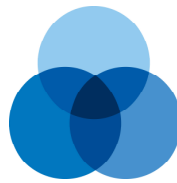


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Planning Gaps of the Affluent

by Christopher D. Rich, CFP®

Hard facts sometimes come to light that contradict our preconceptions about the beliefs and behaviors of the well-to-do. The recently released, "U.S. Trust Insights on Wealth and Worth" sheds new and surprising light on their attitudes about wealth, the use of their wealth, and the level of financial and estate planning they've done. The study surveyed 450 wealthy Americans with \$3 million or more of investable assets, excluding their primary residence but including retirement assets.

The results of the survey may be surprising to many who assume the affluent have complete financial and estate plans in place and that their dreams and desires are different from the average American. Yet, the survey reveals the same type of planning and communication gaps exists for the affluent. Thus, even if you don't have investments of \$3 million, there are still important lessons to take from this research.

Boomer plans for retirement

Most of today's accomplished boomers are self-made, first-generation affluent who are just beginning to enter retirement age. Similar to the average boomer that wants to keep working or may need to work longer, these affluent boomers show no signs of slowing down..

- *The top activity in retirement is expected to be volunteer activity, listed by 55% of boomers.*
- *Almost half said they will continue working in retirement, many planning to start a second career or new business. Notably 21% said they will never retire.*

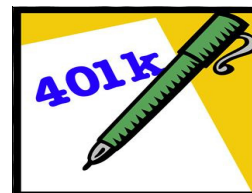
Financial priorities in retirement

Having worked hard for financial security and freedom, affluent Americans now want to be able to travel and focus on relationships.

The top priorities for using their money among affluent Americans:

1. *Financial security*
2. *Financial freedom*
3. *Travel*
4. *Improving relationships with family and friends*
5. *Leaving an inheritance*
6. *Tied: Having fun and Making a positive impact on society*

Having worked hard for financial security and freedom, affluent Americans now want to be able to travel and focus on relationships.



Insufficient estate plans

Many affluent Americans have only basic financial and estate plans:

- *While 88% of the wealthy have an estate plan in place, nearly 4 in 10 say their estate plans are not comprehensive.*
- *Almost half indicate that there are gaps in their understanding of some aspect of their estate plan.*
- *Most estate plans contain basic elements such as a will and beneficiary designations for insurance and retirement savings, but more sophisticated tools such as revocable trusts, irrevocable trusts, life insurance trusts and charity trusts are only utilized in 10% to 50% of cases.*

- Estate plan gaps of the affluent are similar to most Americans.
- Almost half report gaps in their understanding of parts of their estate plan.
- 4 in 10 say their plan is not comprehensive.

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Financial Planning and Market Commentary

- 56% had not documented personal property and assets, and half (51%) had not documented instructions about the distribution of personal possessions among heirs, often a source of family conflict and heartache in the settlement of estates.
- Only 30% have a power of attorney.
- 4 in 10 do not have a financial plan that factors in the impact of long-term care and/or end-of-life healthcare costs on family wealth.
- Astonishingly, only 3% of wealthy business owners have a business succession plan in place.
- Nearly half do not believe their children will reach a level of financial maturity to handle the family money they will inherit until they are at least 35 years old.
- Half of parents have not fully disclosed their wealth to their children, and 15% have disclosed nothing about the family wealth. Key reasons for avoiding a discussion about their wealth were fear that their children will become lazy (24%); would make poor decisions (20%); would squander money (20%); or would be taken advantage of by other people (13%).

This survey points to huge deficiencies in estate plans of many wealthy investors similar to the deficiencies in the estate plans of most Americans.

Communication gaps with spouses

Most affluent Americans have discussed some aspect of their financial situation with their spouses. 90% have talked about taxes, and almost 80% have discussed investment decisions, risk tolerance and conversations with their financial advisor.

More difficult conversations are less likely to take place:

- 30% haven't discussed income needs in retirement.
- One third haven't talked about each other's debts and obligations.
- 4 in 10 haven't shared the details of their estate plan.
- Almost half haven't discussed plans for long-term care.

It appears the communication gaps of the affluent are nearly the same as the typical pre-retiree.

Concerns about children and wealth

Among parents planning to leave an inheritance, many are concerned about whether their children will be prepared to handle it. Among wealthy parents surveyed:

- About 1 in 3 strongly agree that their children will be able to handle the inheritance they plan to leave them.
- Two thirds say their heirs don't fully understand their wishes on how to divide personal property.

Gaps in conversations with advisors

Communication gaps don't just exist with spouses and children—they also exist with their financial advisors.

- Even though 84% of parents think their children would benefit from discussions with a financial professional, 6 in 10 have never introduced their children to the professionals managing their financial affairs.
- 1 in 4 has never discussed intergenerational wealth transfer with their advisor, and 1 in 3 respondents has never discussed the expectations of next-generation heirs.
- Half have never discussed ways of teaching children to handle wealth responsibly.
- 4 in 10 haven't discussed legacy goals or their philanthropic strategy.
- Wealthy Americans are more interested in seeing the impact of their giving now, rather than leaving a legacy when they pass away. Despite this, 4 in 10 have never sought professional advice about legacy planning or philanthropic strategies.

These findings point to some very big planning gaps. At our firm, we strive to address as many of these type of issues as possible in our planning process. If the findings of this report are surprising to you, they shouldn't be. The affluent are just like the rest of us with the same problems, communication gaps, and dreams as most Americans. If any of these specific findings resonate with you, please contact us and we would be happy to discuss any of these items further.

Source: U.S. Trust Insights on Wealth and Worth. Survey of High Net Worth and Ultra High Net Worth Americans 2011 Highlights.