HIGH-NET-WORTH BUSINESS OWNERS AND CORPORATE EXECUTIVES

Business owners and corporate executives are a significant source of wealth creation. As part of the 2014 U.S. Trust Insights on Wealth and Worth® study, U.S. Trust surveyed high-net-worth business owners and senior executives (such as CEOs, presidents and division heads) across the country to provide a fresh perspective about their attitudes, expectations and behavior related to running a business, personal wealth and wealth management. Both groups have ownership in the strategic direction and growth of the business, face similar challenges and often have a significant percentage of their wealth tied to the success of the business. In many respects, business owners and senior executives are alike in terms of what motivates them, their focus and their challenges, and the study confirmed that there are many similarities—as well as differences—in how they approach wealth management and planning.

OVERVIEW

Entrepreneurship thrives among today’s high-net-worth investors. Most of the owners surveyed created their own businesses. They are, as a group, very focused on the challenges of running their companies. Specifically, they are most engaged in generating growth in a still sluggish economy, allocating investments prudently to support that growth, navigating a changing tax and regulatory environment, and making optimal use of credit sources.

Senior executives had many of the same concerns and attitudes as business owners, including the impact of an uncertain economy, hiring qualified employees and staying competitive. The findings suggest that business owners have a heightened sense of responsibility to employees and for creating opportunities for others, and are strongly committed to maintaining employment and benefit levels, despite the impact of taxes. Only about one in 10 has moved or would move the business to a different state, despite aggressive competition among states to attract businesses.

We also found that many business owners and corporate executives have put their companies first, ahead of family obligations—and that many feel that they are better at managing business finances and communication than personal finances and communication.

For business owners and corporate executives alike, personal and professional lives are often intertwined. Both groups share similar pressures and expectations, but neither is planning in a way that reflects the complexities they face.
PROFILE OF HIGH-NET-WORTH BUSINESS OWNERS

Most owners are business founders

The majority of the business owners we surveyed created their own businesses, because they founded or co-founded them (69%), acquired all or part of an existing business (11%) or bought out other partners or owners (7%).

Only 13% inherited a family business, though younger generations were far more likely to have done so. Only 1% of survey respondents over 50 had inherited their business, but 25% of those under 50 had taken over a family business.

AN UNMET NEED FOR SUCCESSION PLANNING

Business owners of all generations can enhance the current value of their businesses and plan for an eventual exit by creating a formal business succession strategy. Whether the owner prefers to leave the business as a legacy for younger members of the family or plans a strategic sale or IPO to provide liquidity for heirs, a well-thought-out succession plan is essential.

Few businesses survive multiple generations

More than three-quarters of business owners are the first generation to own the business — and if the past is any guide, many will be the only generation in the family to own the business. Among current owners, just over one in 10 expect their children or heirs to inherit the business. It is particularly critical for business owners who do not expect their children to take over the family firm to have a detailed succession plan in place that identifies future leadership, spells out the current CEO or founder’s continuing role, if any, and outlines a plan for financing and implementing a transfer of ownership.

Percent of business owners who created vs. inherited the business

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<thead>
<tr>
<th>Under age 50</th>
<th>Over age 50</th>
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<tr>
<td>25% Created</td>
<td>99% Inherited</td>
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How many generations has the business been in your family?

- 1st generation: 79%
- 2nd generation: 13%
- 3rd generation: 8%

Percent who expect their children or heirs to continue the business

- YES: 13%
- NO: 87%
The value of succession planning is not well understood

The business owners we surveyed are not generally fully prepared for an eventual transfer of their businesses. Two-thirds of them do not have a formal succession plan, including seven in 10 business owners over age 50. Business owners who have a professional financial advisor are almost twice as likely to have a business succession plan as those who don’t have an advisor. Business owner clients who do not have a succession plan in place may wish to begin developing one that states who will take over their companies and how the transitions will be financed. If there is no obvious candidate within the family or the business itself, the owner may wish to begin exploring a sale or merger to realize the value of the company.

The reasons given for not having a succession plan suggest more than procrastination. Many business owners haven’t made important decisions and/or believe that a will, or verbal discussion, will be sufficient. Yet in most cases, a succession document is critical to a smooth, efficient transfer of ownership.

Business succession planning is often left to heirs

Business owners who do not formalize a succession plan will, by default, leave this task to their heirs. Indeed, among the two-thirds of business owners who don’t have a formal succession plan for their businesses, most will leave it to family members to sort out.

This adds needless complexity to the estate settlement process, especially if the executor lacks the expertise to make informed decisions about the business. Unfortunately, this is often the case. Six in 10 business owners have named family members as executors of their estates, usually a spouse or partner. Only 8% have named an attorney and only 2% have named a financial advisor. Business owners should review their estate plans with a financial advisor, making sure that the trustees and executors they name are capable of managing a succession process.

Reasons for not establishing a succession plan

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>I have no intention of retiring in the near future</td>
<td>54%</td>
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<tr>
<td>I haven’t made important decisions about management of my business</td>
<td>23%</td>
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<td>after I retire</td>
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<tr>
<td>My family and colleagues are aware of my plans for the future</td>
<td>15%</td>
</tr>
<tr>
<td>I have outlined my wishes in my will</td>
<td>14%</td>
</tr>
<tr>
<td>I am too busy with day-to-day operations to worry about something</td>
<td>7%</td>
</tr>
<tr>
<td>that far in the future</td>
<td></td>
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THE CHALLENGES OF BUSINESS GROWTH

Business owners and corporate executives are focused on the growth of their companies and face similar challenges.

The biggest challenge both business owners and corporate executives face is an uncertain economy, complicating or hampering other important business decisions, such as hiring, expanding and investing capital in the business. Five years after the global credit crisis, however, few rank bank credit or access to capital as a challenge.

There are some noticeable generational differences in survey respondents’ assessment of challenges. Business owners and corporate executives who are over the age of 50 are much more likely than those under age 50 to rank competition and taxes as a challenge.

Owners and executives are financing growth

Business owners and corporate executives are actively pursuing financing or growth opportunities, including acquisitions, strategic partnerships, and debt and equity financing. However, there are some differences in the way these two groups approach expansion. Business owners are more likely to invest in capital expansion or acquisition. Corporate executives are most often engaged in raising private capital and forming strategic partnerships.

Overall, 10% of business owners and corporate executives had either raised capital in the private capital markets or were considering it. Business owners and executives who are considering these growth strategies should meet with a financial advisor with experience in the capital markets and an understanding of important wealth planning actions that owners and other members of senior management should consider.
Taxes have limited impact on growth strategies

Despite the fact that rising taxes were ranked as among the biggest challenges to business growth, nearly half (46%) of business owners and corporate executives did not take, and aren’t considering, any actions in their businesses to reduce taxes. Despite speculation to the contrary, most do not intend to offset rising tax costs by eliminating or reducing health care benefits and jobs. Business owners are especially averse to taking this step. Only about one in 10 has moved or would move the business to a different state, despite aggressive competition among states to attract businesses.

Corporate executives are more apt than business owners to access credit for the purposes of reducing taxes. However, both corporate executives and business owners may be able to minimize their tax obligations through customized financing collateralized by business or personal assets or both.

Business owners use personal credit for expansion

Business owners and corporate executives are both more likely than non-business owners and all other respondents to borrow against their personal assets in order to gain liquidity.

Corporate executives are most likely to do so. Six in 10 (62%) executives compared to just less than half of business owners (46%) have borrowed against their assets to gain liquidity. Corporate executives are more than twice as likely to use the resulting liquidity to invest opportunistically, while business owners, not surprisingly, are more than five times as likely to use their liquidity to start or grow a business. A lending specialist can help both business owners and corporate executives gain liquidity by borrowing against business or personal assets.

Thinking about the cumulative impact of federal/state/local taxes, which of the following have you taken or are considering taking for your business?

- Reduce or limit the number of employees: 17% (Executives), 22% (Business owners)
- Eliminate or reduce the provision of health care benefits for employees: 14% (Executives), 19% (Business owners)
- Move the business to a state with no or lower personal income tax rates: 12% (Executives), 11% (Business owners)
- Increase spending/investment in the business: 10% (Executives), 11% (Business owners)
- Establish or expand deferred compensation plan: 9% (Executives), 7% (Business owners)
- Restructure ownership of the business: 7% (Executives), 8% (Business owners)
- Sell the business: 7% (Executives), 5% (Business owners)

Percent who have used credit to gain liquidity

- Non-business owners: 34%
- Business owners: 46%
- Corporate executives: 62%
BALANCING WORK AND LIFE

Although many business owners and corporate executives say that balancing work and personal life is what motivates them most, many of them put business needs first. Business owners are less likely than corporate executives to say that they focus more on business finances than personal finances, but still about a third of each group agree that they are better at managing business finances than personal finances. These executives and entrepreneurs may be able to benefit from outside professional wealth management services.

Managing family wealth requires many of the same skills as running businesses, yet at least one quarter of business owners and executives feel they are better at managing effective communication and risk at work than in their personal lives. Family wealth specialists can help these business owners and executives to improve communication with family members about their personal wealth.

Business owners and corporate executives value balance and autonomy

Business owners and corporate executives are similarly professionally motivated, with work-life balance and the ability to control their own destiny being most highly ranked.

Corporate executives are more apt than business owners to rank money as a top motivator yet are also more likely to want to make a positive impact on society. Corporate executives who are interested in using their wealth for social good may wish to consider a variety of philanthropic strategies, including charitable giving, charitable trusts or establishing their own foundation or endowment.

Which of the following skills are you better at managing in your business than in your personal life?

- Effective communication: 27%
- Managing risk: 22%
- Mentoring: 20%
- Consensus building: 16%
- Managing cash flow: 15%
- Investing cash money: 14%
- Long-term financial planning: 12%

Percent who ranked the following as top professional motivation

- Work-life balance: 50%
- Ability to control your own destiny: 38%
- Money: 41%
- Opportunity to express your talents and passion: 22%
- The thrill of the challenge: 16%
- Making a positive impact on society: 11%
- Leaving a legacy you are proud of: 21%
- Public recognition and exposure: 8%
Additional survey findings from the 2014 U.S. Trust Insights on Wealth and Worth® survey can be found at www.ustrust.com/survey.

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, learning about your life, and we work with you to understand your priorities. 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 on what best meets your objectives and expectations. Together, we develop personalized solutions that address the dimensions of your worth today and the legacy you’re building for future generations.
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**Study methodology**

The 2014 U.S. Trust Insights on Wealth and Worth® survey is based on a nationwide survey of 680 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. Respondents were equally divided among those who have between $3 million and $5 million, $5 million and $10 million, and $10 million or more in investable assets. The survey was conducted online by the independent research firm Phoenix Marketing International in February and March of 2014. 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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