who can talk frankly about these issues will gain significant loyalty with clients as they develop a way to mitigate any financial worries.
Wills and Trusts

While a large percentage of households have established a will, significantly fewer have established a trust. Arguably a trust is not necessary for households with less than $1 million in assets, however, households in the Millionaire segment would be prudent to consider a trust, especially if they have over $3 million in assets. Clearly the UHNW and the $25 Million Plus households should be proactively considering the use of one or more trusts.

Ownership of Wills and Trusts

The likelihood of establishing a trust increases with age and wealth. For those who have established a trust, the overwhelming percentage either act as trustee until their death or have a family member acting as trustee. Only a small percentage use a corporate trustee. Those households with more than $25 Million in assets are much more likely to use a corporate trustee than those with less wealth.

Trustees Used

$25 Million Plus

*Due to ownership of multiple trusts, values add to more than 100%
For those who do use a corporate trustee, the largest percentage choose a bank or an attorney.

![Corporate Trustees Used](chart)

The trend away from corporate trustees has impacted the personal trust industry. Below you can see the stagnation of Personal Trust assets held by institutions from 1996 to 2011. Additionally the number of Personal Trust accounts started dropping in 2008 and still remains below pre-recession levels. This information is taken from data filed with the FDIC as well as other regulatory agencies and is tracked by Spectrem Group each year.

![Total Personal Trust Assets - 1996-2014 ($ billions)](chart)
Estate Plans

At the end of 2012, many estate planning professionals were nervously pushing their clients to create irrevocable trusts and to re-evaluate their estate plans. There were fears that the estate tax exemption would be lowered to $1 million and that the tax rate would be increased to 55 percent. Ultimately the fiscal cliff deal (American Taxpayer Relief Act) made permanent the federal estate tax exemption of $5 million per person, indexed for inflation. In 2015, $5.43 million is exempt from tax with a 40 percent tax rate applied to the amount over $5.43 million. Fifteen states and the District of Columbia, however, have an estate tax and 6 states have an inheritance tax. Two states have both.

When asked whether or not they have updated their estate plan, Spectrem found that 21 percent of the UHNW had made changes to their plans in the last six months and an additional 15 percent had made changes within the past year. Twenty percent of Millionaires had made changes in the past 6 months and an additional 14 percent had made changes within the past year. This information was not available for the $25 Million Plus.

![Total Number of Personal Trust Accounts - 1996-2014](chart.png)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Number of Personal Trust Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>890,968</td>
</tr>
<tr>
<td>1997</td>
<td>878,052</td>
</tr>
<tr>
<td>1998</td>
<td>929,910</td>
</tr>
<tr>
<td>1999</td>
<td>929,036</td>
</tr>
<tr>
<td>2000</td>
<td>880,736</td>
</tr>
<tr>
<td>2001</td>
<td>826,510</td>
</tr>
<tr>
<td>2002</td>
<td>940,961</td>
</tr>
<tr>
<td>2003</td>
<td>868,207</td>
</tr>
<tr>
<td>2004</td>
<td>841,558</td>
</tr>
<tr>
<td>2005</td>
<td>719,658</td>
</tr>
<tr>
<td>2006</td>
<td>762,547</td>
</tr>
<tr>
<td>2007</td>
<td>726,807</td>
</tr>
<tr>
<td>2008</td>
<td>789,950</td>
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<tr>
<td>2009</td>
<td>746,916</td>
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<tr>
<td>2010</td>
<td>678,380</td>
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<tr>
<td>2011</td>
<td>656,649</td>
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<tr>
<td>2012</td>
<td>628,044</td>
</tr>
<tr>
<td>2013</td>
<td>614,782</td>
</tr>
<tr>
<td>2014</td>
<td>614,172</td>
</tr>
</tbody>
</table>

![Last update to Estate Plan](chart2.png)

- **In the last six months**: 20% Millionaire, 21% UHNW
- **In the last year**: 14% Millionaire, 15% UHNW
Despite the fact that the estate tax laws seem to have stabilized for a while, wealthy investors continue to worry about taxes. In fact, tax increases and the implications of taxes on investments remain one of the greatest worries of investors across wealth segments.

Wealthy households have a difficult time understanding the role of their financial advisor in the estate planning process. While about one-fourth perceive the role of their financial advisor to include estate planning, others do not and generally turn to another advisor (presumably an attorney) to assist with their estate planning. Forty percent of the $25 Million Plus have turned to their primary advisor for estate planning.

<table>
<thead>
<tr>
<th>Establishing an estate plan</th>
<th>Currently Receive This Advice</th>
<th>Plan to Seek This Advice in the Future</th>
<th>Don’t Need This Type of Advice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass Affluent</td>
<td>35%</td>
<td>33%</td>
<td>32%</td>
</tr>
<tr>
<td>Millionaire</td>
<td>51%</td>
<td>25%</td>
<td>24%</td>
</tr>
<tr>
<td>Ultra High Net Worth</td>
<td>68%</td>
<td>11%</td>
<td>21%</td>
</tr>
</tbody>
</table>

When asked whether they felt confident that their estate plans would be executed in keeping with their wishes, approximately 80 percent were confident or very confident that their estate plans would be effectively carried out. When asked to whom they intended to leave their assets, children and spouses were the most popular, followed by grandchildren and charitable organizations.

* All that apply. Does not total 100%
Only 36 percent of investors believe their advisor will be involved in executing their estate plan. This percentage increases with wealth. Approximately half of the households will introduce their children to their advisor prior to their death. This percentage also increases with wealth.

Will Your Financial Advisor be Involved in Executing Your Estate Plan?

- Yes: Total = 36%, Mass Affluent = 24%, Millionaire = 40%, UHNW = 43%
- No: Total = 64%, Mass Affluent = 76%, Millionaire = 60%, UHNW = 57%

Do You Plan to Introduce Your Family to Your Advisor?

- Yes: Total = 51%, Mass Affluent = 39%, Millionaire = 55%, UHNW = 62%
- No: Total = 49%, Mass Affluent = 45%, Millionaire = 45%, UHNW = 38%
Financial advisors and providers need to proactively offer their services in ensuring that the financial wishes of their clients are met upon their disability or death. Because of the intricacies of the various paper work and implications of numerous transactions, the process becomes overwhelming for family members and heirs. In qualitative research conducted by Spectrem Group with beneficiaries who had received more than $1 million, it was discovered that, in most cases, the beneficiaries did not know who to turn to for advice. Additionally, many of the beneficiaries would have left the assets where they were had a relationship been formed with the advisory firm.

**Existing Portfolios**

The general makeup of the portfolios of the wealth segments is highlighted below. The pie charts on the left identify the total assets of the households while the pie charts on the right side identify the make-up of the investable assets.
Wealthier households hold more assets in which liquidation or transfer is generally more difficult. Investment real estate, alternative investments and ownership of privately held businesses require investors to engage in planning for proper transfer upon their death.
There are some important issues to note based upon the portfolios identified on the previous pages.

- Real estate assets are included in each of the portfolios. While the wealthiest households are likely to have made appropriate legal arrangements to effectively pass on the real estate assets, those households with less wealth are less likely to have identified the most effective means of disposing of or passing real estate assets. If not part of a trust arrangement, many of these real estate assets will become burdensome to heirs as they become required to hire agents, seek appraisals and deal with the completion of the sale of any property.

- A professional advisor, in many cases, the primary advisor for the household, generally manages those assets that are part of a “managed account.” It is important that the beneficiaries know the name of that advisor and that the advisor has introduced himself or herself to the beneficiaries prior to an end-of-life event.

- The percentage of assets held in the IRAs and defined contribution accounts must also be properly designated to pass to the appropriate beneficiaries. This generally requires separate documentation from that set up for other trust assets or those assets held with the estate. Financial advisors should ensure that clients have appropriately titled their beneficiary designations.

Life insurance assets are part of many of the portfolios. Advisors must understand the type of insurance held by the investor and identify any potential pay-out upon the death of the individual. Investors generally lack a strong understanding of their insurance assets and the benefits available there under.

Insurance assets should be identified and discussed with clients. Advisors would be prudent to ensure that beneficiary information is properly completed. Make certain that investors understand how the value of policies is determined upon their death.
SUMMARY

An enormous transfer of assets will take place within the next few decades and financial services and advisory firms have generally not focused upon this phase of a client relationship. The ability to explain the complexities to existing clients and develop relationships with the next generation is critical for those entities that wish to retain the management or administration of existing assets.

What do financial providers and advisors need to do in order to successfully assist families whose money will someday be in motion?

- Develop a relationship with the beneficiaries. In some cases, a client will not want to involve his or her children in their financial affairs. While this is a difficult and delicate situation to confront, it may be important to make sure that the client understands how difficult the administrative process of transferring assets can be. Spectrem research indicates, however, that most individuals do want their children to know their financial advisor. Research shows that 62 percent of individuals indicate that their advisor has never even asked to meet their children.

- Identify all of the assets of your clients, not just investable assets, and offer solutions. While high net worth investors may believe that their attorney will deal with all of the various issues, in many cases, some assets can be easily transferred by proper designation of accounts. Additionally, if an advisor can refer beneficiaries to real estate brokers, art appraisers or other experts, it is more likely that upon the liquidation of various assets, the advisor may be able to retain some of the management.

- Make sure that clients have properly established an estate plan. End-of-life issues are delicate and difficult to discuss. Many individuals do not have an estate plan simply because they don't want to deal with the issue. To ensure an advisor's status as the "trusted advisor" it is important to proactively encourage the process. Ask to see the will and trust, and if they don't exist, refer your client to an estate attorney or other professional (either within your firm or not).

- Understand catastrophic health issues and discuss outcomes with your clients. While an advisor may not be familiar with Medicare or changes caused by ObamaCare, it is important to be able to have a general understanding of how these issues impact clients. Discuss long-term care and whether it is an appropriate investment based upon the client's level of wealth. Identify how financial matters will be decided should your client become incapacitated.
SUMMARY

• Firms may decide not to become "trusted advisors" but merely investment experts. If a firm decides that dealing with these issues is not part of their skill set, it is acceptable to remain an investment expert only. In those cases, however, recognize that investment performance is the key driver of the client relationship and will also be the decision factor for beneficiaries.

• The changing demographics of the U.S. will impact the financial landscape for years to come. While many individuals will struggle to have sufficient funds for retirement, those with assets will be seeking the most effective ways to retain and transfer these assets for their families. Part of the American Dream is the hope that one's children and grandchildren will be better off than the individual. The ability to pass on assets and assist one's descendants will become increasingly important, especially if the economic environment remains difficult.

METHODOLOGY:
This report is based primarily on research conducted by Spectrem Group with High Net Worth* households across the U.S. Each quarter, Spectrem interviews online approximately 1,500 Mass Affluent households, 1,000 Millionaire households and 500 Ultra High Net Worth households. Additionally, Spectrem interviews more than 200 households with over $25 million of net worth every 18 months. Commentary from qualitative research conducted via focus groups and individual interviews is also included.

Net Worth, NIPR, includes all assets except primary residence, less all liabilities. We examine four distinct segments:
• Mass Affluent - $100,000 - $999,999
• Millionaire - $1,000,000 - $4,999,999
• Ultra High Net Worth (UHNW) - $5,000,000 - $25,000,000
• $25 Million Plus - $25,000,000 +
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