The Pre-Retirees

Changing Minds, Changing Needs

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Contents

This is the third in a series of four white papers tracing the changing risk profiles and insurance needs of high-net-worth individuals (HNWs) throughout their life cycle. The first paper addressed the lifestyles and risk management needs of HNW individuals born between 1981 and 1992, the Young Professionals. The second paper focused on those at the next stage, the Wealth Accumulators, born between 1965 and 1981. This third paper examines the Pre-Retirees, which corresponds to the Baby Boomers.

The Pre-Retirees

Changing Minds, Changing Needs

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Executive Summary

The Pre-Retirees are estimated to number between 75 million and 77 million and hold some $8 trillion in assets. Although there is no bright-line distinction between them and the younger Wealth Accumulators, they tend to look at life differently. The over-50 crowd begins to ask: *What have I accomplished? Can I sustain my lifestyle? Do I need to save more than I do today?*

The *change of mindset* that leads Pre-Retirees to ask these questions is far more important than whether they continue to accumulate wealth. As Pre-Retirees think about their lives and the legacy they want to leave, advisors must shift from a sales to a service perspective. To provide the added-value advice and service they need, financial advisors must look at their Pre-Retiree clients' lives holistically in collaboration with risk and insurance advisors.

Who Are the Pre-Retirees?

Pre-Retirees, who correspond to the Baby Boomer generation as defined by the U.S. Census Bureau, are Americans born between 1946 and 1964, and thus between ages 51 and 69 in 2015. The largest adult cohort, their numbers are estimated between 74.9 million (Millennials Overtake Baby Boomers as America's Greatest Generation, Pew Research April, 2016). and "just under 77 million" (2014 Census Bureau estimate). Some 8.35 million according to the Shullman Research Center's June 2014 Luxury, Affluence and Wealth Pulse, or 11 percent, of them are high-net-worth individuals with $1 million or more in total assets. Based on this, we can calculate that these individuals collectively hold some $8 trillion in assets, 23 percent of the U.S. adult total.

Plainly, as long as this continues to be the case, and indeed as long as they are transferring their wealth to younger generations, the Pre-Retirees will remain a group advisors need to pursue.

Pre-Retirees are staying in the workforce longer than the preceding generation.

According to current trends, this will continue for many years to come. The website Medscape.com reports that the Pre-Retirees are expected to live longer and the Population Reference Bureau points out they are staying in the workforce longer than the preceding generation. They either have not saved enough for retirement, according to a 2014 survey from NATIXIS Global Asset Management, or enjoy their work and are not thinking seriously about retirement or succession. In sum, they will have a different experience from any previous older generation.

Why Are They Different?

Statistics do little to distinguish the Pre-Retirees from the Wealth Accumulators. High Net Worths' (HNW) interests and their insurance coverage needs do not suddenly change when they turn 51. They still must be concerned about the same property and personal liability issues:

- **Home ownership.** Many Wealth Accumulators own multiple homes and often upgrade their primary residence. Once they begin to think about retiring, they may venture off into new directions that can further increase their potential liability. For example, some may be able to purchase a vacation home in a foreign location, so that they can jet off to Cabo or elsewhere whenever they like. Any move into the international sphere requires advisors to examine the new risks closely.

  In addition to property damage, the home remains a significant zone of personal liability. Delivery personnel, household staff or guests may be injured on the premises. Pre-Retirees are likely to entertain, for business or pleasure purposes and intoxicated guests..etc may get into accidents for which the host can be sued;

- **Excess/umbrella liability coverage.** Unless they were prodded by a savvy advisor, Wealth Accumulators probably neglected to ensure that their personal liability coverage kept pace with their net worth, lifestyle, and risk tolerance. It is more critical than ever for Pre-Retirees to plug this gap. Because they remain at high risk of being sued, they potentially put their entire net worth in jeopardy–and at a time in life when it would be difficult to recoup.

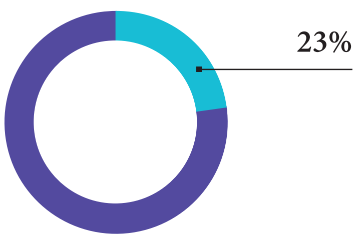
- **Third-party liability.** Family members remain a significant potential source of personal liability risk for Pre-Retirees. HNW's children multiply the chances of auto accidents and of injuries to guests in the home. They even remain a concern when they are grown and living out of the family home because many are supported by their Pre-Retiree parents well beyond age 25 (when they can no longer be carried on the parents' liability policies).

- **Passionate pursuits.** Wealth Accumulators may reach a stage at which they can pursue their wants as well as their needs, collecting anything from Picassos to cookie jars, generating a need for conservation and loss coverage. There certainly are issues about how to dispose of their collections, but they will not stop accumulating just because they have reached age 51.

As we move up the generational ladder, certain risks become less significant. For example, because Wealth Accumulators and Pre-Retirees are less likely to use social media than Young Professionals, they are less likely to face the liability risks caused by making comments on social media. The same may hold true for risks created by participating in the Sharing Economy. On the other hand, one issue becomes more prominent. With more time and a desire to

High-Net-Worth

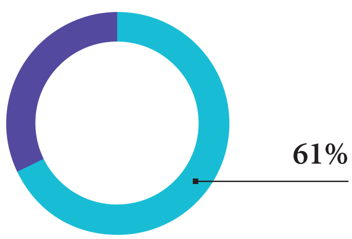
11% of Pre-Retirees are high-net-worth indiviuals who collectively hold some $8 trillion in assets, or 23% of the U.S. adult total.



Source: Shullman Research Center's June 2014 Luxury, Affluence and Wealth Pulse

Serving on Boards

High-net-worth individuals serving on a board of directors for a non-profit organization.



Source: 2012 Bank of America study of High-Net-Worth Philanthropy.

give to the community, many Pre-Retirees are interested in serving on corporate boards, and these boards, especially nonprofits, are eager to have them for more reasons than just their experience. A March, 2013 article in *The Wall Street Journal* estimated that 1.8 million board seats on nonprofits need to be filled per year; because the article anecdotally mentioned that a substantial upfront cash donation and connections to other wealthy potential donors may be needed to serve at the nonprofits, Pre-Retirees are natural candidates. The 2012 Bank of America study of High-Net-Worth Philanthropy found that "The most common volunteer activity for high-net-worth individuals last year was serving on a board of directors for a non-profit organization (61 percent)."

Like any HNW who chooses to serve on any board, Pre-Retirees must confer with legal counsel and insurance advisors to help ensure that they have adequate directors and officers (D&O) liability insurance. This is a particular concern with nonprofits, which may not provide sufficient coverage of their own. Serving on a board entails a risk of being sued for breach of governance, fiduciary and employment duties, and legal defenses (statutory and common law) are inadequate in view of the potential loss at a crucial time in a HNW's lifecycle. A 2013 article on Philantrophy.com highlighted the risk, noting the case of Educational Housing Services in which each board member paid a total of $1 million to settle claims arising from their failure to oversee the CEO.

A Change of Mindset

In short, there is no way to distinguish older Wealth Accumulators from younger Pre-Retirees on the basis of criteria such as age, accumulation, or coverage. The difference, where it exists, is not a change in circumstances but a change in mindset. At some point, most likely in their late 50s or early 60s, HNWs come to a fork in the road. They ask: *What have I accomplished? What kind of legacy do I want to leave? What is the next phase of my life going to be like? Can I sustain my lifestyle, or do I need to save more than I do today?* When they start to ask these questions, they have entered the Pre-Retiree stage.

Active Lifestyles

Of course, many over-50 HNWs have not asked these questions—or they have taken the fork that leads to continued accumulation and consumption—and for them there is no difference from the Wealth Accumulators. Especially if they are UHNWs (ultra-high-net-worth individuals), they may even accelerate their accumulation or consumption.

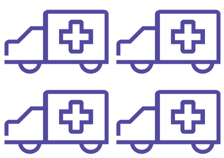
Furthermore, because the Pre-Retirees enjoy expanded horizons of health and wealth over previous generations, they are expected to continue to live active lifestyles, including a fair amount of adventurous travel. A December, 2010 survey of "Leading-Edge Boomers" by the American Association of Retired Persons found that 61 percent intended to increase their travel; the Shullman report finds that 98 percent of "upscale Baby Boomers" planned to do so. They may sail the Caribbean for a year, climb peaks all over the world in preparation for an assault on Everest or take an around-the-world private jet tour with stops at Machu Picchu, Easter Island, Angkor, Lhasa, the Serengeti and Marrakech.

Pre-Retirees leading such active lifestyles may need to *expand* their coverage, particularly against travel perils such as medical emergencies, trip cancellation, and even kidnap and ransom. The 2015 Nepal earthquake and the resulting avalanche at Everest base camp show how the adventure of a lifetime can go suddenly and devastatingly wrong. Even sedentary travel such as a cruise, which Shullman anticipated

Costs Associated With Medical Evacuation

Medical evacuation can be expensive because it often involves the use of an air ambulance, a nurse and other specialized equipment.

Average Cost $50,000

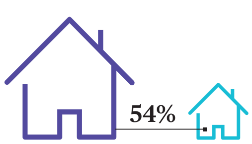


From Remote Location $200,000+

Source: June, 2013 Squaremouth: Medical evacuation and repatriation: How much coverage do I need?

Sliding Toward Retirement

Pre-Retirees surveyed plan to move to a smaller house. Advisors should understand the motives behind it.



Source: Downsizing and the Myth of Downsizing. According to a January, 2015 study by the Demand Institute.

that 13 percent will experience in a 12-month period following its survey, carries risks that must not be underestimated. Cruises offer relatively limited medical facilities, and a major medical emergency may require the patient to be medevaced to the nearest port of call (which is unlikely to be in the United States, entailing more emergency travel) for both the patient and family members.

Costs associated with a medical evacuation can be very expensive, especially because it often involves the use of an air ambulance, a nurse and other specialized equipment. Hence, the average medical evacuation cost is about $50,000, while evacuating someone from a remote location could be an expense upwards of $200,000. Without comprehensive travel insurance, the vacation of a lifetime could turn into a crippling expense, with retirement looming on the horizon.

Full-on Wealth Accumulators are still asking questions such as: *What deductible can I afford?* and *How can I reduce my premiums?* Pre-Retirees are asking very different questions as outlined earlier. Advisors must adjust to this change in mindset through a corresponding change in role. Young Professionals and Wealth Accumulators need *coverage;* the Pre-Retirees need *advice.* They need an advisor who can ask the right questions and take a holistic view of their lives.

Downsizing and the Myth of Downsizing

The very moniker "Pre-Retirees" conveys the assumption that this cohort is slowing down, cutting back, and sliding toward retirement. According to a study by the Demand Institute, 54 percent of Pre-Retirees surveyed plan to move to a smaller house. In such cases, an advisor's role is to understand the change in lifestyle, the resulting change in risk profile, and the motives behind it.

Even HNWs, at least at the lower end of the scale, must save to ensure a comfortable retirement. A million in investable assets isn't what it used to be.

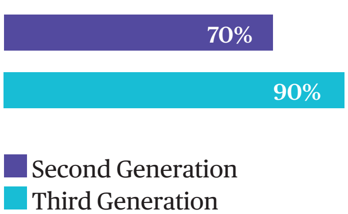
- A lawyer who realizes she is not using the boat regularly decides to sell it.
- A couple whose kids are grown decide that they no longer need two houses, so they sell the New York City house and live in the Boca Raton condo. Or they sell both and buy a house in San Diego.
- A woman who has spent her Wealth Accumulator years creating an exquisite collection of jewelry decides to keep it, but not to buy as much as in the past.

However, what appears at first to be downsizing may be something quite different. That jewelry collector may be thinking about which museum to bequeath her collection. Empty nesters may move to the city, but because they want the amenities–including a condo as luxurious as the suburban house. The Demand Institute study found that "almost two-thirds" of the respondents had no plan to move at all, and 46 percent of those who do, plan to move to a house at least as large as their current one. Thus, that couple who sold their New York and Boca residences may have done so in order to buy at least as big a house in San Diego–and they may have done so to be closer to their children. Not for the sake of the children as much as the grandchildren; Pre-Retirees are so noted for intense involvement with their children's children that the tag "competitive grandparenting" has been coined to describe their behavior. They might take the grandchildren on that round-the-world excursion one summer, capitalizing on a golden opportunity to spend high-quality, influential time with the third generation. (An August 2013 article in *Forbes* reports

Pre-Retirees are noted for intense involvement with their children's children.

Inherited Wealth Vanishes

Pre-Retirees will be concerned less with their children than with making arrangements for their grandchildren and more distant descendants.



Source: Wall Street Journal Report March, 2013. Lost Inheritance.

that multigenerational travel is gaining popularity among Pre-Retirees.) Some have even built beach houses at considerable expense just to provide the grandkids with an enticing place to visit, according to a May, 2015 *Wall Street Journal* report.

Advisors need to be aware of these questions. Are their clients moving to downsize to a milder climate, or are they moving to a more central location to family members (both important reasons in the Demand Institute study)? It may be that the advice they need is not about downsizing, but about how to preserve their wealth and prepare future generations.

Legacy

Whatever their level of wealth–but particularly if they are UHNWs–Pre-Retiree HNWs will also be looking at legacy. Fifty-three percent of Pre-Retirees are committed to leaving their children an inheritance, according to the 2014 U.S. Trust Insights on Wealth and Worth survey. Presumably, they will have made arrangements for their children both in terms of inheritance and succession planning. Given that, and based on a March, 2013 *Wall Street Journal* report indicating that 70 percent of inherited wealth vanishes by the second generation and 90 percent by the third, they will be concerned less with their children than with making similar arrangements for their grandchildren and more distant descendants. For example, they will probably want to create trusts to ensure assets are not squandered and to provide for the younger generations' higher education (including postgraduate). If they have not already done so, they may hold a family meeting.

Although family meetings are typically conducted by the wealth advisor or trust and estate attorney, it is imperative that an insurance advisor takes an active part. Transferring high-value assets to a trust or LLC is a sophisticated wealth transfer strategy, but it also has insurance ramifications. For example, when HNW individuals transfer the title of their homes to a trust, the residence no longer belongs to the individual. Thus, the insurance program needs to provide coverage to both the owner of the trust and the occupants in the home. If a claim arises down the road, it's critical that proper coverage is in place.

Many HNW individuals at this phase of life also will be concerned about the legacy they are going to leave to the community, whether it be gifting an art collection, supporting individual charitable causes, or setting up a foundation. Again, an insurance advisor should be part of the wealth management and risk transfer discussions.

Advice for Advisors

Wealth Accumulators have, and are acquiring more money, and assets. For them, the insurance advisor's principal role is to ensure that assets are insured and that there are no big coverage gaps. However, by the time HNWs reach the Pre-Retiree phase, they presumably have all the coverage they need and may think they just require periodic reviews to ensure that their policy limits are still adequate.

This presents the important opportunity for advisors to truly advise. An advisor who is exclusively focused on sales, who thinks primarily about how to save money and cut costs, is of no use to a Pre-Retiree client. To serve their Pre-Retiree clients adequately, advisors must know their clients and ask the right questions–the questions clients are asking themselves: *What do I want to do with the rest of my life? Do I want/need to slow down, and if so, how? Can I ensure that I have the retirement I want? What do I want to leave behind?* The answers to these questions enable an advisor to determine the HNW individual's inherent exposures and provide

Advisors must know their clients and ask the right questions.

him or her with a program that fits the lifestyle. Keeping current on the answers to these questions will enable the advisor to be flexible when the client's lifestyle changes.

Advisors who have already been thinking along these lines have been looking at their clients holistically. They, too, have been moving away from mass market insurers and other product providers to specialists who are able to meet their clients' needs across the board. They are adopting more of a services mindset.

Partnership With Planners

It is this change of viewpoint that makes insurance advisors an indispensable part of the wealth advisor's or financial planner's team. Narrowly understood, a wealth advisor's duties are wealth preservation and transmission. Although the functions traditionally associated with wealth advisors, such as rebalancing the client's 401(k) or, at this stage setting up a system of trusts to manage wealth for future generations, are at the core of their activities, financial advisors have a broader goal: to ensure that clients can pursue their lifestyles they want, based on knowledge of the assets, wants, needs, and liabilities as a whole. To ensure that Pre-Retirees are adequately protected against loss, they must enlist insurance advisors who are experienced in crafting insurance solutions for HNW individuals and families.. In this phase of life, a loss to the home, a lawsuit from serving on a nonprofit board, or a costly medical emergency while traveling overseas, along with not having proper insurance coverages in place, can cause catastrophic financial losses that cannot be absorbed.

Conclusion

Under their tag as Baby Boomers, the Pre-Retirees have always been different. In the insurance sphere, that difference shows itself as a change in perspective that entails new requirements. Whether to downsize and how, what legacy to leave, and similar questions call for more than advantageous sales. The financial advisor who can have a holistic mindset, who works with a network of speciality advisors, including the insurance agent or broker, will succeed with the Pre-Retirees.

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