

UBS Investor Watch

Analyzing investor
sentiment and behavior

3Q 2014

Begin before the end

Why families need to have **inheritance conversations now**

We don't
want our kids to
feel entitled...

*The thought of
my demise is so
emotional...*

*It's Mom and
Dad's money
after all...*

I don't want to
seem greedy...

We hope to fund our grandkids' education...

We want to be fair to all our children...

We expect to maintain our lifestyle as long as possible...

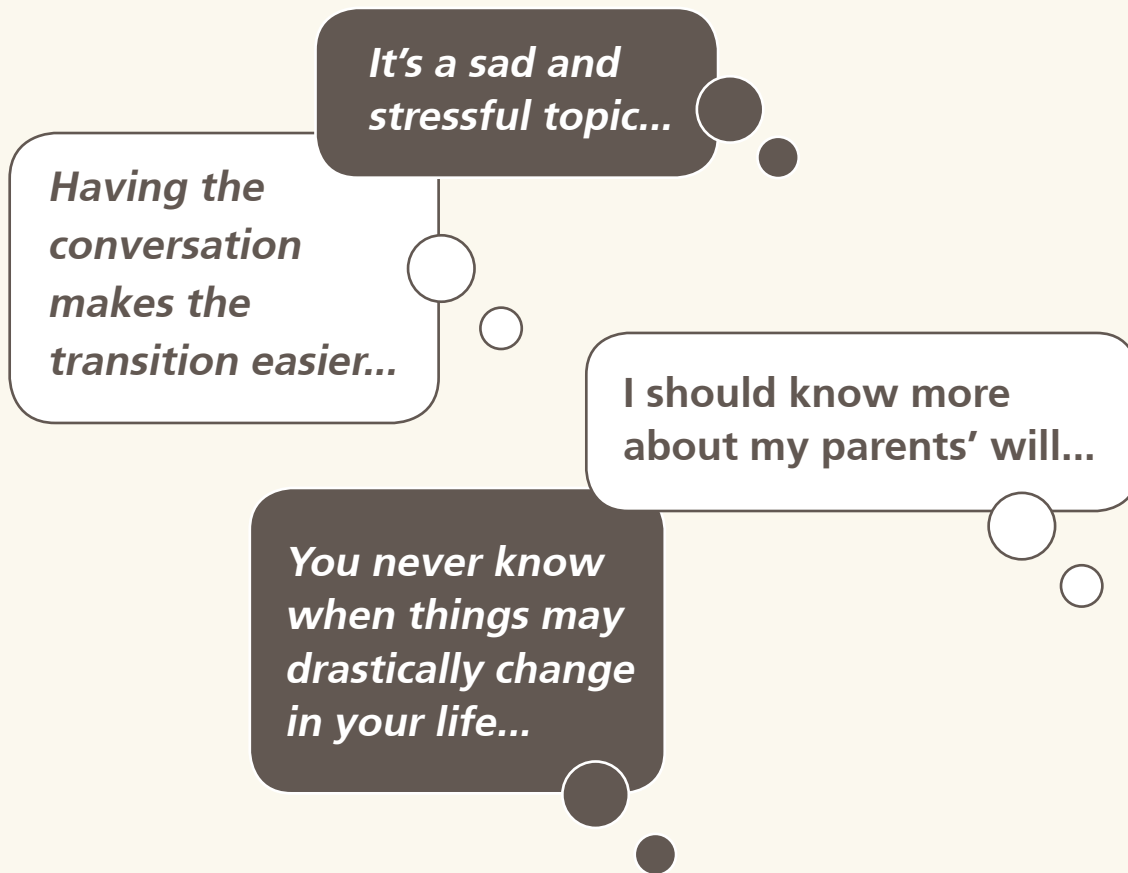
I have been shirking that discussion...

Break the **silence.**

Traditionally, inheritance has been viewed as an end-of-life event. The topic conjures up images of an anxious family, awaiting a lawyer to dramatically reveal the contents of a will. Families usually avoid dealing with this thorny issue until a parent passes away, but by then it is too late to address any unresolved matters, leading to disagreements among heirs.¹

The traditional view of inheritance is changing. When parents include their children in their inheritance plans, families are much happier with the outcomes, with nine out of ten heirs being highly satisfied when they know the details ahead of time.

And yet, neither benefactors² nor heirs feel comfortable having this difficult conversation. This reluctance is driven by emotional barriers on both sides. Benefactors feel it's not a pressing issue, seemingly in denial about their mortality. They also want to avoid creating a sense of entitlement in their heirs. Heirs feel it is not appropriate to bring up their parents' money and they don't want to look greedy. But both sides agree, the responsibility lies with the parents to start the conversation.



Additionally, with increasing life spans, inheritance is becoming just one part of a benefactor's overall wealth transfer plan, along with other features, such as "giving while living," multigenerational giving, and tax and estate planning. Three out of five adults already subscribe to this idea of giving while living, preferring to pass on at least part of their wealth now, because they enjoy seeing their children and grandchildren benefit from it.

Ultimately, successfully managing inheritance requires families to overcome the awkward silence, so that they can engage in open dialogue and more comprehensive planning. This is the approach that three-quarters of heirs intend to follow with their own children, even if their parents handled inheritance more traditionally, without sharing details.

The unspoken message from heirs to benefactors is clear: Start inheritance planning early and include your family in the conversation.

1

Inheritance is no longer about waiting until the end

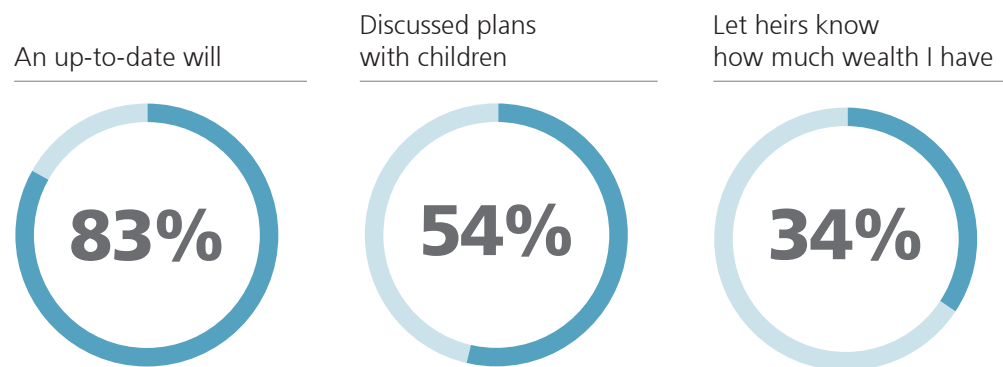
The traditional view of inheritance is that it is a single lump-sum of assets that gets passed on upon a person's death. Families frequently avoid discussing this thorny topic until it is too late to address unresolved matters, leading to dissatisfaction and disagreements among heirs. However, when benefactors begin inheritance planning early and include heirs in the process, it leads to fewer disagreements among heirs and everyone is more satisfied.

Families are starting to change their traditional approach to inheritance planning. Most benefactors have an up-to-date will (83%) and about half (54%) claim to have discussed plans with their children. But they are reluctant to divulge too much information, with only half saying their heirs know where the wealth is, and only about a third (34%) having disclosed their wealth to their heirs.

Yet, good inheritance planning is much more than having a static will; it requires starting well before the end and including family members in the process. And benefactors are starting to recognize the importance of this issue, with about half saying they would like to discuss their inheritance plans more with their heirs.

While most benefactors have a will, they have not engaged in inheritance planning with their heirs

Question: "Which of the following do you have, or have you done?"



"The thought of my demise is so emotional to me and my daughters that I have been shirking that discussion."

– Male, age 75

"I hate talking about it because it's a sad and stressful topic. But my parents are in their 80s and I should know more about their will, and what they want done with their money."

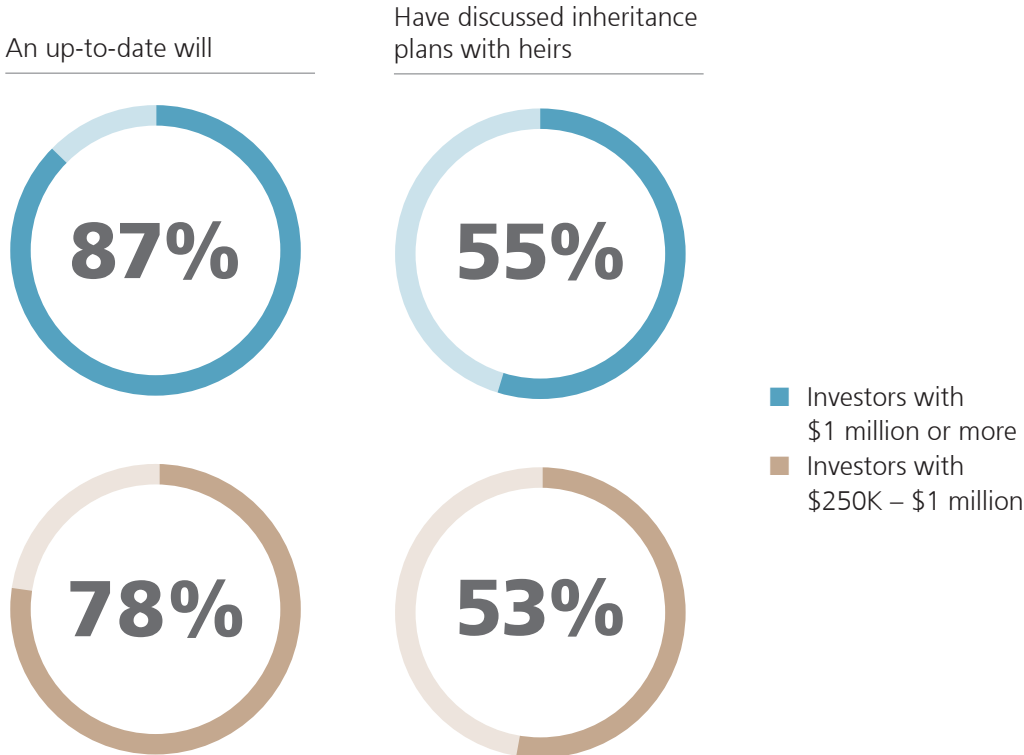
– Female, age 47

While wealthier benefactors plan more, they are no more likely to discuss their plans with heirs

Benefactors with more than \$1 million in assets (excluding their homes) are more likely to have an up-to-date will and are much more likely to have engaged in wealth transfer planning. However, they are no more likely to have discussed the topic with their heirs, and their heirs are no more likely to know the details of the inheritance plans. Therefore, the barriers to inheritance planning cut across wealth levels and appear to be more emotionally driven.

Wealthier benefactors have wills, but are no more likely to discuss inheritance plans with their heirs

Question: "Do you have an up-to-date will? Have you had discussions with your heirs about inheritance plans?"



2

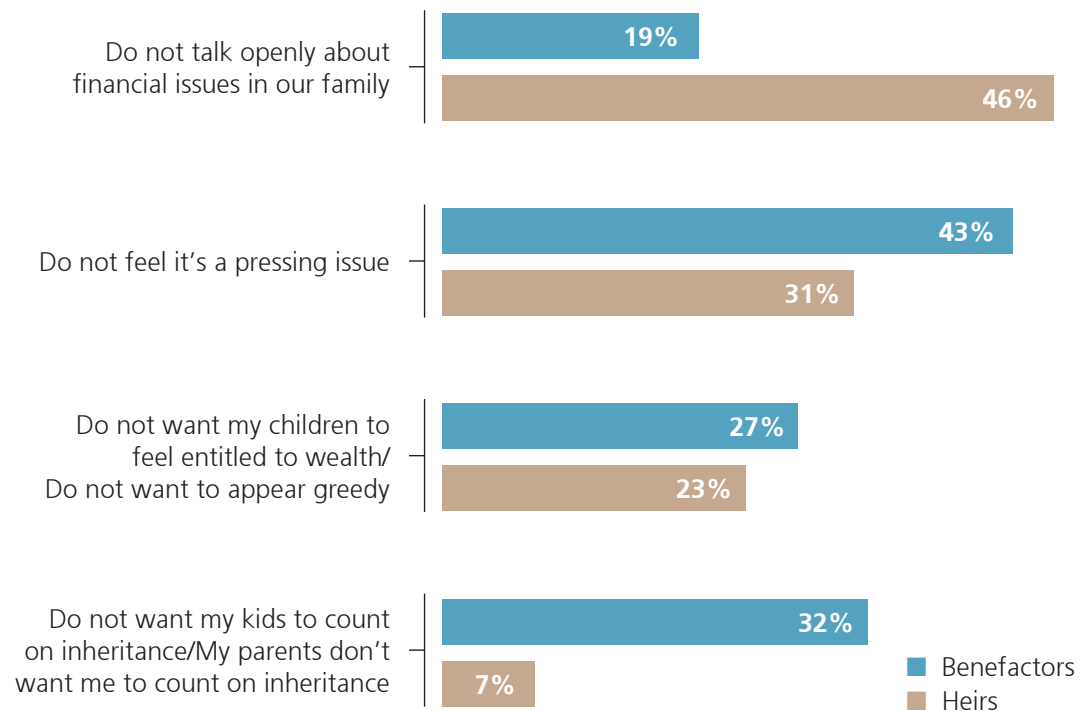
Key barriers get in the way of open discussions on inheritance planning between benefactors and heirs

Heirs indicate that the biggest barrier that kept their family from discussing inheritance plans was that they just didn't talk openly about financial issues. They also felt it wasn't a pressing issue and did not want to bring up the topic themselves for fear of appearing greedy.

Benefactors, regardless of age, tend to feel that it's not a pressing issue. They also worry about their children counting too much on the inheritance or developing a sense of entitlement, which might explain their reluctance to share with their children how much wealth they have. Tellingly, three in four view it as highly important that their children use their inheritance wisely and don't squander it.

Benefactors and heirs disagree on the barriers to open conversations

Question: "What are/were the barriers to having discussions about inheritance plans?"



Benefactors want to ensure the inheritance process is as successful as possible

Benefactors feel strongly that they want the inheritance process to go as smoothly as possible. The vast majority (84%) consider it highly important that the transfer of assets to their heirs goes smoothly, and two out of three consider it highly important that there are no bad feelings among their heirs about the inheritance.

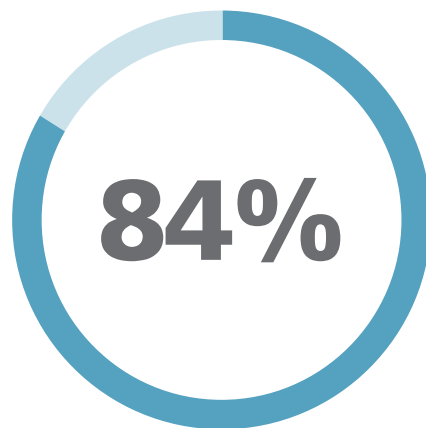
“It’s important for us to be perceived as fair to all three...their economic situations are different, so that plays a role as well. We want them to appreciate any wealth they receive from us.”

– Female, age 72

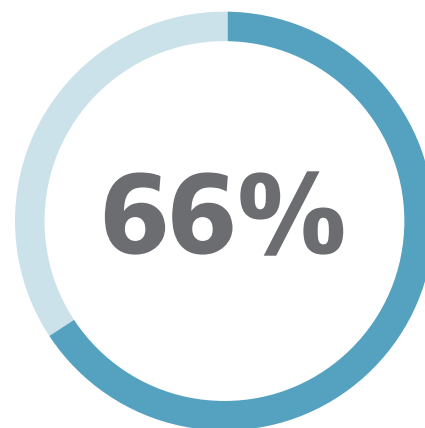
Benefactors care deeply about having a smooth inheritance process

Question: “How important are the following to you?” (Percentages show how many responded “Extremely” or “Very important.”)

The transfer of assets goes smoothly from me to my heirs



There are no bad feelings among heirs over who got what or how much



“Having the conversation and keeping all the important information and paperwork easily accessible makes the transition easier...families need to have this conversation on a regular basis because you never know when things may drastically change in your life.”

– Female, age 47

Both sides agree, the onus is on benefactors to start the conversation

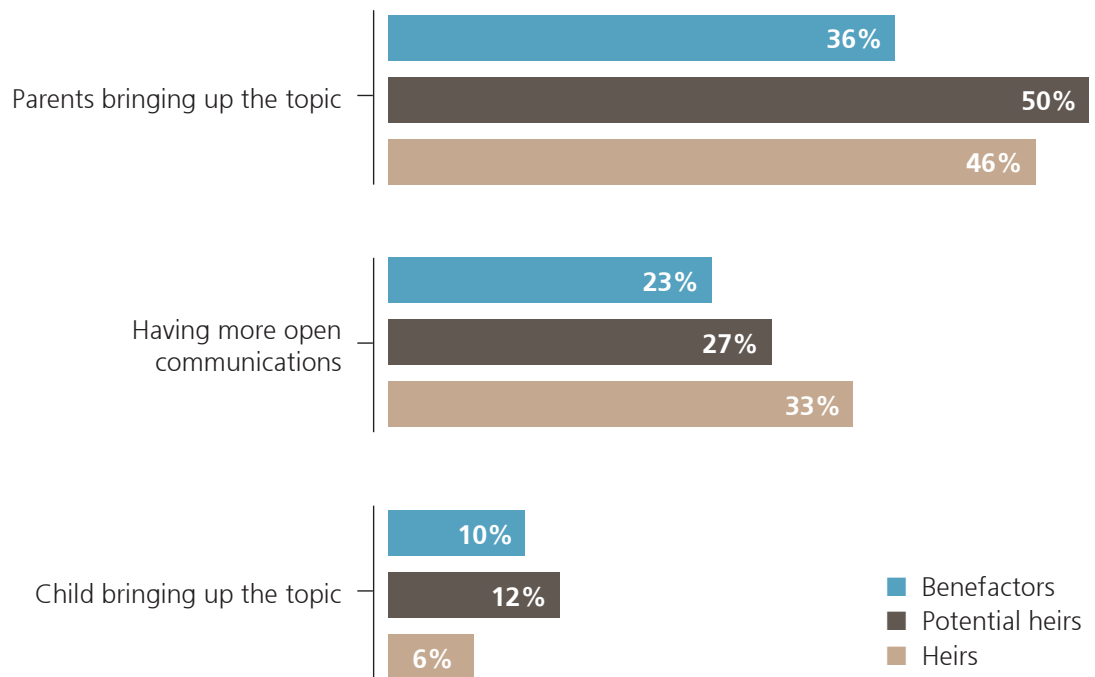
While nobody wants to start the conversation, both sides agree it is generally up to the benefactor to do so. When asked about what could help ease the barriers to inheritance plan discussions, each constituency (benefactors, potential heirs³ and heirs) favors the parents raising the issue, while very few people suggest the children should do so. Ultimately, it's the parents' money and their decision about what to do with it, so it is also up to them to decide when and what to share with their heirs.

“I don't feel comfortable bringing up my parents' plans for their money. If it's coming from them, then it's less awkward since it's their money.”

– Male, age 28

Everyone agrees benefactors must be the initiators

Question: “What would help ease the barriers to discussing inheritance plans?”



3

Inheritance planning is only a part of the wealth transfer process

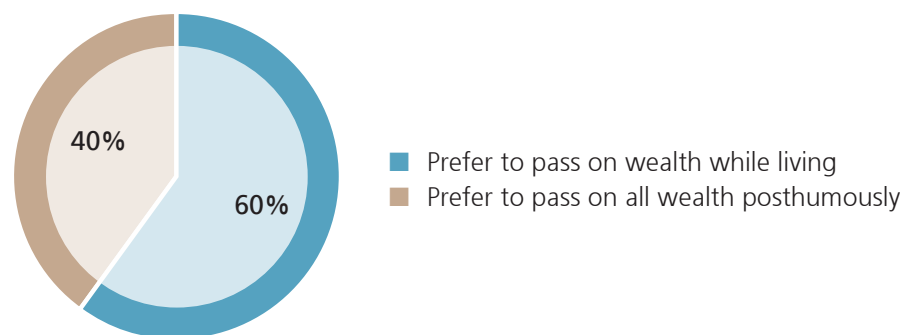
Increasingly, wealth transfer planning includes not only a will, but also giving while living, managing taxes and providing support for multiple generations. Most benefactors prefer to begin passing on wealth to their heirs while living, as opposed to posthumously. Four out of five have provided financial support to their adult children, and nearly a quarter have set up trust funds for their children (23%). Benefactors, while living, pass on wealth to adult children for a wide variety of reasons, including financial need (51%) and a desire to see their children succeed (47%).

“We expect to maintain our lifestyle as long as possible...but our job was to help our children live the best that they could; and a little extra money now made a difference for their and their children’s well-being.”

– Female, age 70

Benefactors prefer giving while living, rather than passing on wealth posthumously

Question: “Which of the following best describes how you would prefer to pass on wealth to your heirs?”



Benefactors often give with multiple generations in mind. Nearly half of grandparents say it’s highly important that their assets also support their grandchildren. And nearly a quarter of them plan to leave part of their wealth directly to grandchildren.

This sentiment is already at work. The number one way parents offer financial support to their adult children is by putting money into college funds for the grandchildren.

“Mainly we want to make sure our three grandchildren are well-educated and can make a start debt-free as adults. For our daughter, we hope to make her retirement comfortable and as stress-free as possible.”

– Male, age 75

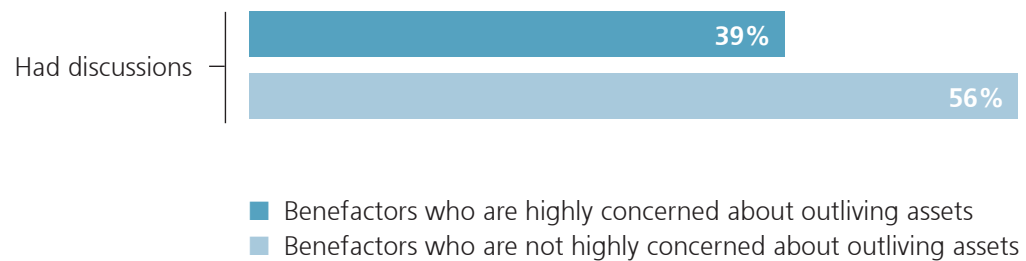
Longevity is driving changes in inheritance and wealth transfer planning

As people are living longer, they have an increased desire to give while living and to see their children and grandchildren benefit from their wealth. However, longevity also adds uncertainty about how much they will need to support themselves for the rest of their lives, especially given rising healthcare and long-term care costs.

This issue surrounding longevity and potentially outliving one's assets acts as a barrier to inheritance discussions. A significant portion of investors are highly concerned about being able to afford long-term care (23%, the highest of all personal finance concerns) and outliving their assets (13%). Benefactors who are highly worried about being able to afford long-term care or outliving their assets, are less certain about whether or not they will be able to provide an inheritance, and they are less likely to have discussed inheritance with their heirs. Comprehensive financial planning can help clarify these issues and enable realistic wealth transfer planning and conversations.

Concern about outliving assets inhibits discussions about inheritance planning

Question: "Have you had discussions with your potential heirs about inheritance planning?"



4

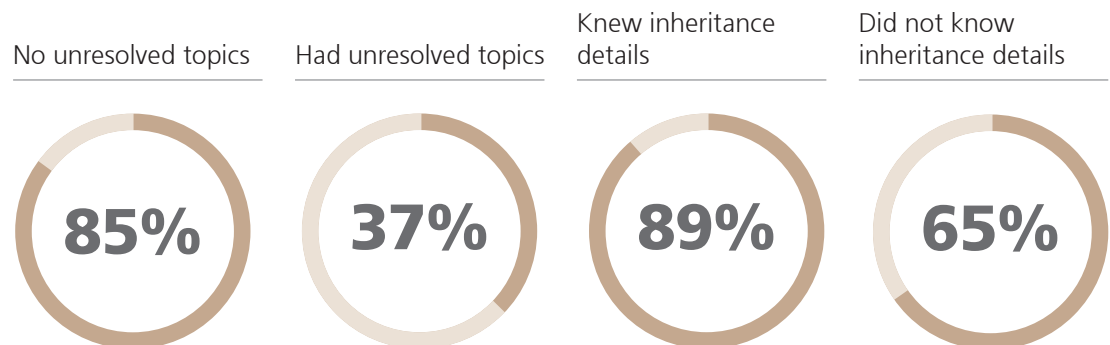
Families are happier and more satisfied when parents include heirs in the planning

While it may not be an easy conversation to have, talking about inheritance planning makes a huge impact on satisfaction with the process among heirs, and results in lower likelihood of disagreements about the inheritance distribution. When heirs know the details of the inheritance ahead of time—i.e., they’ve seen the will, know approximately how much wealth there is, how it will be divided and where the assets are—they are much more satisfied with the distribution process. However, when heirs do not know the details ahead of time, they are more than twice as likely to have disagreements among themselves about the inheritance distribution.

The situation is even worse when there is a known unresolved issue prior to a parent’s passing, such as who will get the house. In these cases, satisfaction plunges among heirs. Meanwhile, the likelihood of disagreements about the inheritance distribution skyrockets from 11% to 82%. A sensitive topic like this may not be easy to resolve prior to a parent’s passing, but it will only get harder once the parent passes.

Transparency and conclusiveness in inheritance planning yields satisfied heirs

Question: “How satisfied were you with the process for the distribution of your parents’ estate when they passed away?” (Percentages show how many responded “Extremely” or “Very satisfied.”)



For blended families, e.g., second marriages, where disagreements among heirs are more common and satisfaction with the distribution process is lower, having the conversation is even more important.

“I worry that my dad and stepmom have not made arrangements for what will happen if my dad passes first. If my stepmom does not have a will designating my sister and me, then her siblings would end up with our inheritance.”

– Female, age 48

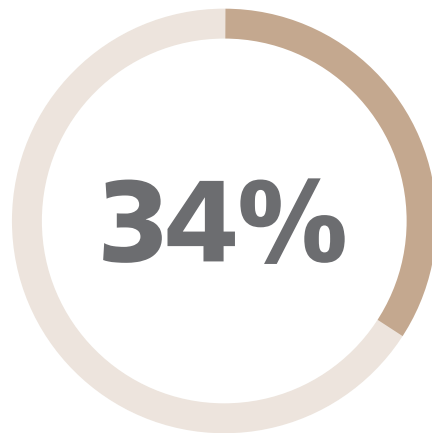
Heirs plan to do it better...

Most heirs are grateful to their parents for what they've passed on to them. Therefore, they are hesitant to criticize how their parents handled inheritance planning. In fact, only one out of three say they wish their parents had done anything differently. However, that does not mean they themselves would do things the same way. Most heirs say they plan to do things differently when they are planning their own wealth transfer.

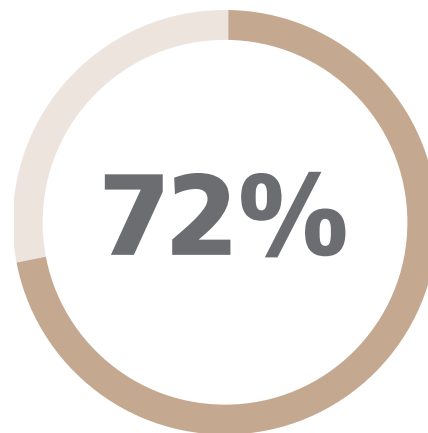
Heirs plan a different approach to wealth transfer

Question: "What do you wish your parents had done differently? Do you plan to do anything differently based on your experience with your inheritance from your parents?"

Wish parents had done something differently



Plan to do something differently



“Unlike my parents, who were old school, conservative, non-communicators when it came to financial dealings, I wanted to be very open and forthcoming with my children.”

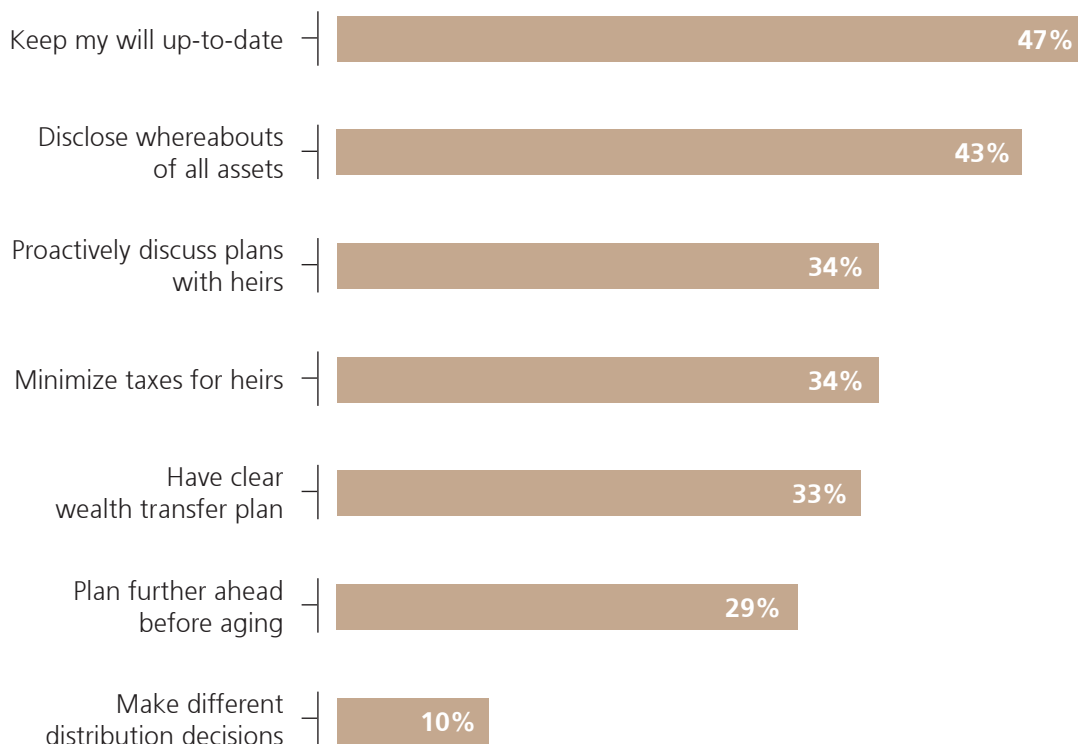
– Male, age 69

...and they highlight key areas for improvement

Heirs plan to handle the details of planning differently than their parents, and be more communicative about those plans with their children. Top things heirs would do differently include keeping their wills up-to-date and disclosing the whereabouts of all their assets, as well as proactively discussing plans openly with their potential heirs and taking steps to minimize taxes paid by heirs. Few are looking to actually distribute assets differently than their parents did, so it's the process itself they are focused on changing.

Heirs want to improve planning and transparency

Question: "What do you plan to do differently based on your experience with your inheritance from your parents?"



While heirs generally want to be more active and transparent in their inheritance planning, those heirs whose parents followed a transparent approach are off to a particularly good start. Those individuals who knew the details of their parents' inheritance plans are more likely to have an up-to-date will of their own and know who will be the executor of their will. They are much more likely to have shared their most recent will and discussed inheritance plans with their heirs, and to have shared how much wealth there is, and how it will be divided.

Generational spotlight

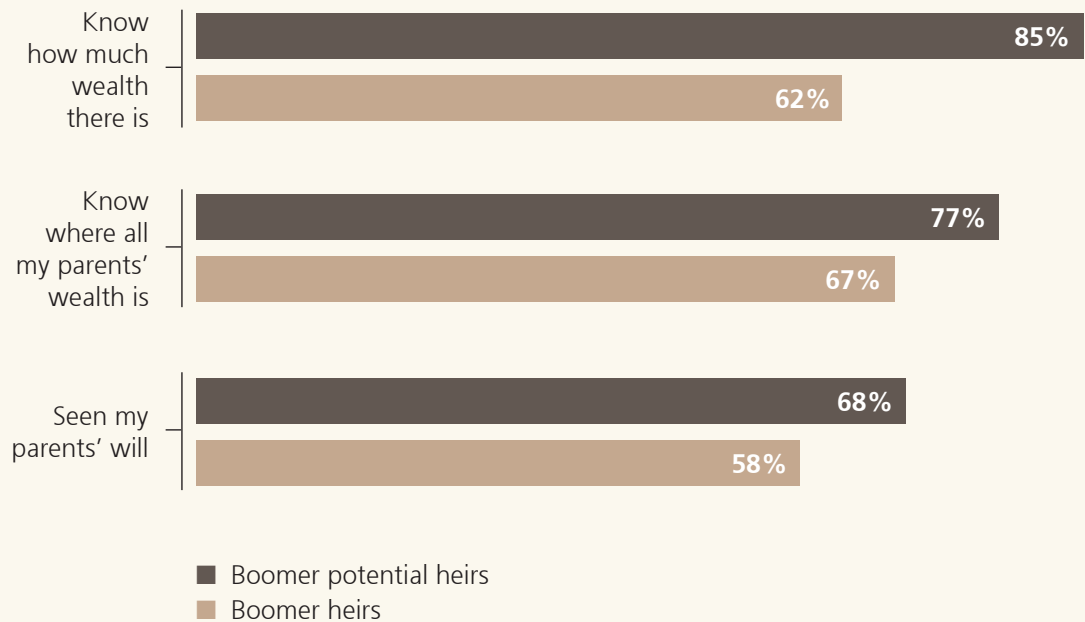
The prospect of wealth transfer highlights different perspectives among Baby Boomers and Millennials

As Baby Boomers live longer, they prefer to transfer part of their wealth while living to enable shared experiences with their children and grandchildren. Boomer parents are more likely than parents of any other generation to give while living, because they enjoy helping their children do the things they like.

Potential heirs from the Boomer generation are confident in their knowledge about their inheritance prior to receiving it. The vast majority believe they know how much wealth their parents have and where the wealth is, and two-thirds believe they have seen an up-to-date will. However, Boomers who have already inherited from their parents discovered that they knew much less about their inheritance than they initially thought. This indicates that, when Boomers actually do inherit, there are often surprises about the amount of the inheritance, where all the wealth is and even the contents of the final will.

Among Boomers, potential heirs think they know more than those who have already inherited

Question: "Of the following, which are true for you?"



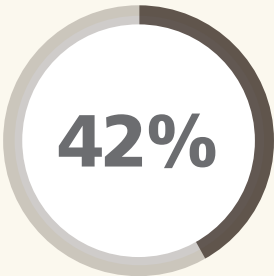
Boomers that have already inherited from their parents say they would improve on the inheritance process by sharing more information with their heirs. And Boomers are often depicted as having a more open and peer-like relationship with their Millennial children. Boomer parents are also increasingly giving while living to their children. But they are still not sharing how much wealth they have with their Millennial children.

Fewer than half of Millennial potential heirs have had discussions with their parents about inheritance plans, and fewer than half know how much wealth their parents have. One-third know where their parents' wealth is held, and only a quarter have seen their parents' will.

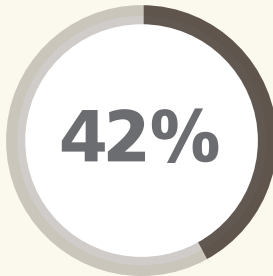
Among Millennials, potential heirs know less about their inheritance

Question: "Of the following, which are true for you?"

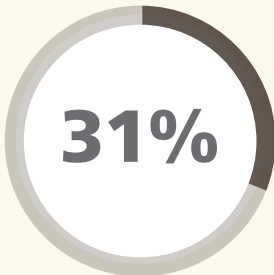
Have discussed inheritance plans with my parents



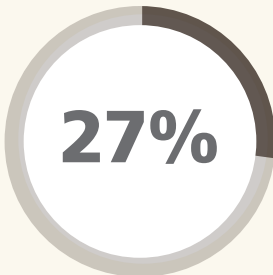
Know how much wealth my parents have



Know where my parents' wealth is



Have seen my parents' will



About the survey: UBS Wealth Management Americas surveys U.S. investors on a quarterly basis to keep a pulse on their needs, goals and concerns. After identifying several emerging trends in the survey data, UBS decided in 2012 to create the *UBS Investor Watch* to track, analyze and report the sentiments of affluent and high net worth investors.

UBS Investor Watch surveys cover a variety of topics, including:

- Overall financial sentiment
- Economic outlook and concerns
- Personal goals and concerns
- Key topics, like aging and retirement

For this eighth edition of *UBS Investor Watch*, 2,882 U.S. investors responded to our survey from June 24 – July 7, 2014. The core sample of 2,474 investors have at least \$250,000 in investable assets; 1,121 have at least \$1 million in investable assets. This *UBS Investor Watch* includes an oversample for Millennials:

- 528 Millennials: Respondents, ages 21 – 29, have at least \$75,000 in household income or \$50,000 in investable assets; respondents, ages 30 – 36, have at least \$100,000 in household income or \$100,000 in investable assets.
- With 90 survey respondents, we conducted qualitative follow-up interviews.

¹ Heirs are adults who have already received an inheritance from at least one of their parents.

² Benefactors are parents of adult children who expect they will have wealth to pass on.

³ Potential heirs are adults who expect to inherit from their parents when they pass away.

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