The Post-Retirement Generation

Leaving a Legacy

Personal Risk Services

Contents

This is the fourth white paper in a series tracing the changing risk profiles and insurance needs of high-net-worth (HNW) individuals throughout the life cycle. Earlier papers addressed the Young Professionals, born between 1981 and 1992; the Wealth Accumulators, born between 1965 and 1981; and the Pre-Retirees, born between 1946 and 1964. This final paper looks at the Post-Retirees, those born in 1945 or earlier.

The Post-Retirement Generation

Leaving a Legacy

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Executive Summary

The roughly 42 million Post-Retirees born in 1945 or earlier represent the highest-net-worth segment in the current US economy. They fall into two camps: those who continue to spend and accumulate, and those who are actively downsizing.

Downsizing or not, HNW Post-Retirees are deeply concerned about their legacy to their families and to society at large. Wealth management teams will be tasked with supporting the implementation of estate plans. Insurance advisors will have the opportunity to help protect all parties during a process that will likely include changes of coverage, beneficiaries, and insureds.

Who Are the Post-Retirees?

The most obvious difference between Pre-Retirees and Post-Retirees is that the latter have reached the stage the former were preparing for. While both groups share the same principal concerns of lifestyle and legacy, the Post-Retirees need different services.

Post-Retiree Demographics
The roughly 42 million Post-Retirees represent the smallest adult cohort by age, compared to 76 million Pre-Retirees, 53 million Wealth Accumulators, and 60 million Young Professionals. However, according to the Pew Research Center, as of January 1, 2011, 10,000 boomers per day turned 65 and will continue to do so until 2030, increasing the percentage of over-65s from 13 to 18.[1] *The Shullman Luxury, Affluence and Wealth Pulse* for March 2014 counts roughly 1 million HNW Post-Retirees, with $1 million or more in net worth (defined as assets minus debts).

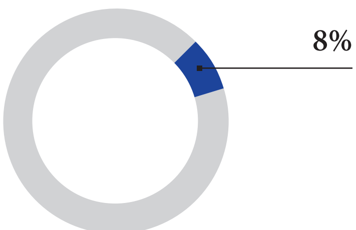
The Post-Retirees enjoy the best economic status. A Census Bureau study showed that while every other cohort's net worth decreased between 2000 and 2011, Post-Retirees' net worth increased by 16.6 percent.

Advisors who serve this segment typically find that marketing to them is less impactful than sustaining long-term relationships with them. High-net-worth Post-Retirees have likely already assembled a committed wealth management team, and the insurance advisor is an essential part of that team. Client service and retention are arguably more important than acquisition for this group.

[1]Pew Research Center, *Baby Boomers Retire*, December 2010

Defined Benefit Plans

Only 8% of private employers offer a defined benefit plan. Personal savings has become the primary retirement tool.



Source: National Compensation Survey, March 2015

The Changing Meaning of Retirement

In the 1980s, retirement typically meant leaving the workforce at 65 and living on the proceeds of a defined benefit fund and Social Security, supplemented by personal savings. In 2015, with defined contribution funds the order of the day (the March 2015 National Compensation Survey found that only 8 percent of private employers offered a defined benefit plan), personal savings had become the primary leg of the retirement stool–and Americans were in the midst of a retirement savings crisis. According to a May 2015 study by the Government Accountability Office, "the median amount of those savings is about $104,000 for households age 55-64 and $148,000 for households age 65-74, equivalent to an inflation-protected annuity of $310 and $649 per month, respectively."

Without enough money for a comfortable retirement, non-HNW Americans continue to put off their exit from the workforce (though the 2016 EBRI Retirement Confidence Survey finds a decline in retirement from 25 percent in 2009 to 13 percent in 2016). But what about HNW individuals? In terms of insurance needs, Post-Retirees can be divided into two basic groups.

Accumulators: Many of the wealthiest HNW individuals will continue to accumulate wealth and property or possessions. Some of the richest men in the world remain closely involved in the businesses they have carefully cultivated over time. Warren Buffet is 86, Carlos Slim Helu is 76, Larry Ellison is 72, and Charles and David Koch are 80 and 76, respectively. Even below these stratospheric heights, many ultra-high-net-worth individuals (UHNWs) who leave the workforce don't immediately turn their attention to downsizing. That means that they can be expected to have continuing, even expanding, coverage needs. In short, they are over-65 Pre-Retirees.

Downsizers: Over time, Post-Retirees' focus shifts from accumulating to planning their legacy. That will require them to divest themselves of property, whether by gift or other means. Wealth preservation goes hand-in-hand with wealth transfer; one way advisors serve HNW people in this group is to find the most tax-advantaged way of accomplishing their intentions for their estate, dissipating it as little as possible.

For many other HNW individuals, the downsizing process is not optional. Despite their "high-net-worth" classification, they are in little better position to retire than those at lower asset and income levels. Under the time-honored rule for withdrawing assets in retirement–4 percent per year–an individual with $1 million in net assets has an income of just $40,000 per year.[2] That's hardly enough to live on, let alone pursue an expansive Post-Retirement lifestyle. High-net-worth Post-Retirees who face this challenge will rely on their advisors to help them downsize prudently.

Lifestyle Continuity/Insurance Continuity

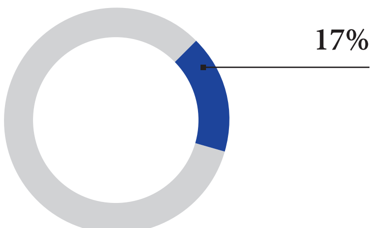
No matter what their situation, HNW Post-Retirees will have a variety of risk mitigation needs:

- Personal liability coverage tops the list; HNW Post-Retirees are more likely to be sued, and for more money, than other income groups. Adding to that potential liability, Post-Retirees incur greater risk of auto accidents as they age. (The Insurance Information Institute reports that drivers over 65 were involved in 17 percent of total traffic fatalities in 2013.)[3] To protect their assets, their umbrella coverage should be at least equal to their entire

[2] *New Math for Retirees and the Four Percent Withdrawal Rule*, Tara Siegel Bernard, New York Times, May 2015
[3] *Older Drivers*, Insurance Information Institute, web page accessed September 2016

Risk of Auto Accidents

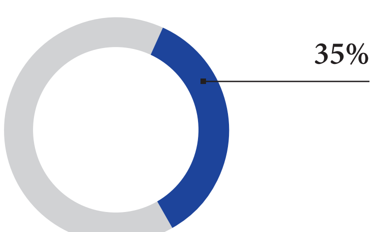
Drivers over the age of 65 were involved in 17% of total traffic fatalities in 2013.



Source: The Insurance Information Institute

Social Media

35% of Post-Retirees participate in social media, which means they are less liable to be sued for defamation.



Source: Social Media Usage: 2005-2015, Pew Research Center, October 2015

net worth, and preferably, to the limits of what they have at financial risk (which may exceed their net worth).

- As long as they own real and personal property, Post-Retirees will need to maintain their coverage. That includes their residences, autos, and possessions such as art or jewelry collections. Adequate coverage grows ever more important as the prices of collectibles continue to skyrocket. (The current record for a painting is held either by Paul Gauguin's "When Will You Marry?" which changed hands in February 2015 for almost $300 million, or Willem de Kooning's "Interchange," sold for approximately the same amount in September 2015.)[4,5] Post-Retirees who plan to donate collectibles will need guidance on the special insurance considerations involved.
- Retirement affords this group more time to travel. Post-Retirees prefer inclusive luxury vacations, such as the Four Seasons 24-day around the world tour ($106,000-$137,000 for 2016).[6] If they add more travel companions, such as members of the extended family, they need to adjust their coverage accordingly. They may even adopt a residence abroad, which would require an insurance advisor who can secure worldwide liability coverage.

On the other hand, they are at less risk than other cohorts in some areas. At this point in their lives, they are less likely to be involved in the sharing economy (16 percent of providers in the sharing economy are over 65, according to Price Waterhouse Coopers). This reduces their exposure to potential liability for personal injury, loss of property and regulatory penalties.

In addition, only about one-third participate in social media (35 percent use it as of 2015), which means they are less liable to be sued for defamation.[7] Being retired also removes the need to entertain at home for business purposes. Additionally, HNW Post-Retirees are less likely than Pre-Retirees to participate on corporate boards and act as nonprofit trustees, reducing the risks of related lawsuits.

The one constant throughout these lifestyle changes is the continuing need for an experienced advisor to know their circumstances and adjust their coverage. It is more important than ever that the Post-Retirees' protection be calibrated to their needs. If a Young Professional or Wealth Accumulator suffered catastrophic loss because of inadequate coverage, he or she could expect to have time to recoup. Post-Retirees do not have that luxury.

The Special Needs of the Downsizers

Whether they've downsized by choice or necessity, this group has a different risk profile than accumulators. Insurance advisors who know which category their insureds fall into can help make sure that coverage gaps are filled, including gaps that appear because of the Post-Retiree transition to a new lifestyle.

Consider, for instance, the implications of downsizing residences and collectibles.

Residence: Downsizing Post-Retirees may assess a range of living possibilities, such as:

- Sell the primary residence and move to a condo in the city
- Purchase a smaller home closer to the grandchildren
- Give the children the use of the primary residence and live in the Florida vacation home
- Move into a luxury retirement community

Any change in residence, of course, has insurance implications as coverages are added or dropped. On a more complex note, transferring assets to

[4] *Paul Gauguin's When Will You Marry?* Becomes Most Expensive Artwork Ever, Chris Johnston, The Guardian, February 2015
[5] Ken Griffin buys two paintings from David Geffen for $500 million, Aaron Smith, CNN Money, February 2016
[6] Four Seasons Around the World web page, accessed September 2016
[7] Social Media Usage: 2005-2015, Andrew Perrin, Pew Research Center, October 2015

Legacy is arguably the most important issue for all Post-Retirees.

family members may require putting assets in trust, creating the need for an advisor who understands how to keep coverage gaps from occurring during the process.

Collectibles: Transit is a particularly risky time for collectibles. Coverage for the collectible contents of the residence, whether fine art, jewelry, or vintage comic book collections, should already contain a rider for moving. If not, adding one is critical. Advisors can help ensure that coverage is appropriate during transitional periods, including donation or long-term loan to an institution (for example, whether the HNW individual should acquire coverage in addition to that provided by the museum). It's important to be clear on where the HNW's insurance ends and the recipient's insurance begins.

Post-Retirees and Legacy Planning

The defining shift of the Post-Retiree phase is from wealth accumulation to wealth transmission. Transfer planning, of little concern for younger groups (except perhaps as part of tax mitigation strategies), is typically the Post-Retiree's highest priority. Even those who continue to accumulate are concerned with wealth transfer. It is safe to assume that Warren Buffet has a minutely detailed estate plan.

Legacy—for family members and for society at large—is arguably the most important issue for all Post-Retirees. The insurance advisor's role on the wealth management team is to create a liability structure that protects Post-Retirees as they transfer their wealth.

The head of a high-net-worth family typically sets the wealth transfer agenda. The role of the wealth management team, including the insurance advisor, is to implement the agenda. That includes, if there is a likelihood of family tension, helping the HNW family shape the agenda by convening a family conference. Before the conference, the team can meet with stakeholders to listen to their concerns. During the conference, family members can discuss the issues that have emerged and, hopefully, secure a binding agreement. The insurance advisor can explain what coverage is necessary to implement the resulting plan and shield the stakeholders from liability.

In addition, the insurance advisor can:

- Be an essential resource if the client decides to set up a family office;
- Act as a counselor. According to the Williams Group, 70 percent of family wealth is lost in the second generation, and 90 percent by the third.[8] Because insurance exists to protect wealth, no professional is better positioned to impress upon the family the value of stewardship into the second and third generations.
- Help HNW individuals at lower income levels to avoid imposing an undue burden on later generations as they downsize.

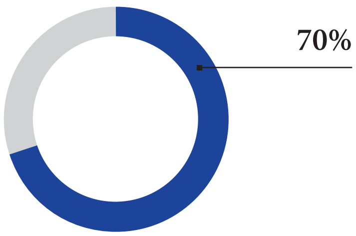
A Matter of Trusts

Perhaps the best example of the need to calibrate coverage with wealth transfer is the use of trusts (or limited liability companies) to achieve wealth preservation. Trusts can serve many purposes in facilitating wealth transfer. For example, suppose that a parent wants one of the children to have the family residence after his or her death. Transferring the house to a trust, in which the child is the beneficiary, may have several tax advantages.

[8] Time.com (with credit to Reuters), "*70 percent of Rich Families Lose Their Wealth by the Second Generation,*" Chris Taylor, June 2015

Wealth Lost

70% of family wealth is lost in the second generation, and 90% by the third.



Source: The Williams Group

As important as trusts are to estate planning, they also raise a battery of insurance-related questions, including:

- Who or what is now the insured?
- Who pays the premiums?
- Who gets the proceeds?
- Who or what is at risk of litigation?

A related challenge is that the beneficiary of an insurance policy must have an insurable interest in the insured property. The insurable interest is clear enough before the transfer to a trust. The beneficiary is the named insured (the policyholder), the insured property is the residence (and its contents), and the relationship that creates an insurable interest is ownership. What happens, though, if legal ownership of the residence is transferred to the trustees, but the relevant policies are not changed (including the grantor's liability and umbrella policies)? The insurable interest now lies with the trust(ees).

Consider the following:

- The house burns down. If the policy is still in the grantor's name, the trustees have no coverage. Why? Because the grantor is no longer the legal owner of the house, he or she no longer has an insurable interest and thus has no coverage.
- A guest is injured in the fire. The grantor is covered by his or her personal liability and umbrella policies, but since the trust and trustees are not, the trust will be liable for its share of any judgment.

An experienced insurance advisor will understand that the policies need to be changed. More importantly, the advisor will know that merely substituting the trustees as insureds is not adequate.

There are several ways to provide coverage for all parties who may have an insurable interest. The choice will depend on the grantor's objectives, the relevant tax laws, and other factors. The insurance advisor's role is to recommend options.

Conclusion

The Post-Retirees are in a unique situation. In addition to their existing coverage needs, they must also plan how best to pass on their assets to the next generations. They will count on their financial planning team to help them leave a legacy to their families and the broader society. And they will count on their insurance advisor to help shield their wealth as it is transferred.

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