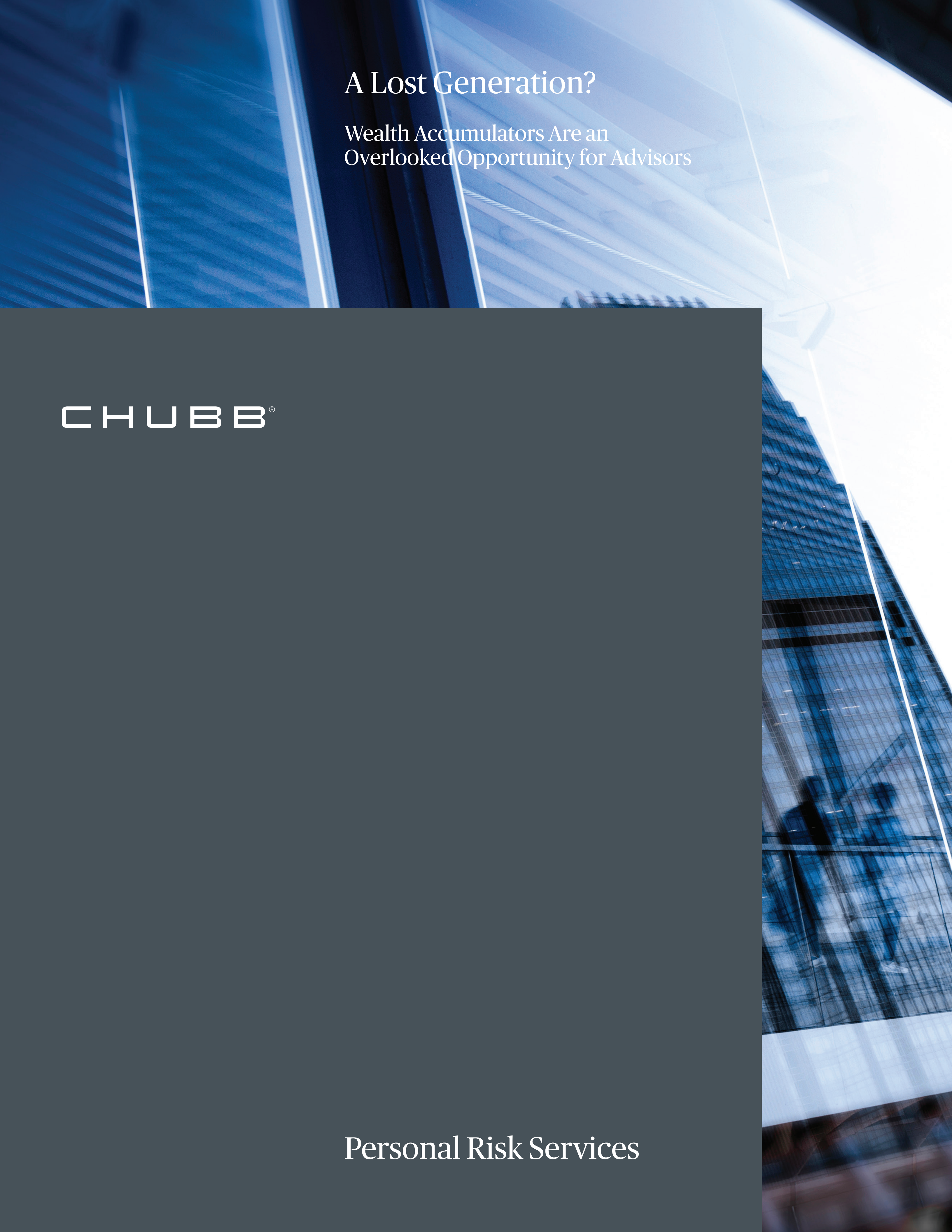

A Lost Generation?

Wealth Accumulators Are an Overlooked Opportunity for Advisors

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Personal Risk Services

Contents

This is the second in a series of four white papers tracking the changing risk profiles and insurance needs of high-net-worth individuals throughout their life cycle. The first paper addressed Young Professionals, defined as those born between 1981 and 1992. This paper focuses on those at the next stage, the Wealth Accumulators who were born between 1965 and 1981 (roughly corresponding to the media label "Generation X").

A Lost Generation?

Wealth Accumulators Are an Overlooked Opportunity for Advisors

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Executive Summary

There are approximately 60 million Americans in the 34–50 age cohort, according to U.S. Census data compiled by the July 2014 Shullman Luxury, Affluence and Wealth Pulse. By the report's reckoning, this makes for a considerably smaller group than the Young Professionals (67.9 million) or the Post-Retirees (74.9 million), the so-called Baby Boomers. Perhaps for this reason or because of the group's perceived mistrust of financial advisors (a 2013 Cogent Research report found that only 33 percent were highly confident in their primary advisor), many advisors have missed the opportunity to pursue their business. A Weber Shandwick survey showed that none of the financial services companies that segment their websites by generation (about half of those examined) focus on "Generation X."

This is a mistake for several reasons:

- This may be the smallest cohort of adults, but it has disproportionately more assets than other age groups. According to the website Hearts & Wallet, the 40–53 age group numbers 29 million but has $7.2 trillion in investable assets.
- Not only that, they are continually moving upmarket, gathering assets including property and collectibles, having children, constantly adding to their risk profile.
- Thus, they stand most in need of advice as well as insurance coverage. To become their trusted advisor when they need it most helps cement a long-standing relationship.

Therefore, it would be foolish to write them off.

We call the high-net-worth segment of this demographic, those owning at least $1 million in investable assets, the Wealth Accumulators. The Shullman report indicates that there are 4.2 million people in the 34-50 cohort who have more than $1 million in total assets, including residences. Certainly, a large number of them are Wealth Accumulators.

This is the phase in which individuals undergo some of their biggest life changes, including:

- **Homeownership:** As a whole, the 34–50 group's homeownership rate has declined faster than any other cohort since the Great Recession (from 65.7 percent in 2009 to 58 percent in second quarter 2015, according to the U.S. Census Bureau), but contrary to media narratives, the Wealth Accumulators are buying homes—some are buying second and third homes, in fact.

- **Family:** Data from the Fall 2011 Longitudinal Study of American Youth indicate that two-thirds of adults born between 1961 and 1981 are married, and 71 percent have minor children at home. An April 2013 MetLife Mature Market Institute survey found that 74 percent have children.

Wealth Accumulators are so involved in building and pursuing their careers that they can lose track as their assets outstrip their insurance coverage.

- Careers: This is the stage at which they are moving from junior to mid-level and senior positions, spending many, if not most, of their waking hours on the job. That's particularly true of the large proportion of this cohort that consists of entrepreneurs.
- Luxury spending: For Wealth Accumulators, asset acquisition comes with the territory, and according to the Shullman report, it is only set to increase.
- Travel: The luxury travel agency network Virtuoso reports that affluent "Generation X" travelers spend on average $8,458 on travel annually, with the highest per-day average of any cohort at $627.
- Passionate pursuits: At a certain point, Wealth Accumulators can begin to satisfy tastes they have had for years but could not afford as Young Professionals, whether for fine art, jewelry, wine, stamps and coins, memorabilia, or classic cars.

The problem for Wealth Accumulators is that they are so involved in dealing with these changes and in building and pursuing their careers that they can lose track as their assets outstrip their insurance coverage. But this creates an opportunity for advisors to learn about this group's needs and then partner with a specialist insurer that can provide the coverage to mitigate their risks.

The Wealth Accumulators–A Portrait

Of course, there is immense variation among Wealth Accumulators. At the young end, overlapping with the Young Professionals, couples are raising young children or are preparing to start a family. Perhaps, they are looking at a secondary home. At the older end, their children are preparing for college, and they may have multiple homes. Many Wealth Accumulators have far more than $1 million in investable assets.

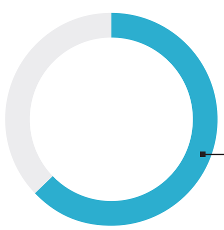
Nonetheless, Wealth Accumulators share many of the same risk characteristics as their Young Professional counterparts, but often at substantially greater exposures. Some noteworthy examples include:

- As they accumulate more things, particularly more valuable items, they increase their risk of incurring damage, destruction, or theft.
- As their homes, valuable possessions and personal wealth grow in size and value, the risk of loss increases–especially for second or vacationhomes in locations subject to fire, flood, storm, or other adverse conditions. At any point, they can be liable for injuries resulting from use of the home.
- Family members, especially their children, can expose them to vicarious liability in many areas, particularly auto and home accidents and through their activities on social media. This is the potential source of the largest liabilities they can incur; yet many are inadequately protected.

In short, they are buying homes, raising families, moving up in their careers, bumping up their consumption–continuing to accumulate throughout this entire period. Ownership, family, careers all lead to commensurately expanded risks–but not to greater caution against those risks. A 2014 UBS Investor Watch survey states that they have the highest risk tolerance of any cohort. The same is true in specific areas such as travel. Most important, like high-net-worth individuals in all age groups, they do not carry sufficient personal liability insurance coverage.

Scaling Up

Many millionaires aged 21-48 own a vacation home.



Source: 2013 Fidelity Millionaire Outlook

Home Is Where the Risk Is

Many articles and studies report that the 34-50 cohort is not buying homes. U.S. Census data, as crunched by The Atlantic, show that the homeownership rate for those born between 1970 and 1979 fell to 59 percent in 2014, almost six percentage points lower than the population as a whole. The Joint Center for Housing Studies of Harvard University reports that between 2004 and mid-2103 the percentage of renters in this group rose by some 9 percent.

Nonetheless, this is emphatically not the case for the Wealth Accumulators. The National Association of Realtors 2015 Home Buyer and Seller Generational Trends Report finds that those born between 1965 and 1979 make up 27 percent of both home buyers and home sellers–#2 and #1, respectively.

Thus, a quarter of Wealth Accumulators are either scaling up or purchasing second homes. A 2013 article on the website HousingWire claimed that they are “simply approaching the natural point in life where a second home becomes a feasible option.” As noted below, The 2013 Fidelity Millionaire Outlook reports that 63 percent of its respondents own vacation homes. And those vacation homes may well be in a foreign country.

A 2015 report by Houzz.com notes that “home renovation priorities span generations,” but that “while renovation considerations do not vary by generation, they are in fact tightly linked to household income.” It stands to reason that many Wealth Accumulators who are not scaling up or buying second homes are likely to be renovating, and this is reflected in the Houzz study, which finds that the largest group of respondents aged 35-44 and 45-54 “wanted to do it all along and finally had the financial means” (41 percent in each case). There is an endless variety of renovations–indoor or outdoor, structural, systems, additions, kitchens, basements, bathrooms, master bedrooms, “man caves.” To the extent the report breaks down its figures by cohort, Wealth Accumulators are willing to spend. For a large kitchen renovation, for example, the 35-44 group’s average expenditure is $37,000; for the 45-54 group it is $39,700.

Renovation, though, presents a whole new sphere of potential liability. Workers will be on the premises, raising the risk of being injured or causing damage. Subcontractors may be involved, doubling the problems of dealing with the prime contractor. Shoddy workmanship can cause damage or even the destruction of the residence after the renovation is completed.

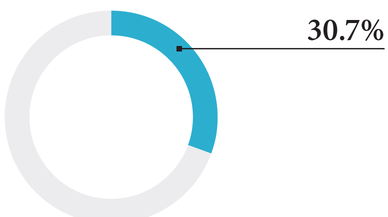
In addition, completed renovations–the home theater, gourmet kitchen, luxurious master bedroom and spa bath, and the redesigned outdoor living space–generally are completed over time. And because many homeowners neglect to inform their agent about the renovations, it leaves their renovated home vastly underinsured. Thus, it is imperative that homeowners considering renovation confer with their advisor *before* starting any project, to increase the amount of coverage, make sure additions are covered, make sure the prime and any subcontractors have workers compensation and liability coverage, and so on.

Outgrowing what you have also brings commensurate risks. A Wealth Accumulator whose second home is a ski chalet in Vail incurs a risk of wildfire that is simply not present at the New York City condo. The situation is still worse if the second home is a villa in Tuscany; mass market insurers are not equipped to handle international exposures.

What worked in an apartment will not work for a historic home or an international property, but Wealth Accumulators are surprisingly nonchalant about keeping up their coverage. They need an advisor who will tell them it's time to ditch the mass-market insurer.

Going Mobile

More than 38 million born between 1965 and 1980 used mobile Internet monthly.



Source: eMarketer.com

Liability Also Begins at Home

When they were Young Professionals, they posed risks to their Wealth Accumulator parents. Now that they are Wealth Accumulators themselves, the situation is reversed. Their children now pose those risks to them.

For all high-net-worth individuals, personal liability is the Achilles heel, but for no one more than Wealth Accumulators. With more and bigger possessions than the Young Professionals, they expose themselves to more risk; with a longer wealth horizon than the Pre-Retiree and Retiree cohorts, their potential exposure is greater. And they are subject to the same varieties of risk as any other age group:

- They certainly have families, increasing their risks exponentially. Children in particular may invite strangers onto the property, where they may be subject to slips and falls and other risks.
- They probably entertain at home, for business if nothing else, and probably serve alcohol, opening up the risk of vicarious liability for a guest's later auto accident.
- Other drivers, particularly younger ones, multiply the risk of a vehicle accident; subjecting the Wealth Accumulator to liability risk not just in virtue of owning the car and giving the driver permission to use it, but even just by having their names on the vehicle registration.
- Wealth Accumulators who own boats open themselves up to all the hazards of the sea.
- Even the most docile-seeming dog may surprise its owner and attack a stranger or guest.

It is easy to find examples of home- or auto-related accidents that resulted in multimillion-dollar verdicts. The risk of such a verdict may be small, but the effect would be so catastrophic that the risk must be mitigated.

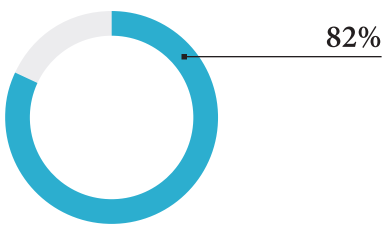
Wealth Accumulators are not unaware of the risk, but seem to discount it, judging by the failure of many to purchase excess and umbrella policies. One of the most important tasks an advisor can undertake for a Wealth Accumulator client is to trumpet the importance of this coverage. There is nothing other than a massive uninsured liability payment that can bring down a career. The rule of thumb is that high-net-worth individuals should secure excess (umbrella coverage) equal to their net worth. A better formulation is for them to insure to the limits of what they have at financial risk (which can be more than net worth if their future income stream is substantial).

Auto (and home) exposures are by far the most significant that Wealth Accumulators face, but other up-and-coming forms should also be covered, including:

- Tech: Having been exposed to the Internet since adolescence, they are tech savvy, but not quite as much as are the Young Professionals. A 2013 article on the website eMarketer.com found that 88.8 percent of respondents born between 1965 and 1980 used the Internet monthly; 95 percent used mobile phones, and 60.3 percent of that group used smartphones. Of those, 62.2 percent, or some 38.4 million, used the mobile Internet monthly,

Serving on Boards

Many millionaires aged 21 to 48 volunteer or serve on the boards of charities.



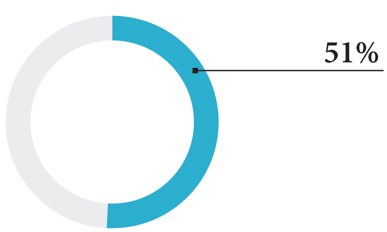
Source: 2013 Fidelity Millionaire Outlook

accounting for 30.7 percent of users. As for social media, 65.6 percent (39.4 million) used Facebook, but only 14.7 percent (8.8 million) used Twitter. (The corresponding figures for the Young Professional cohort are 65 million and 16.6 million.) Given all this, they are less likely than their children to be sued for a careless remark on Facebook, but the danger is growing; for example, the subjects of disparaging online reviews are growing more and more litigious.

- D&O liability: The Fidelity report found that 82 percent of its respondents were volunteering or serving on the boards of charities. Service on any corporate board requires protection against lawsuits, but nonprofits are less likely to offer adequate coverage and their provisions should be carefully reviewed.
- Employment liability: As Wealth Accumulators get to the point where they require domestic help, they expose themselves to the full panoply of employment disputes: harassment, workers compensation, overtime, and the like.

Increasing Luxury Spending

More than half of all accumulators planned to buy luxuries–compared with 34% of the general population.



Source: Shullman Luxury, Affluence and Wealth Pulse

Pursuing Their Passions

Collectibles

According to the Shullman report, Wealth Accumulators are increasing their luxury spending. Fifty-four percent planned to spend more in 2015 than in 2014, and 51 percent planned to buy luxuries–compared with 34 percent of the general population. High on the list were luxury vacations (28 percent), including cruises (15 percent); premium beer (28 percent), wines (20 percent) and champagne (13 percent); smaller but significant numbers plan to buy jewelry costing more than $500 (8 percent each) and fine art or antiques (4 percent). The 2013 Fidelity Millionaire Outlook, whose respondents were aged 21 to 48, reports that 63 percent own vacation homes, 44 percent own boats, and 63 percent have country club memberships.

Wealth Accumulators' interest in wine, jewelry, and fine art bears witness to the observation that at a certain point in their transition to high-net-worth status, they realize that they can pursue their passions, sometimes on a grand scale. Having satisfied their needs, they can turn to their wants. Passion, wealth, and asset accumulation converge; the result is a collector–of wine, paintings, jewelry, stamps and coins, Golden Age comic books, or classic cars–there is no limit to the possibilities. The Pop artist Andy Warhol collected cookie jars. (He may have haunted flea markets and secondhand stores to buy them, but in 1988, the year after his death, they sold for $247,830 at auction.)

But the exhilaration of collecting obscures the increased risks that many neophytes do not appreciate. There may be no clearer example of the theme of assets outstripping an individual's protection. For example, basic homeowner policies generally have coverage limits of $5,000 for jewelry. Some have as little as $1,000. The Wealth Accumulator who loses a $10,000 Rolex is in for a nasty shock when he gets a check from his direct or mass-market insurer for $1,000 less the deductible.

Collectors need to deal with three kinds of risk:

- Things can break. In January 2006, a visitor to the Fitzwilliam Museum in Cambridge, England, tripped and smashed three Qing Dynasty vases. In August 2015, a 12-year-old boy tripped in a museum in Taipei and poked a hole in a $1.5 million painting.

- Things can get lost or stolen. The artworks stolen in 1990 from the Isabella Stewart Gardner Museum in Boston have yet to be recovered.
- Things can get ruined. Wine can sour. Paintings can fade. Action figures can be removed from their boxes.

What is noteworthy is that mitigating all three kinds of risk requires a host of specialists with resources a direct or mass market insurer is not in a position to provide. Just as Wealth Accumulators need to increase their coverage as their assets expand, they must turn to an insurer that can provide the full range of services they need to pursue their passions.

- The first step in protecting valuables, obviously, is to get them appraised–and to keep the appraisal current, renewing it every one to three years. For example, a high-net-worth woman with a remarkable collection of jewelry misplaced her Burmese ruby ring; it was insured for $1.5 million. She failed to take into account the intervening embargo on rubies from Myanmar, which drove the replacement cost of the ring to more than $4 million.
- The second is purchasing appropriate coverage for the collectibles. Here coverage limits come into play. A mass market insurer simply does not have the resources to provide coverage for a $150 million Francis Bacon triptych.
- Finally, prophylactic measures must be taken. Fragile items should be moved by experts. Wine requires a storeroom with appropriate temperature and humidity controls. Items to be displayed, like that Francis Bacon, require a security system. Items that are not displayed, if kept at home (such as jewelry when not being worn) should be kept in a "secure on all sides" safe.

Even the most passionate Wealth Accumulators are working hard on their careers and have many other demands on their time. Little wonder that they have been shown again and again to overlook the requisites of adequate coverage.

Advisors need to drive the conversation about protecting collectibles with their clients–to find out what they have and help them make wise decisions about what insurance protection they need. To do so in an informed manner, they need to partner with insurers that know their clients' needs and are in a position to provide that protection.

Travel

Young Professionals travel even when they are strapped for cash. Once they make the transition to Wealth Accumulator status and can spend on luxury travel, they take full advantage. According to the Shullman report, 65 percent of Wealth Accumulators planned to travel for pleasure in 2015. Twenty-eight percent planned a luxury vacation; 15 percent intended to take a cruise. The Fidelity respondents reported that 87 percent took annual foreign vacations.

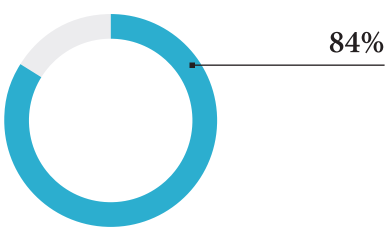
Virtuoso's annual Luxe report for 2015 does not provide breakdowns by age group or net worth, but it notes that 84 percent of its clients are booking international trips of eight days or longer, on such things as river cruises (50.9 percent), adventure travel (34.8 percent), and guided or private tours (20.3 percent).

Virtuoso also examined luxury vacation spending by cohort, finding that though seniors spend some $11,000 per person per trip as opposed to $8,458 for "Generation X," they take longer vacations, leaving "Gen X" with the highest per-day spending at $627. Thirty-four percent preferred private or escorted tour experiences.

All this supports the conclusion that Wealth Accumulators bump up their travel experience as soon as they can afford it.

Heading Abroad

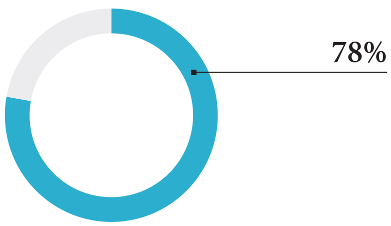
Many travelers are booking international trips of eight days or longer, including cruises and guided tours



Source: 2015 Virtuoso's Luxe Report

Downplaying Travel Insurance

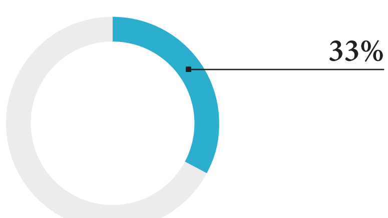
Many people have never purchased travel insurance or have taken a trip that offers it.



Source: Princeton Survey Research Associates International

Lacking Confidence in Advisors

Few investors with $100,000 or more in investable assets were highly confident in their primary advisor.



Source: Cogent Research

But this is another area in which they run ahead of their need for protection. A 2013 survey conducted by Princeton Survey Research Associates International for the website The Points Guy found that only 21 percent of respondents, across age groups, purchased travel insurance; "an astounding 78% of people responding that they either never purchase travel insurance or take a trip where it is offered."

Advisors should take this opportunity to educate their clients. Clearly, Wealth Accumulators are seeking to enhance their experiences in novel locations, including potentially hazardous ones such as Myanmar, Cuba, Vietnam, and the ultimate adventure travel destination, Antarctica, according to the 2015 Virtuoso Luxe Report. Their favored American and European destinations, such as Italy, France, and New York City, rank among the most expensive.

With these expanded possibilities come expanded risks. Emergency medical treatment may not be covered by standard travel policies, and cancellation of a trip almost certainly will not be. In certain countries, the most frightening prospect of all, kidnapping, is a real possibility, if not for Wealth Accumulators themselves, then for their Young Professional children, who show an even greater interest in potentially risky travel.

It is up to trusted advisors to stress Wealth Accumulators' need for a comprehensive travel insurance plan covering all these eventualities.

Relationships with Advisors

Befitting their cohort's name, the Wealth Accumulators are moving from strength to strength, acquiring more and better possessions, vacationing in more and more exotic destinations, taking their careers to the next level on the way to full high-net-worth status.

But they have a problem with advisors–at least financial advisors. A 2013 Cogent Research study of investors with $100,000 or more in investable assets found that only 33 percent were highly confident in their primary advisor. The 2013 Fidelity Millionaire Outlook, which surveyed individuals with $1 million or more in investable assets, found that though 92 percent of Wealth Accumulators (and Young Professionals, whom the survey combines) use an advisor, 61 percent make their own investment decisions, looking to the advisor primarily for validation.

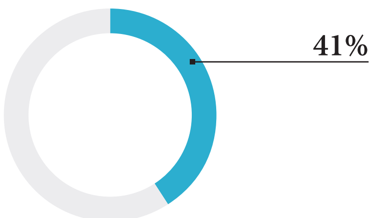
The problem may not be so much one of trust as of use. Wealth Accumulators are using advisors but not in the most effective way. They need more than just a financial advisor. Asset and career protection are more important aspects of overall wealth management at this point. At the least, Wealth Accumulators need their financial advisor to work with a specialist insurer that can look at their whole life picture, present and anticipated future, and locate the weak points in which they are failing to mitigate asset and career risk.

The very intensity of the Wealth Accumulators' focus on career can blind them to the necessity of protecting what they have earned. If you are working 60 to 80 hours per week, you are probably not finding the time to deal with your insurance needs. If 61 percent are using advisors just for validation, they are probably not seeking out the education they need about risk mitigation.

How can advisors reach out to Wealth Accumulators to offer them the help they

Managing Investments

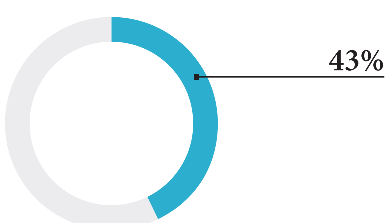
A large number of social media users with at least $5 million in investable assets are "active traders."



Source: Cogent Research /LinkedIn

Virtual Shopping

Nearly half of those born between 1965 and 1975 shop for products using smartphones.



Source: GfK

need? What channels should they use, and how best to present the need for coverage?

Time is an issue. Wealth Accumulators are pressed for time; mainly because they devote so much time to their careers. And as they move up market, they tend to forget that their insurance needs move up market with them.

To get their time, be respectful of it. That means giving them facts and solutions, not frills. Advisors should explain how risks center around the connection points of family and household–bigger houses and more possessions, children in college, driving risks, online risks–and how they have outgrown their mass market insurer and need to establish relations with a trusted insurance specialist.

Be where they can find you. These are not your parents' Wealth Accumulators. They aren't watching the news on TV. An October 2014 survey by the marketing research firm GfK shows that 43 percent of respondents born between 1965 and 1975 shop for products using a smartphone but then buy in a bricks-and-mortar store. A 2014 comScore survey reports that 46 percent of consumers shopped for auto insurance online in the past year, a slight decrease from 2013, but there was a 4-percent increase in online shoppers obtaining an insurance quote in that year. As these proportions continue to grow, advisors need to establish both online and in-person contact points.

Use social media. It's hardly conceivable that any business professional today should be without a website, but advisors may think social media are a waste of time. Not so: Wealth Accumulators are avid users of social media. According to the eMarketer estimates mentioned above, 38.2 million people in the Wealth Accumulator cohort have Facebook accounts and 8.5 million are on Twitter. A 2014 Spectrem Group study found that among investors born between 1967 and 1981, 68 percent had Facebook accounts, 46 percent were on LinkedIn, and 21 percent had Twitter accounts. And in 2012, a study of those with at least $100,000 in investable assets conducted by Cogent Research and LinkedIn found that 68 percent were active on Facebook, 66 percent on LinkedIn, 27 percent on Google+, and 22 percent on Twitter. It noted that 54 percent of social media users in the survey population managed their own investments (as opposed to 82 percent of nonusers), and that 41 percent of ultra high-net-worth investors (at least $5 million in investable assets) are "active traders," executing at least three trades per month.

All this adds up to social media as a way into an untapped market among high-net-worth individuals. They use social media as a source of business and investment information. (The Cogent/LinkedIn study naturally trumpets their use of LinkedIn, but that doesn't invalidate the general point).

Recognize that the times are a-changing. Despite the crucial importance of families to insurance needs, advisors should not assume that Wealth Accumulators–or any other cohort–necessarily form traditional families. Families in the United States today can consist of single-parent households, same-sex or opposite-sex couples whether married (for the first or later times) or unmarried and with or without children, extended families, and so on. The Pew Research Center reported in December 2014 that only 46 percent of U.S. children under 18 live with a heterosexual couple in their first marriage. Thirty-four percent live with an unmarried parent, and 5 percent live with no parent at all. (The head of household is usually a grandparent).

Moreover, a June 2014 Ameriprise Financial study of women with a 35–54 median age and $129,300 median in investable assets found that 56 percent of respondents said that they share in financial decisions; a remarkable 41 percent said that they make all financial decisions alone. Only 4 percent said that they are not involved in financial decisions. Plainly, advisors need to take this reality into consideration.

Tailor a plan to their needs. It goes without saying that advisors must proactively learn their Wealth Accumulator clients' and prospects' needs, goals, and overall financial situation—a process that takes time, trust, and listening. They must review the Wealth Accumulator's possessions, potential third-party liability, special circumstances (such as international exposure), and net worth before they can make clear how their expanding horizons are matched by their potential liability. At the end of this process, the advisor should be able to ask the Wealth Accumulator who has grown out of the mass market: "Can your insurance company do all this?"

Conclusion

It can be difficult to generalize about the Wealth Accumulators. A member of this cohort can go from renting a small apartment while finishing law school to an owner of multiple homes and classic cars, with children just starting their own professional education. Throughout it all, though, the common denominator remains the never-ending struggle to deal with risk, in both of its major forms:

- **Loss:** Possessions can be lost, stolen, or destroyed, and the more property one accumulates, the more is put at risk.
- **Liability:** Still more significant, a negligent act—even someone else's—may be the only thing that can bring down a lifestyle and a career.

The better advisors communicate with and understand their Wealth Accumulator clients, the better they can understand and mitigate their risks.

Chubb. Insured.[SM]