2013 U.S. TRUST *INSIGHTS ON WEALTH AND WORTH*™

Annual survey of high net worth and ultra high net worth Americans

U.S. TRUST

Bank of America Private Wealth Management

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INTRODUCTION

U.S. Trust® *Insights on Wealth and Worth* is one of the most in-depth studies of its kind to explore the wealth management challenges confronting high net worth and ultra high net worth individuals in the United States. U.S. Trust has conducted surveys of wealthy Americans periodically since 1993.

This year's survey finds wealthy investors in a strong, positive frame of mind, as the recession recedes and prospects for the economy and the financial markets improve. Yet despite their growing confidence, high net worth individuals and families face significant, unrecognized challenges in their investment and wealth strategies. The 2013 study reveals the risks wealthy individuals face as they adapt to a changing investment climate and new tax rules — risks relating to their investment priorities, their retirement goals, and their own and family members' healthcare, as well as threats to future family wealth.

OVERVIEW

Eighty-eight percent of the wealthy feel financially secure, and 70% expect to feel financially secure in the future.

Nearly two thirds of the wealthy are very confident they have planned adequately for income in retirement. However, with the exception of those already retired, the majority have not adequately accounted for key factors that could affect their income and assets in retirement—from inflation to elder care to lifestyle expectations.

Two thirds (66%) of high net worth investors do not feel well-informed about the impact of tax law changes on investment returns, and most (69%) are not changing their investment strategy to seek tax-efficient investments or minimize taxes.

The wealthy are assuming financial responsibility for extended family, providing substantial financial assistance to adult family members beyond themselves and their spouse, including parents, siblings and adult children.

Leaving a financial inheritance is important to most parents, but many of the wealthy don't feel prepared to provide or receive an inheritance. Seventy-two percent do not have a comprehensive estate plan.

A PICTURE OF WEALTH: A PROFILE OF SURVEY RESPONDENTS

There are now nearly 2 million households in the U.S. with $3 million or more, including 1.1 million households with $3 million to $5 million, 709,000 households with $5 million to $10 million and 202,000 households with more than $10 million in assets.*

All respondents to U.S. Trust's 2013 *Insights on Wealth and Worth* survey have at least $3 million in investable assets as follows:

- 33% have between $3 million and $5 million
- 33% have between $5 million and $10 million
- 34% have greater than $10 million

Although all of our respondents had significant assets, their incomes varied widely. Thirty-nine percent had income less than $200,000. Another 50% earned between $200,000 and $1 million, and 11% had earnings in excess of $1 million.

Although the average age of survey respondents was 53 years old, these wealthy individuals represented four distinct generations.

- Millennials or Generation Y (age 18–32): 15%
- Generation X (age 33–48): 23%
- Baby Boomers (age 49–67): 43%
- Age 68+: 18%

Men represented 62% of our sample and women 38%. A large majority (75%) were married, and 62% have children. About three quarters of respondents earned the majority of their wealth on their own versus inheriting it. Thirty-seven percent were still employed full-time, while another 37% consider themselves retired.

* Source: Phoenix Marketing International, *Global Wealth Monitor 2012*.

HIGHLIGHTS

The wealthy feel financially secure today and are confident about the future

Wealthy investors have weathered the recession well — and look forward to better days ahead. Eighty-eight percent of the high net worth individuals we surveyed consider themselves financially secure today, and 70% feel positive about their financial security in the future. Nearly half (48%) feel more financially secure today than they did five years ago. Still many have not yet aligned their investment portfolios to this new sense of confidence — and continue to hold sizeable positions in cash.

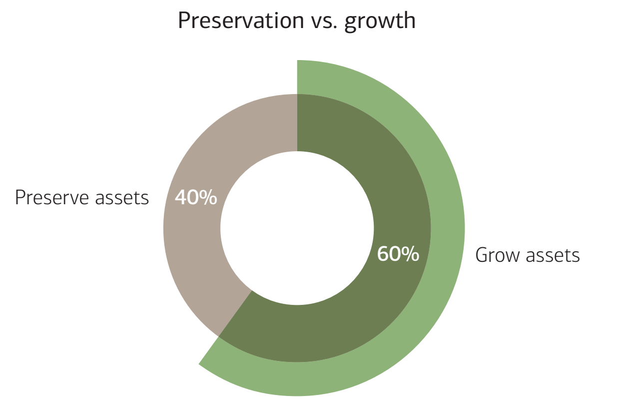
Investment priorities shift to growth, but not at the expense of risk

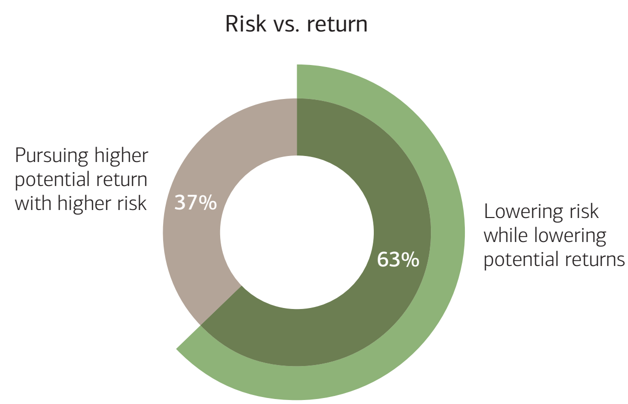
Wealthy individuals' investment priorities have changed significantly since our last survey, with 60% of high net worth investors now placing a higher investment priority on growing than preserving assets. This is a reversal from last year, when 58% were focused on preservation over growth. Approximately half (48%) of high net worth investors feel their current asset allocation accurately represents their risk tolerance, but only 45% feel they have a good understanding of what their risk tolerance is.

Substantial amounts of cash are still on the sidelines

Though wealthy individuals and families say they are more interested in growth, their investment strategies may not yet reflect this shift. For example, more than half (56%) report that they have a substantial amount of funds in cash accounts. Even though nearly one half (49%) of high net worth investors are not content letting their money idle until the market stabilizes, only 16% of those who have large cash positions have immediate plans to move it.

Investment priority for managing wealth





WHAT TO CONSIDER

- High net worth families and individuals are beginning to move away from risk-averse strategies that made sense during the downturn and toward a more growth-oriented approach.
- As such, wealthy investors and their families should have active discussions with their advisors, so those professionals understand evolving attitudes about growth, risk and diversification and can adapt the wealth management strategy appropriately.

Investors diversifying assets for risk-managed growth

High net worth investors are broadly diversified, with nearly two thirds (65%) holding tangible assets, such as real estate, oil and gas properties, renewable energy, infrastructure, timber or farmland. Sixty-two percent of high net worth investors agree that investing in tangible assets can be a hedge against inflation and also generate stable returns and income.

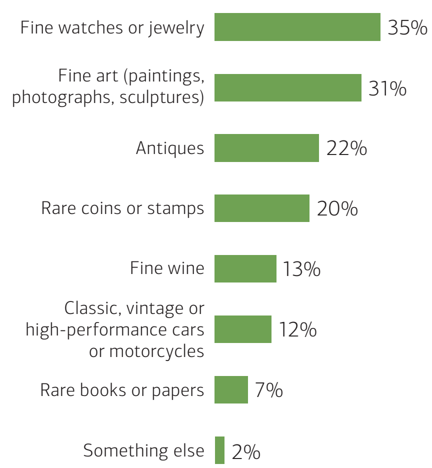
Investment holdings often reflect values

Many investors take a very personal approach to their wealth strategies, choosing investments that reflect their values. Forty-five percent of high net worth investors agree that their investment decisions are a way to express their social, political and environmental values, and six in ten feel that the way they invest can have some influence on society. Almost half (46%) are willing to accept lower returns from investments in companies that have a greater positive impact. Seventy-one percent of investors think it is better to invest in companies that will have a positive social or environmental impact than to boycott companies that are harmful. Sixty-three percent said they would not invest in a company that has a negative impact on society or the environment, even if they thought they could make a lot of money.

Personal passions drive collections

In addition, 59% of the high net worth households we surveyed own a valuable collection that is an expression of their personal interests and passions. These include fine art and photographs (31%), watches and jewelry (35%), antiques (22%), rare coins or stamps (20%), fine wine (13%), classic or high-performance cars or motorcycles (12%), and rare books or papers (7%). About 45% of respondents have collections valued at over $100,000, and nearly one in 10 owns collections worth over $1 million.

Types of valuable collections owned



WHAT TO CONSIDER

- High net worth investors who have — or wish to explore — investments in tangible assets like real estate, commodities, farmland or timber should talk to their advisors about how to incorporate these assets into a comprehensive wealth planning strategy.
- Wealthy investors may also wish to discuss ways to align their investment strategies with their personal values through impact investments and socially screened vehicles.
- If you've assembled a significant collection, consider discussing these assets with your advisor, who can help determine the role your collection may play in your personal financial planning and estate planning.

Expectations of life in retirement may be based on a false sense of security

The wealthy are far more upbeat about their prospects for retirement than the general population, with nearly two thirds (62%) very confident they will have the income they need in retirement. Those who are already retired are, not surprisingly, the most assured about their ability to support themselves in later life. Eight-five percent of retired men and 64% of retired women are very confident.

Wealthy individuals expect to retire early...

When asked when they would like to retire, more than half (56%) said at least by the age of 64, and of those, 16% said by age 55. Only one in three respondents under the age of 49 envisions working beyond age 65. Yet six in ten Baby Boomers, many already of retirement age, have plans to work beyond age 65.

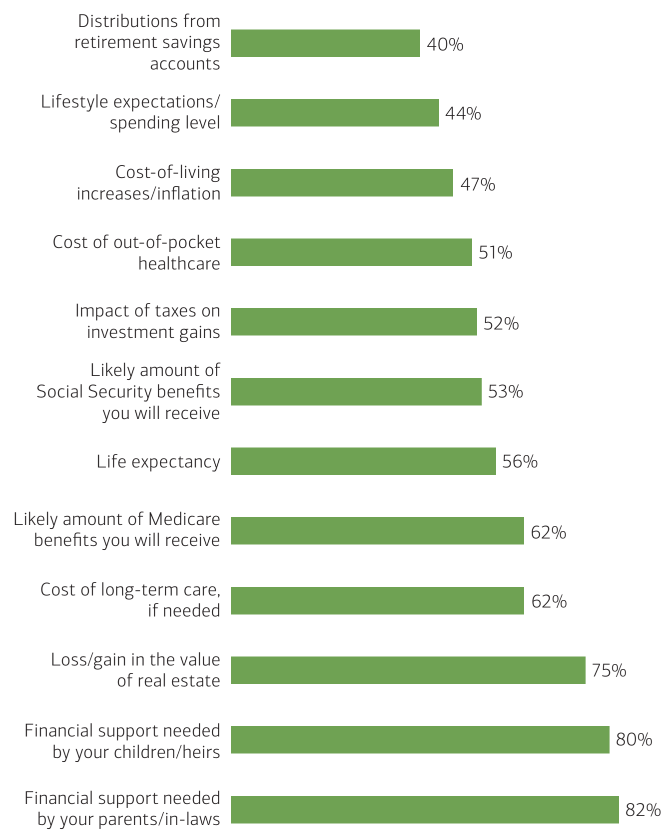
WHAT TO CONSIDER

- Even wealthy individuals should review portfolios before retirement to ensure that assets are appropriately invested to provide income to support future needs. An experienced portfolio management team can provide detailed cash flow and income projections and suggest ways to align investment strategies with income needs, while also maintaining appropriate risk protection.
- Wealth planning advisors can enable high net worth individuals to address a broad array of post-retirement considerations. For instance, specialists in wealth planning can help develop wealth strategies to provide for long-term care and other health-related costs. Family wealth experts can show high net worth investors how to build support for children, parents and other relatives into a post-retirement wealth plan.

...but few have considered all the factors that may have an impact on their retirement security

High net worth investors are confident about their retirement security, but they may not have considered all of the factors that will affect them in later life.

Factors *not* accounted for in calculating retirement income (among non-retirees)



The impact of tax law changes is not well understood

Last year's tax law reform brought dramatic changes to income and estate tax planning, but only 37% of high net worth investors feel very well informed about how the new laws affect their income. Two thirds say that they do not know enough about strategies that can help them minimize the impact of taxes on income, investments and their estate — and only one in three has plans to change his or her investment strategy to reduce the tax exposure.

Most still invest for pretax returns

Despite higher marginal rates for capital gains, dividends and income, most high net worth investors are still measuring performance in pretax terms. In fact, 57% say pursuing higher returns regardless of the tax impact is a higher priority than minimizing taxes.

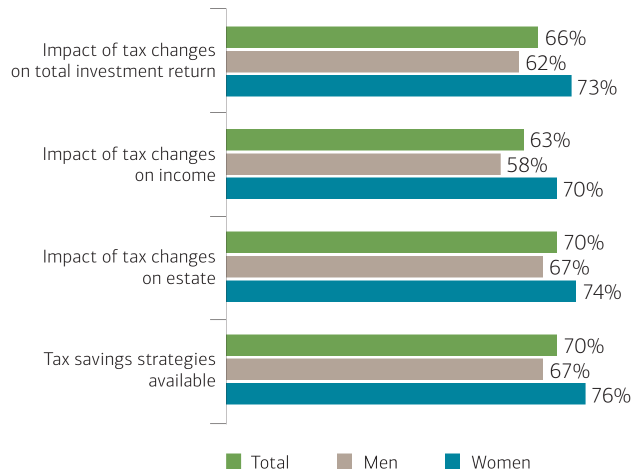
Even investors with tax advisors feel uninformed

Investors who do not use professional advisors feel far less knowledgeable about how the tax laws affect them. They are half as likely to be aware of tax savings strategies available to them. However, even among respondents who use a professional advisor (accountant, attorney, broker, wealth manager, private banker or financial planner) fewer than half feel very well informed about the impact of tax law changes on their estate, income, investment portfolio or tax saving strategies.

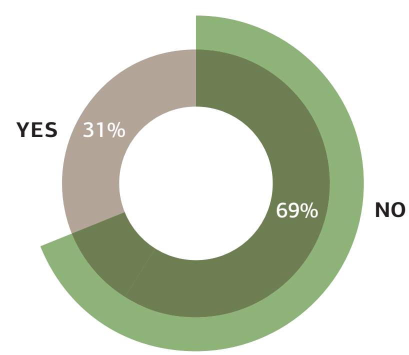
WHAT TO CONSIDER

- Wealthy families should meet with their financial advisors to review how recent tax law changes may affect investments, charitable giving and estate planning and to determine whether changes need to be made to their wealth planning and investment strategies.

% not well-informed about tax law changes



Plan to change investment strategy to minimize taxes



Estate planning gets an incomplete

Most wealthy investors have implemented the basic elements of estate planning, but many miss the opportunities that come with more sophisticated strategies. For instance, most (74%) of our survey respondents have a will, and the older they are, the more likely they are to have one. Ninety-two percent of those over 68 have a will, versus 88% of Baby Boomers, 56% of Gen X and 42% of Gen Y.

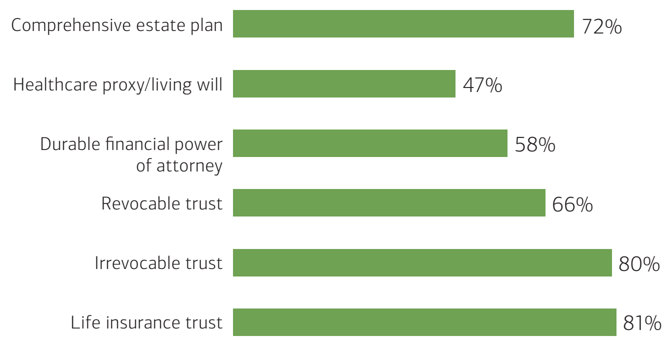
Many estate planning tools are underused

Yet though wills are common, nearly three quarters (72%) of our survey participants do not have a comprehensive estate plan. More than half (58%) have yet to name a durable power of attorney to make financial decisions if they become incapacitated, and 47% have named no healthcare proxy to guide medical care if necessary. Two thirds of our survey participants (66%) have never established a trust of any kind, most commonly because of procrastination and the mistaken notion that outlining wishes in one's will supersedes the need for a trust.

Spouses may not be ready for executor role

Many wealthy investors look to the person they trust the most—a spouse—to act as executor of their estate. Indeed, six in ten of survey respondents have named, or intend to name, their spouse or partner as an executor of their estate. Five in ten said they would name their spouse or partner as a trustee. Yet often the spouse is not equipped with the financial knowledge and skills to administer an estate. Not having sufficient legal and financial knowledge was the most often cited difficulty in serving as an executor or trustee of an estate. Another 30% said not knowing where to find records and information was the greatest difficulty, which is not surprising, as nearly half (46%) of our survey respondents have not informed the executor of their estate about how to access these records.

% who do *not* have the financial documents listed below



WHAT TO CONSIDER

- High net worth families without an estate plan should consider setting up a meeting with their advisors to assess their estate tax liability, determine their most important goals and structure a plan that fits their needs. If they have an estate plan, they should review it regularly to make sure it is in line with current laws and regulations and that it still expresses their goals.
- They may also wish to ask their advisors about how trusts might be incorporated into their wealth management plan to reduce taxes, increase control over the distribution of their assets and assist loved ones while an estate is in probate.
- Family wealth specialists can help wealthy individuals in collecting all the information that the estate's executor and trustees will need and working with these individuals to make sure they understand and are comfortable with their responsibilities.

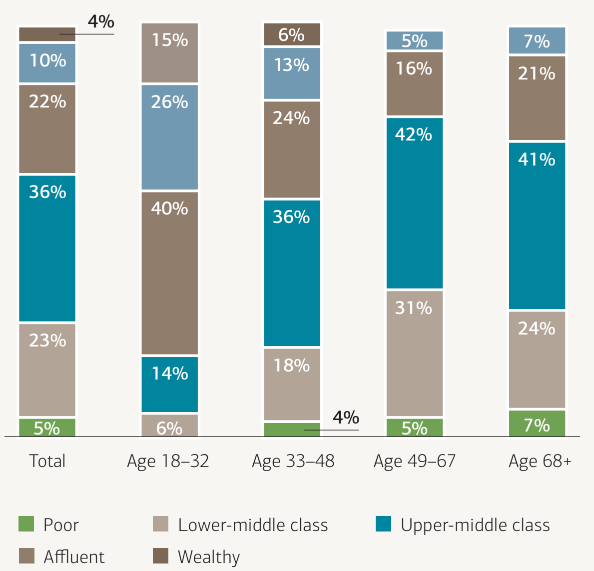
FAMILY BACKGROUND INFLUENCES FEELINGS ABOUT WEALTH AND FINANCIAL SECURITY

The wealthy come from a variety of different backgrounds — and these factors have an impact on their attitudes toward wealth and financial security today. For example, only 22% of survey respondents say they were raised in an upper-middle class household, 36% came from middle class backgrounds and 28% described their upbringing as lower-middle or lower socio-economic class. Background varies by generation, too. For instance, wealthy Baby Boomers are nearly four times more likely to have come from middle or lower class backgrounds than Millennials.

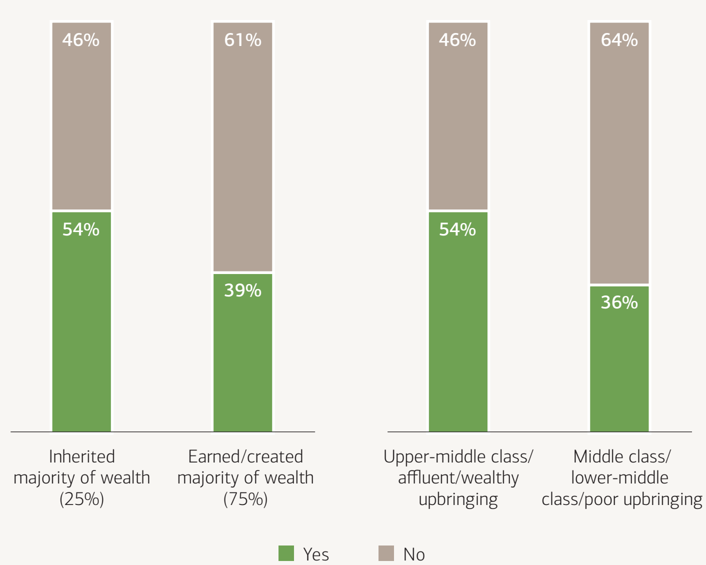
Those who grew up in the wealthiest households are significantly likelier to consider themselves wealthy today. For instance, only 36% of respondents who grew up middle class or lower consider themselves wealthy today, despite their net worth. However, 54% of those who grew up in a higher socio-economic status do consider themselves wealthy. Among those who do not feel financially secure, Baby Boomers are twice as likely as Millennials to attribute it to a sense that their situation could change at any time.

Attitudes towards wealth were also affected by the way in which survey respondents had accumulated their assets. Fifty-four percent of those who inherited the majority of their wealth compared to 39% of those who earned it consider themselves to be wealthy. The vast majority of respondents created their own wealth — from earned income through work and investments — over time and through sustained effort. One quarter of respondents inherited the majority of their wealth.

Socio-economic status growing up



% who consider themselves wealthy



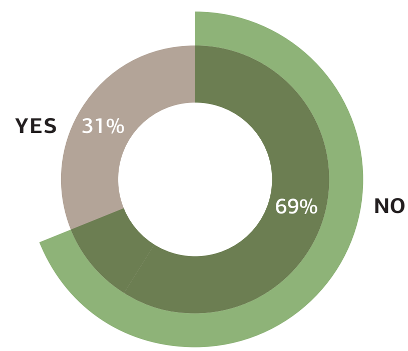
Family responsibilities loom large

Many of the people we surveyed say that they are wealthier than other family members, including parents, children, siblings and other relatives. As a result, these individuals often take financial responsibility for their extended family, creating additional needs for wealth planning and management. Even so, only three in ten have a financial plan that accounts for the financial needs of any adult family member other than themselves and their spouse or partner.

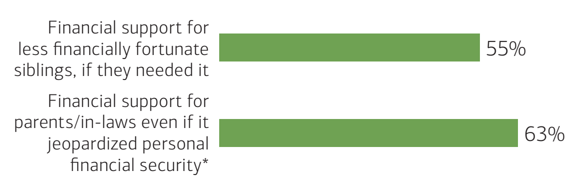
Extended family, extenuating circumstances

Wealthy individuals feel a strong responsibility to help less fortunate members of their families, with 63% pledging support to aging parents and in-laws (even if it jeopardized their own financial security) and 55% to siblings. Fifty-six percent of wealthy parents provide substantial financial support to their adult children. Nearly half have already provided substantial financial support to other relatives including parents (19%), in-laws (10%), siblings (18%), adult nieces and nephews (8%).

% who have a financial plan for adult family members other than spouse/partner

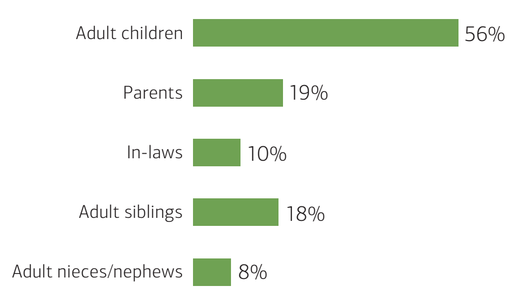


% who feel responsibility to provide financial support to parents/siblings



*Base: Those who are better off financially than their parents/siblings and have parents/in-laws still living.

% who have provided, or are providing, substantial financial support for the following adult family members



Long-term care is the hidden risk to family wealth

Arranging and financing later-life care is difficult even for the wealthiest families, yet few are fully prepared for these challenges. Though nearly half of our wealthy investors (47%) have made a plan for their own long-term care needs, only 18% of those with living parents have a strategy in place for meeting their long-term care costs.

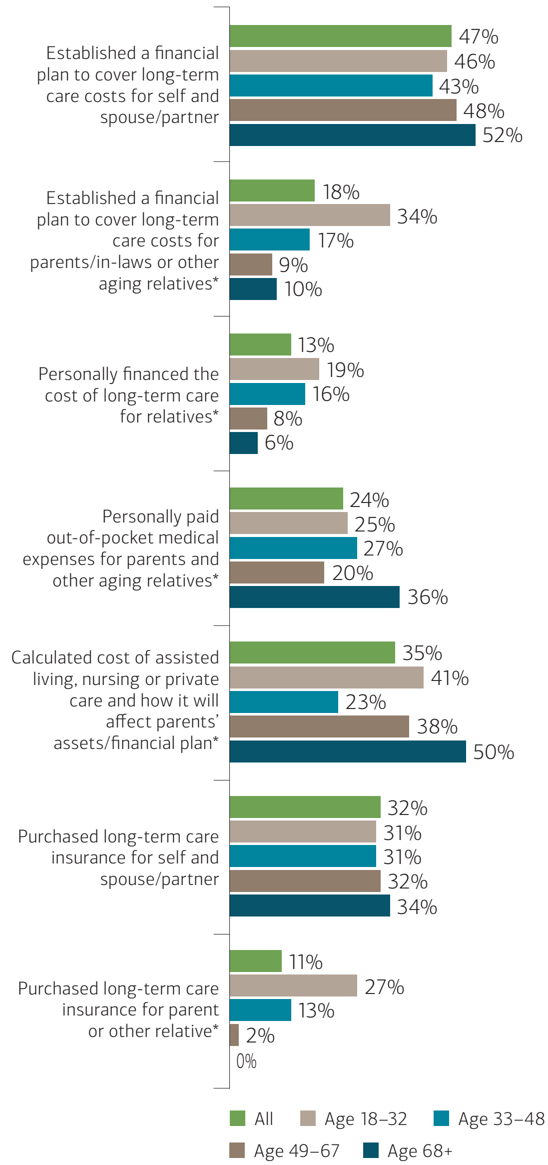
A substantial portion of high net worth individuals are already dealing with long-term care issues, particularly among the younger generations. Gen Y and Gen X respondents are more likely to have personally financed the cost of long-term care for relatives. In addition, younger respondents are more likely than Baby Boomers to have purchased long-term care insurance for parents.

More than half (54%) of survey respondents expect siblings to share responsibilities for the physical, financial and emotional support needed by aging or infirm parents, but only 19% have created a family plan to clarify roles and duties.

WHAT TO CONSIDER

- If they haven't already done so, wealthy individuals should consider asking their financial advisors to help them develop a detailed plan to provide the financial, emotional and organizational support they may need to offer their parents and other family members.

Actions taken to plan for healthcare and long-term care costs



*Base: Respondents whose parents are still living.

Majority of parents intend to leave an inheritance

Like their less wealthy counterparts, the high net worth are balancing responsibilities to parents and children. Two thirds (67%) of parents think it is important to leave a financial inheritance to the next generation.

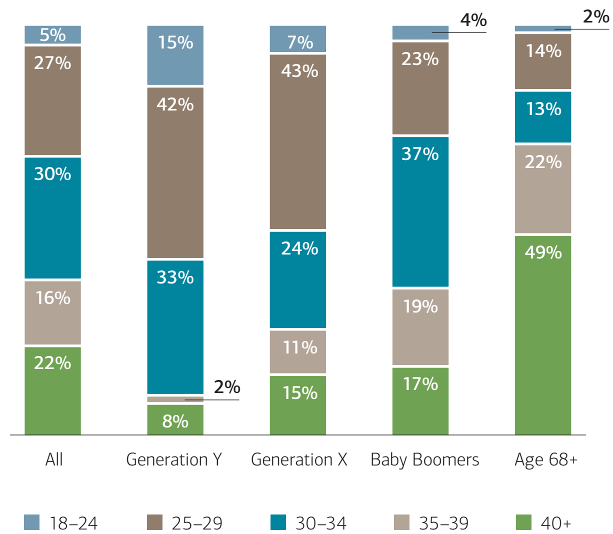
The next generation may not be prepared to handle wealth

Although high net worth parents want to leave a legacy, many do not think their children are ready to handle the responsibilities of wealth. Approximately half believe their children will be mature enough between ages 25 and 34, while one fifth don't think their children will be mature enough to handle wealth until they are 40 or older.

Shared values are more important than money to personal success

Financial assets are not the only assets that wealthy families want to pass along. Many in the survey said that the values they inherited from parents—including a strong work ethic, financial discipline and skills, a commitment to family harmony and an emphasis on education—were more important than money in enabling them to succeed. About a third (36%) said their families had instilled a commitment to charitable giving. Parents generally want to transmit these same values to their own children. In fact, two thirds of wealthy parents said they would rather their children grow up to be charitable than wealthy.

Age at which parents think children can handle their wealth



WHAT TO CONSIDER

- High net worth individuals who have not already talked to their children about their wealth and their children's future inheritance should consider setting up a family meeting with a financial advisor. The advisor might be able to facilitate a productive discussion about the resources that will someday be available to the children and about the responsibilities that come with substantial wealth.
- Wealthy families may also wish to involve their children in the family's philanthropic activities, perhaps by establishing a family foundation or endowment.

Please visit **ustrust.com/survey** for more information.

Important disclosures

All sector recommendations must be considered by each individual investor to determine if the sector is suitable for their own portfolio based upon their own goals, time horizon and risk tolerances.

Trading in commodities, such as gold, is speculative and can be extremely volatile. There are special risks associated with an investment in commodities, including market price fluctuations, regulatory changes, interest-rate changes, credit risk, economic changes, and the impact of adverse political or financial factors. Tangible assets can fluctuate with supply and demand, such as commodities, which are liquid investments unlike most other tangible investments.

Nonfinancial assets, such as closely held businesses, real estate, oil, gas and mineral properties, and timber, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations and lack of liquidity. Nonfinancial assets are not suitable for all investors.

Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties, such as rental defaults.

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Always consult with your independent attorney, tax advisor, investment manager and insurance agent for final recommendations and before changing or implementing any financial, tax or estate planning strategy.

METHODOLOGY

The U.S. Trust 2013 *Insights on Wealth and Worth* survey is based on a nationwide survey of 711 high net worth and ultra high net worth adults with at least $3 million in investable assets, not including the value of their primary residence. Among respondents, 33% have between $3 million and $5 million in investable assets, 33% have between $5 million and $10 million and 34% have $10 million or more. The survey was conducted online by the independent research firm Phoenix Marketing International in March of 2013. Asset information was self-reported by the respondent. Verification for respondent qualification occurred at the panel company, using algorithms in place to ensure consistency of information provided, and was confirmed with questions from the survey itself. All data have been tested for statistical significance at the 95% confidence level.

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Managing your worth with U.S. Trust

Your wealth is not measured by numbers alone, but by the extraordinary opportunities and complex challenges that define your life. At U.S. Trust, we apply our deep insight and broad expertise to help you make the most of the things that matter most to you.

We begin by listening to you, getting to understand you and learning from you. Your advisor and your team of specialists then build a wealth plan that aligns with your personal values and family goals.

When we serve as your fiduciary, whether we are managing your portfolio or administering a trust, our focus is what best meets your objectives and expectations. Together, we customize tailored solutions that address the dimensions of your worth today and the legacy you're building for future generations.

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