Seven Financial Sins of Millionaire Households

Raising five kids in any U.S. metro area means big bucks if you want the best in education — a challenge well known to one affluent family who faced a total bill of about $2 million spread around among private schools, private colleges, books, living expenses and other costs. After laying down that chunk of change to help their children get a leg up in a competitive world, they were unprepared to shell out another $1 million in a single year to keep their kid's name clean. That was the upshot of an early morning telephone call in which one of the kids, a 20-year-old college student, informed his parents he had been arrested for an alleged attack on a young woman. Though their son was eventually exonerated of all charges, their legal expenses ran to over $1 million.

Sin #1 - Vulnerability To Lawsuits
People with money are targets. Being a target for the legal system is the first of the seven financial sins of millionaire households — these are real-world risks that can permanently disable even the wealthiest of families. Lawsuits can strike the affluent from many directions. My father was a physician for many years, and he eschewed New York State's “M.D.” vanity plates that would have entitled him to preferential parking and other special treatment. “Why make yourself a target in the event of an accident, or someone looking for drugs in your black bag?” he explained. Of course, some things can be avoided or controlled, and other things can't. But wealthy people might do their best to not to advertise their wealth.

Sin #2 - Working For Employers Who Change Their Minds
The Shirelles were the first “girl group” to make the Billboard Hot 100. Their last appearance there was in 1961, at the peak of their popularity. But that wasn't the end of the band, which kept on keepin' on for nearly 20 more years. Problem is, retirement and health care benefits that were hinted at, if not promised, by the recording company never materialized. So, members of the band joined with other artists of the time, such as Sam and Dave and The Coasters, to bring a multi-billion-dollar lawsuit against the recording industry and the musician's union. It was settled out of court. Modern versions of retiree frustration include employees of United Airlines, Enron and the National Football League. Many companies mean well, but fail to meet the expectations of retirees. This trend is just beginning — and the outlook is grim.

Sin #3 - Being Underinsured
Success in Southern California means being able to live in Malibu, where the current median house price is over $4 million. The 2007 wildfires claimed many expensive residences, including that of Suzanne Somers, former TV comedienne and successful Home Shopping Network and Internet entrepreneur. (Thighmaster Gold is my favorite.) Property/casualty pals tell me that too many affluent families have not increased their coverage for basic losses — something that is especially dangerous when you consider the significant increase in real-estate values and rebuilding costs. Policies that don't track replacement cost based on real value can be woefully insufficient, and require updating before a natural disaster creates a financial calamity.

Sin #4 - Poor Estate Planning
On a New Year's holiday in Lake Tahoe, Calif., Congressman Sonny Bono was tragically killed in a skiing accident. Despite her touching eulogy about his life, former musical partner Cher was one of three parties to file property claims against Mr. Bono's intestate will — an ironic final duet. Leona Helmsley died with billions in property. Though several members of her family got nothing, her little pup, Trouble, scampered away with $12 million. Two-thirds of Americans die each year without a will, one in five millionaires doesn't have one, and the 2007 Phoenix Wealth Survey reveals that 72 percent of the affluent either have no estate plan or one that is out of date by at least five years.

Sin #5 – Longevity
New York socialite and philanthropist Brooke Astor was a generous patron of many causes prior to passing away at 105. Rich people live longer, on average, than do poor people. Popular explanations include access to health care, better diets and ownership of health insurance. Calculating longevity is one of the three cornerstones for creating a retirement-income program, according to experts and the Employee Benefit Research Institute, along with measuring investment risk and determining catastrophic health risk.

Sin #6 - Having Dependents
Call it the “Sandwich” generation — the simultaneous presence of dependents both older and younger than your high-net-worth clients. Some 44 percent of American couples aged 45 to 55 have both elderly parents who are still alive, and children under the age of 21. Or consider the Boomerang effect: There are 25 million adults aged 19 to 39 living at home, and when they leave, half return within 30 months — often with a spouse, partner and/or children in tow. Yikes.

Sin #7 - Impulse Spending

The average American home at the end of World War II occupied less than 1,000-square feet. By 1970 that had risen to 1,400 feet, and the latest national stats put the average at over 2,300-square feet. Some 36 percent of millionaires in the 2007 Phoenix Wealth Survey said they had an equity line of credit, and 52 percent used theirs to fix up their homes, 24 percent to buy cars and 24 percent to purchase additional real estate. Meanwhile, 46 percent of well-off Americans in a Wachovia survey said they could not save enough for retirement because of "impulse spending." Lifestyle expectations that created the McMansion, the Hummer and a $6 cup of coffee, may be the greatest untold story in our list of financial sins. Try wrestling with a retiring couple to cut into their "dinner out" budget like my advisor friend Greg in Boca Raton did. He lost the fight — and the clients.

What to do? Next time …

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