

The Allianz *American Legacies* Study

Executive Summary

Introduction

During the next several decades, researchers expect roughly \$25 trillion in wealth to be handed down by the elder, parents-of-boomers generation, \$7.2 trillion of which will go directly to the boomers. This constitutes the largest intergenerational wealth transfer in history.

In this environment, The Allianz American Legacies Study was conceived and designed to be the most comprehensive examination of intergenerational wealth transfer dynamics ever undertaken. It was commissioned by Allianz Life® to better understand the emotional and financial impact of wealth transfer of this magnitude on American families.

While no one can definitively predict the psychological, social and economic impact of this unprecedented movement of wealth, this new study did reveal what matters most to both generations today and what they are planning to do. Perhaps surprisingly with tens of trillions of dollars at stake, it's not about the money.

The coming flood: specific figures on intergenerational wealth transfer

Estimates have varied widely over the past decade as to how much wealth the rapidly aging elder generation would leave behind. Figures today range from \$25 trillion up to a staggering \$136 trillion set to be bequeathed or passed down over the next 50 years. The most often cited wealth transfer number is \$41 trillion, which is sourced from Paul Schervish and John J. Havens of the Boston College Center on Wealth and Philanthropy.

Our materials also source Schervish and Havens, but we cited the \$25 trillion as going specifically to all heirs, and the \$7.2 trillion as going specifically to boomer heirs. For more information on this subject and these figures we recommend "Why the \$41 Trillion Wealth Transfer Estimate Is Still Valid: A Review of Challenges and Questions" that most recently appeared in *The Journal of Gift Planning*, 7, No. 1, (January 2003), pp.11-15, 47-50.

The Allianz American Legacies Study

Allianz Life engaged Dr. Ken Dychtwald of Age Wave to design The Allianz American Legacies Study and the survey was conducted by Harris Interactive.® The specific objectives of the study were to quantify the hopes, fears, priorities, and motivations related to the passing of values, assets and wealth between the two generations – baby boomers and their elders, the generation of their parents. A random sampling of 2,627 boomers and elders were asked to identify how they define leaving a legacy and how families are communicating about these sensitive issues today.

The responses illustrated how the communication struggles that baby boomers and their parents' generation which they thought they had overcome in the decades since the 1970s, have resurfaced around legacy. From the different ways generations define legacy and sibling rivalry (and restitution), to ethics and values in decision-making and power struggles, the Allianz Life survey reveals exactly how American families are working to find a way to pass on their hearts' desire and final wishes wrapped in trillions of paper bills.

Five key themes emerged from the study:

- **Values, not valuables:** The study found that both boomers and those in the elder generation were uncomfortable discussing the one-dimensional topic of leaving an "inheritance" but both embraced the idea of leaving a "legacy," because it captures all facets of an individual's life – including their family traditions and history, life stories, values, and wishes.
- **The legacy gap:** The study found that although both boomers and those in their parents' generation say they are having in-depth conversations about legacy and inheritance, most of these conversations are not happening in a truly meaningful or productive way.
- **The Alpha Child:** An Alpha Child – defined as "the one child parents turn to first" – typically guides legacy planning. The profile of the Alpha Child is one who keeps the family connected and is a strong communicator.
- **Performance-based inheritances:** Performance-based distribution gives more to the child that has cared for the parent and less to the children that were a source of stress and conflict. This distribution plan is particularly favored by high net worth individuals.
- **The ideal legacy advisor: personal connection over performance.** The top qualities both generations look for in a legacy adviser are honesty, trustworthiness, compassion, good listening skills and strong and clear communication.

Bridging the legacy gap

A breakthrough finding in The Allianz American Legacies Study is the discovery of four pillars that support the building of a true and successful legacy plan. These pillars cover four topic areas that are critical to a comprehensive and constructive conversation about legacy within a family.

The four pillars are:

- Values and life lessons
- Instructions and wishes to be fulfilled
- Personal possessions of emotional value
- Financial assets and real estate

The study found that despite these pillars being so important, less than one third of boomers and elders have discussed all of the elements above. The reasons for the pillars' importance is readily apparent: Among people who have already lost their parents, fulfilling last wishes and distributing personal possessions was five times as likely to have been the greatest source of conflict during a legacy transfer as the distribution of finances.

However, consistent with the emotional and softer-side-of-inheritance focus that prevailed throughout the study, the reason this conflict is not handled earlier within families is because the greatest barrier to opening discussion is personal discomfort with the topics of inheritance and death.

The findings and observations in this study not only provides a call-to-action for American families to have important conversations about their family legacy today, but also offers a helpful template for doing so.

Survey Methodology

Harris Interactive® fielded a nationwide online and telephone survey for Allianz Life and Ken Dychtwald among a total of 2,627 U.S. adults, of whom 1,282 were age 40-59 (baby boomers) and 1,345 were age 65 and over (the elder generation).

The telephone survey was conducted between April 21 and May 2, 2005 among 2,004 U.S. adults, of whom 1,004 were baby boomers (age 40-59) and 1,000 were of the elder generation (age 65 and over). Figures for age by sex, education, race/ethnicity, household size, region, income, number of telephone lines, and net-worth were weighted where necessary to align them with their actual proportions in the population.

The online survey was conducted in the United States between April 22 and 27, 2005 among an over-sample of 278 baby boomers (age 40 to 59) and 345 elders (age 65 and over), both of whom have a net worth of over \$250,000. Figures for age by sex, education, race/ethnicity, region, income, and net-worth were weighted where necessary to align them with their actual proportions in the population. Propensity score weighting was also used to adjust for respondents' propensity to be online.

Though the online sample was not a probability sample, Harris Interactive estimates with 95% certainty that the results for both the boomer (1,282) and elder (1,345) samples have a sampling error of plus or minus 3 percentage points. Sampling error for the following sub-sample results: elders who have children (1,247), elders who have more than one child (1,128), boomers who consider themselves to be the Alpha Child (498), boomers whose parents are alive and who have siblings (857), and boomers whose parents are not alive and who have siblings (315) is higher and varies.

On June 24 and 25, Harris Interactive conducted 200 additional telephone interviews with a random selection of the original 2,004 telephone respondents. This mini-survey was conducted to address the Four Pillars findings in more detail. Two sets of 100 additional interviews were conducted, one with adults aged 40-59, and one with adults aged 65+.

Key Finding #1: Values, not valuables

The Allianz American Legacies Study found that baby boomers¹ and elders view the concepts of legacy and inheritance differently. According to the study, a true legacy is a combination of emotional and financial elements, while an inheritance is purely financial. The difference between an inheritance and a true legacy is clear and distinct, though the terms are used interchangeably and there is little evidence of an agreed way to approach either. Boomers indicate they prefer to preserve their parents' memories than receive a financial inheritance, while elders believe their boomer children are more interested in money.

Elders are underestimating the importance of their non-financial legacy to their children. They mistakenly assume financial assets and real estate are more important to their children.

- 39% of elders say it's very important to pass along their financial assets or real estate to their children, while only 10% of boomers see that as a priority.

Boomers think knowing their parents' future wishes are the most important part of their parents' legacy.

- 65% of boomers say it's very important that they receive instruction on how their parents' wishes (about their family/death/estate) should be fulfilled.

In fact, boomers are less likely to think they are owed an inheritance.

- 35% of elders say it's their obligation to leave an inheritance to their children.
- 17% of elders feel their children are counting on an inheritance, but only 4% of boomers are.
- 22% of elders with children feel they owe their children an inheritance, but only 3% of boomers feel the same.

¹ Baby boomers are U.S. adults aged 40-59. Elders are U.S adults aged 65 and over.

Survey question: Please indicate how important it is for you personally that you receive/provide any of the following as an inheritance. (% very important)



Key Finding #2: Negotiating the legacy gap

Although both baby boomers¹ and elders say they are having in-depth conversations about legacy and inheritance with their family – this is not really happening according to The Allianz American Legacies Study. The study found there is a gap between what people are saying and really doing:

The majority of boomers and elders say they are very comfortable discussing legacy and inheritance.

- 71% of elders say they feel highly confident discussing these issues.
- 68% of boomers say they feel highly confident discussing these issues.

However, they are not really talking about all aspects of their legacy.

- Personal discomfort with the topics of inheritance, death and health are the biggest barriers to family discussion.

In fact, less than one-third of boomers (29%) and elders (31%) say they've had a comprehensive discussion on the four pillars that are core to legacy planning. A true legacy consists of the following four pillars:

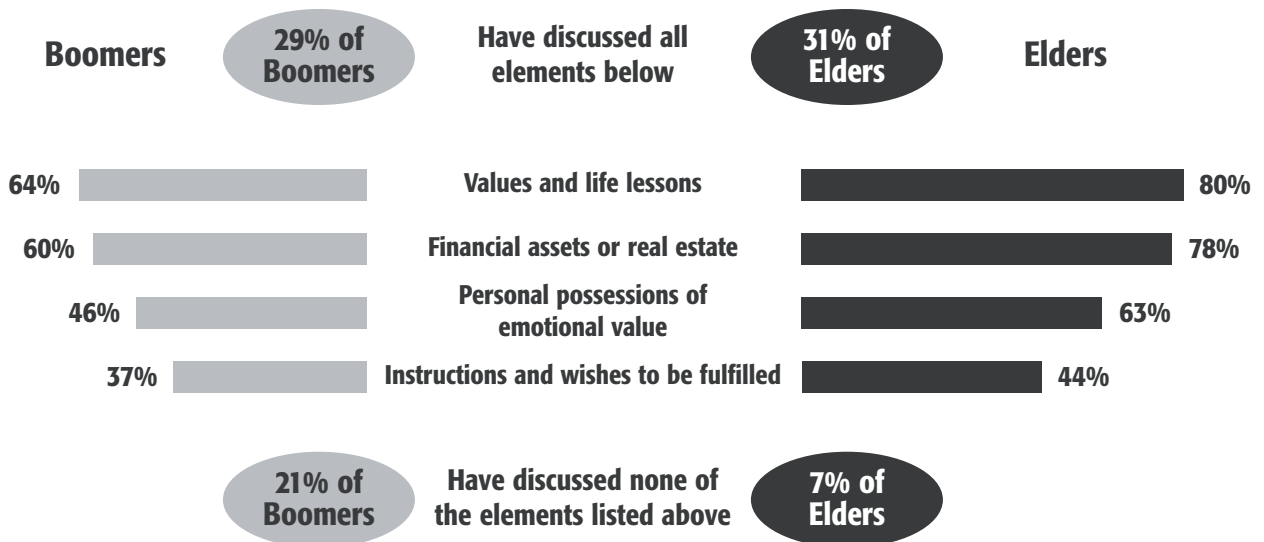
- Values and life lessons
- Instructions and wishes to be fulfilled
- Personal possessions of emotional value
- Financial assets or real estate

There is a disconnect between what people are saying and really doing:

- 21% of boomers and 7% of elders have discussed NONE of these four pillars.

¹ Baby boomers are U.S. adults aged 40-59. Elders are U.S adults aged 65 and over.

Survey question: Have you had an in-depth discussion with your parents/children or heirs about the distribution of the following? (% have discussed)



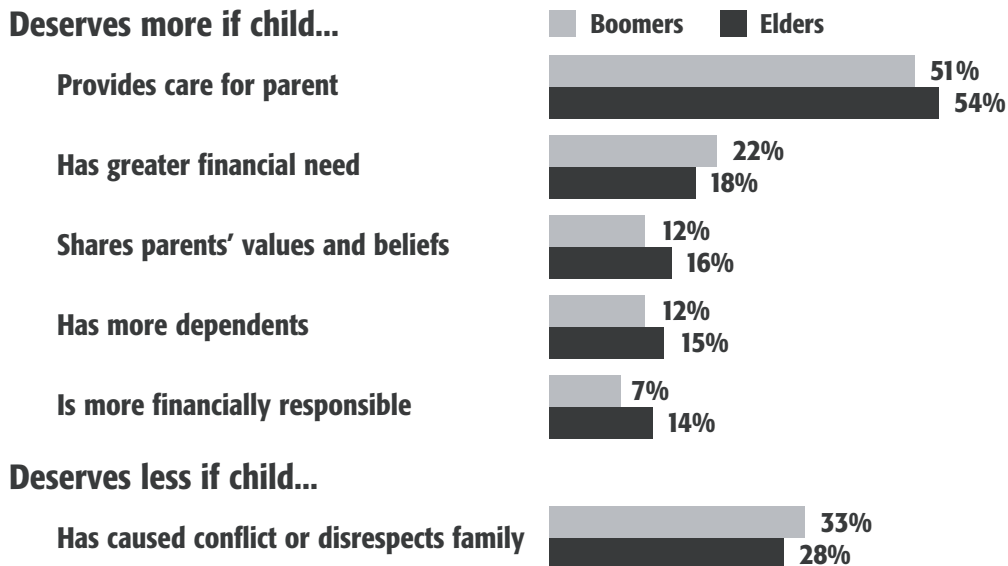
Key Finding #3: Performance-based inheriting

The Allianz American Legacies Study found that elders¹ with children believe in an equal but not always equitable inheritance. While 86% of elders they say they plan to distribute their inheritance equally among their children, they do admit there are certain exceptions that may affect how they ultimately distribute it.

Most elders say a child deserves a larger inheritance if they provide care for a parent.

- 54% of elders feel a child deserves more if they provide care for the parent.
- One-third think children deserve less if they cause conflict or disrespect the family.

Survey question: % who agree



Elders are twice as likely as boomers to view inheritance as a source of power over their heirs.

- 34% of elders feel making decisions about inheritance is an important source of power and control.
- 15% of boomers feel their parents use their inheritance plans to exert control over heirs.

A performance-based inheritance plan is gaining favor in many families, especially among high net worth (HNW) families

- 45% of HNW elders disagree that all children have the right to share equally in their inheritance, while only 23% of lower net worth elders feel the same.
- A small proportion of elders would disinherit a child, but those with higher net worth are more than twice as likely to disinherit a child than those with lower net worth.

While the clear majority of elders intend to divide all of their assets equally, elders who have had multiple marriages are twice as likely to divide assets unequally than those who have been married once.

¹ Baby boomers are U.S. adults aged 40-59. Elders are U.S adults aged 65 and over.

Key Finding #4: Are you the Alpha Child?

Two in five elders with more than one child say they have an “Alpha Child” who will initiate and guide conversations on legacy planning, according to The Allianz American Legacies Study. The Alpha Child keeps the family connected and is a strong communicator. The Alpha Child will play a prominent and interesting role in upcoming legacy transfers and family dynamics.

Boomers whose parents are still alive and who have siblings and elders with more than one child acknowledge that there is one child in the family to whom parents will turn first to discuss family issues.

- 42% of elders who have more than one child say they have an Alpha Child.
- 38% of boomers whose parents are still alive and who have siblings believe they are the Alpha Child in the family.
- Yet, boomers don’t know who the Alpha Child is – they overestimate by a factor of four that they are the Alpha Child.

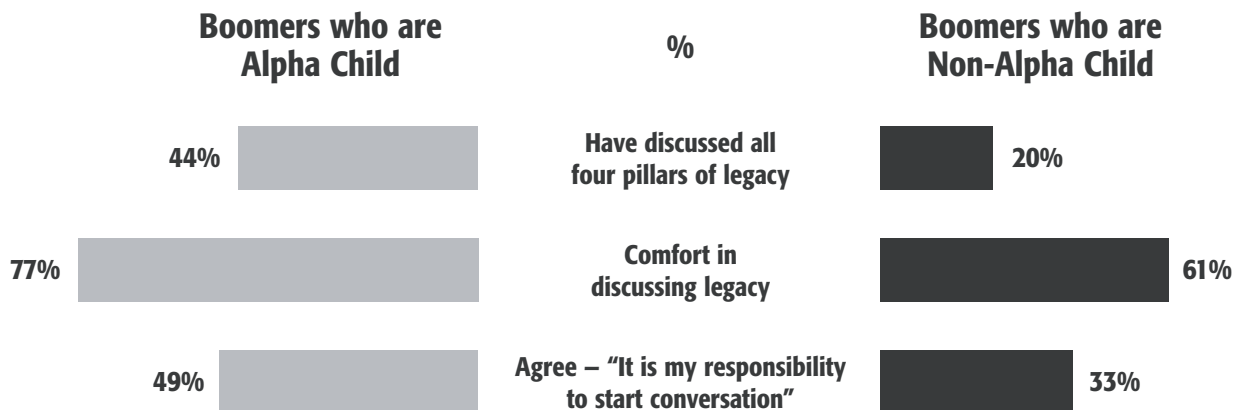
An Alpha Child is defined by the ability to communicate and share strong family bonds. Thus the Alpha Child has the greatest influence on initiating and guiding the conversations on inheritance. They relate:

- 74% have discussed inheritance/legacy with their parents.
- 44% have discussed the four pillars of legacy.
- 77% are comfortable in discussing legacy.
- 49% agree it is their responsibility to start the conversation with their parents.
- Only 10% say their parents are uncomfortable discussing inheritance with them.

Surprisingly though, while the Alpha Child has high level of comfort discussing these topics, the study found they are **no more** likely to know the monetary value of their parents estate than their brothers or sisters.

¹ Baby boomers are U.S. adults aged 40-59. Elders are U.S adults aged 65 and over.

Survey question: Is the Alpha Child the leading resource for discussing legacy issues within the family?



Key Finding #5: The ideal legacy advisor – personal connection over performance

Both baby boomers and elders¹ favor positive personality traits over fiscal knowledge when choosing a legacy advisor. The Allianz American Legacies Study found the top qualities they look for in an advisor are honesty, trustworthiness, good listening skills, and the ability to explain things in an easy-to-understand manner.

Both generations say the ideal legacy advisor would be 1/3 lawyer, 1/4 financial advisor, 1/5 accountant, and 1/5 therapist/spiritual advisor.

- Elders place more value on religious/spiritual advisors than do boomers.

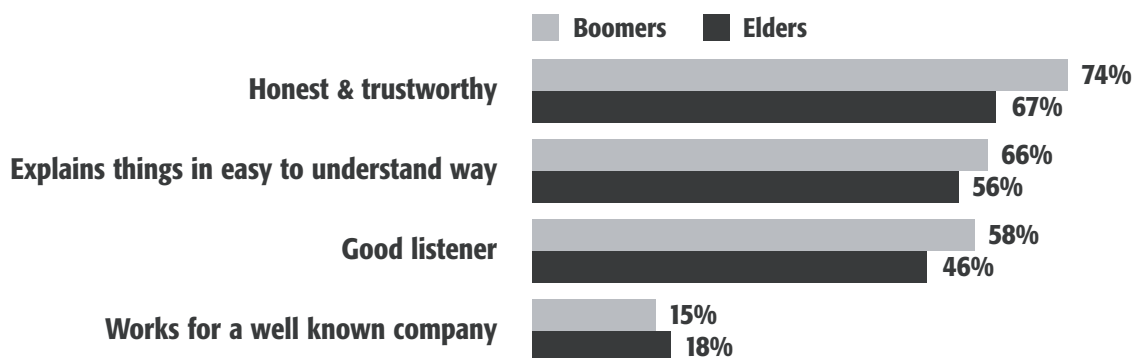
Despite this, compassion and faith edge out fiscal knowledge when personifying advisor characteristics.

- Oprah Winfrey topped (19%) the boomer’s list of who personifies the ideal legacy planner, while Billy Graham was the elders’ favorite (22%).

High net worth individuals take fiscal knowledge more into account when personifying advisor characteristics.

- They prefer Warren Buffet (31% of elders and 21% of boomers).

Survey question: If you were to use a professional to help plan a legacy, which of the following characteristics would be a key requirement in selecting the ideal advisor?



Honesty and good communication skills outrank other key requirements for legacy advisors of both boomers and elders.

- 74% boomers/67% elders look for advisors who they perceive as honest and trustworthy.
- 66% boomers/56% elders look for advisors who explain things in an easy to understand manner.
- 58% boomers/46% elders look for advisors they feel are good listeners.
- 15% boomers/18% elders look for advisors working for well-known companies.

Many elders have made plans for a legacy transfer, and consulting with financial advisors is an important part of the process.

- Only 11% say they have made no legacy transfer plans.
- 67% have obtained professional assistance.

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ENT110 (8/2005)

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