America's Affluent: Satisfying Their Needs in an Era of Uncertainty

A Trended Analysis of a Dynamic Market

SRI Consulting Business Intelligence

333 Ravenswood Avenue
Menlo Park, California 94025

P.O. Box 8567
Princeton, New Jersey 08543-8567

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Box

The CFD Affluent Segmentation 2

Appendixes

A. **MacroMonitor** Survey Methodology A-1

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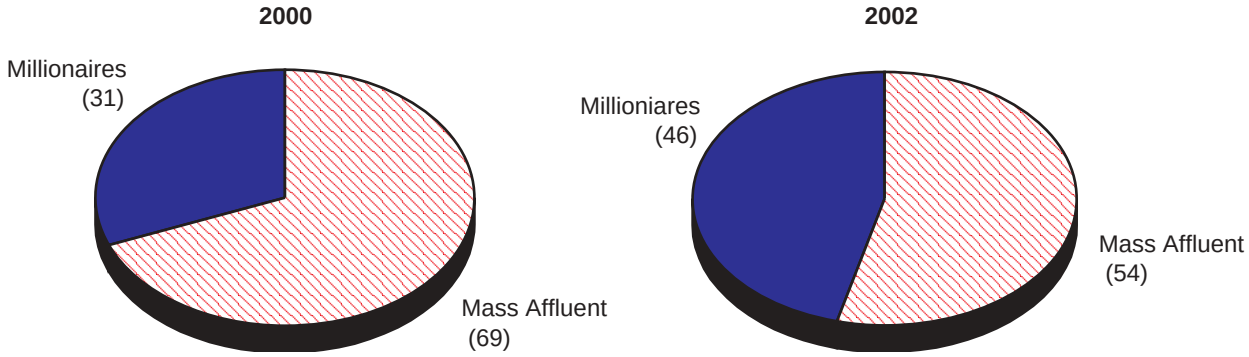
C. Affluent Segment Definitions C-1

INTRODUCTION

The market events of the past two years have changed the financial landscape for institutions and consumers. This report examines the current state of the Affluent market and analyzes Affluent consumers' financial needs, behaviors, and attitudes in the context of a dynamic and rapidly changing environment. To be "Affluent" for inclusion in the **MacroMonitor**'s segmentation requires that a household have either a total annual income of at least $100,000 or total assets, excluding the primary residence, of $500,000 or more. Our analyses are based on eight key populations within the overall Affluent group. Definitions of the two larger groups—Mass Affluent and Millionaires households—are based on total household net worth, with the dividing line at $1 million. The six smaller groups represent populations that we have defined consistently since 1992; they allow us to analyze the financial needs and attitudes of Affluent households in the United States that share fundamental wealth attributes that are predictive of financial needs and reflect a combination of preferences for certain types of assets and their wealth-accumulation/distribution status.

Figure 1 shows the present and recent past distribution of Mass Affluent and Millionaires households in the United States.

Figure 1
TREND IN DISTRIBUTION OF MASS AFFLUENT AND MILLIONAIRES HOUSEHOLDS
(Percent of Households)



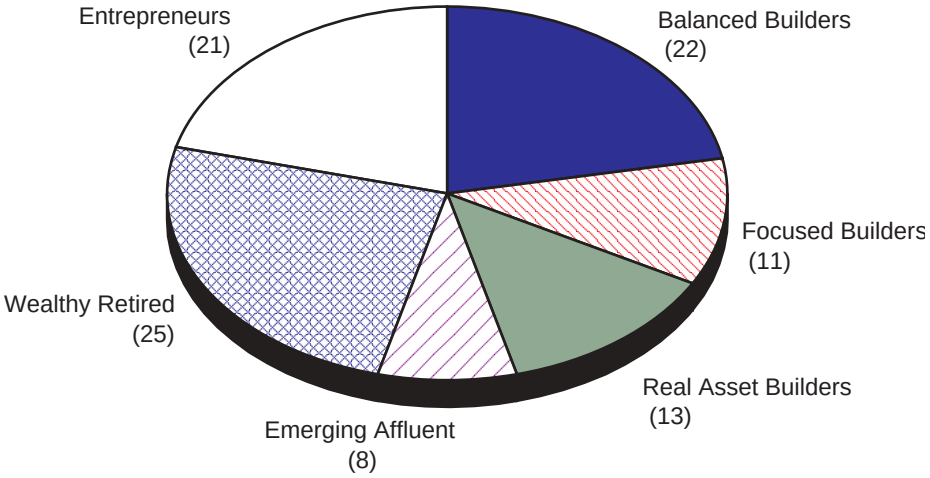
What are some of the forces that drove this dramatic shift in the composition of the Affluent market? How can we gain a better understanding of how consumers' reactions to those defining forces manifest themselves and change the shape of the Affluent population? What are the effects on the behaviors and attitudes of Affluent households as they react to new financial challenges and opportunities? To answer these and other important questions, while developing a meaningful context to advance our understanding of what affluence means in terms of the opportunity to provide financial services to this population, we look at the Affluent population also through the lens of our proprietary segmentation.

The Consumer Financial Decisions (CFD) Affluent Segmentation graphic illustrates and provides definitions for the Affluent population segments that we have been tracking and analyzing for the past decade.

THE CFD AFFLUENT SEGMENTATION

The Consumer Financial Decisions (CFD) segmentation algorithm incorporates demographic, psychographic, life-stage, and behavioral variables to select, cluster, and assess household behavior. It focuses on households with total income equal to or greater than $100,000 or with assets of $500,000 or more (excluding the primary residence). At present, this upscale market comprises 16.5 million Affluent American households. The proprietary model divides the Affluent market into six mutually exclusive household types. We define retired households (under Wealthy Retired) and business owners (under Entrepreneurs) first. We then define the remaining segments on the basis of the value of their primary home and their financial assets.

DISTRIBUTION OF AFFLUENT U.S. HOUSEHOLDS
(Percent of Households)



Total Affluent Market : 16.5 Million Households

- *Balanced Builders* are households with high levels of both real and financial assets. They have financial assets of $300,000 or more, and their home value is $200,000 or more.
- *Focused Builders* hold high financial assets equal to or greater than $300,000 but have home values lower than $200,000.
- *Real Asset Builders* invest primarily in real estate. Their real estate assets are worth $200,000 or more, but their financial assets total less than $300,000.

THE CFD AFFLUENT SEGMENTATION—Concluded

- The *Emerging Affluent* have both a low level of financial assets (less than $300,000) and low home values (less than $200,000).
- In *Wealthy Retired* households, the primary head of household either is retired or is 65 years old or older and works fewer than 20 hours per week.
- *Entrepreneurs* are households in which the household head's primary occupation is the ownership of or partnership in a business or professional practice.

COMPOSITION OF AFFLUENTS BY MACROMONITOR SEGMENTS

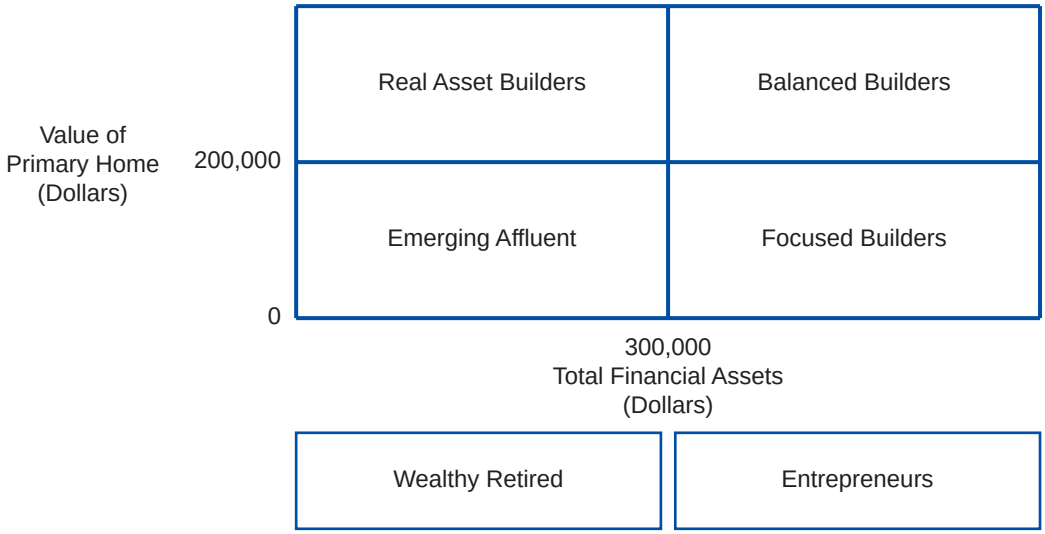
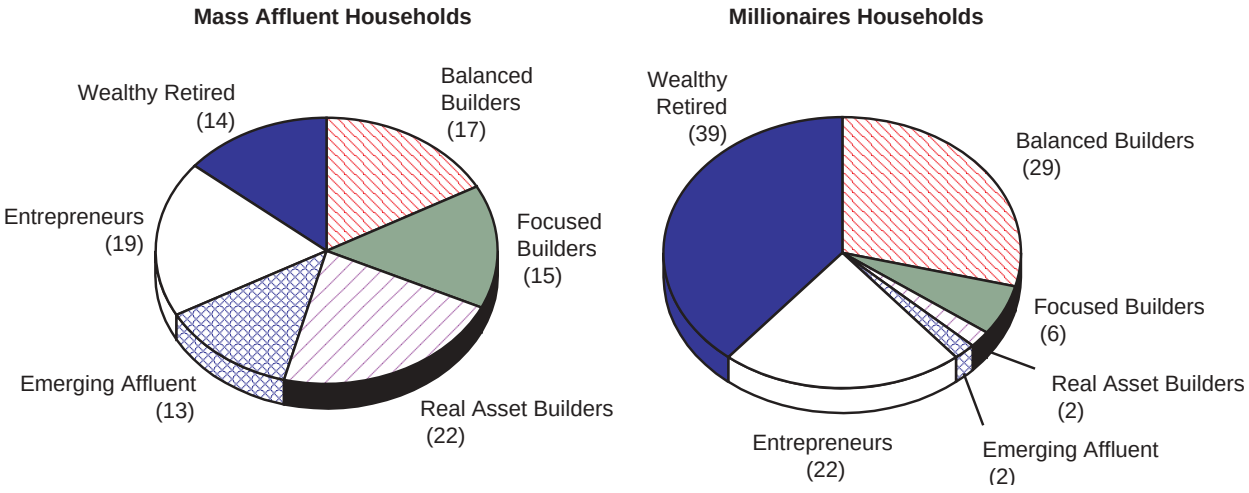


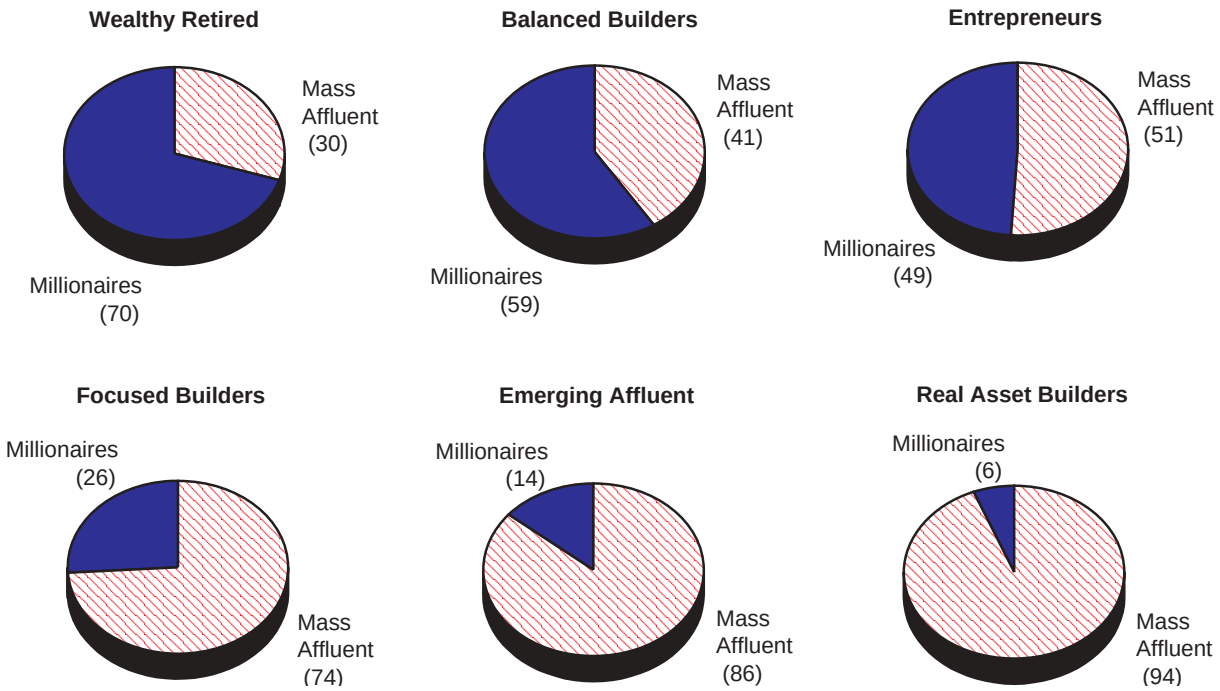
Figure 2 shows how our Affluent segments are distributed in the Mass Affluent and Millionaires populations.

Figure 2
DISTRIBUTION OF AFFLUENT SEGMENTS AMONG MASS AFFLUENT AND MILLIONAIRES POPULATIONS
(Percent of Households)



If one is focusing on the Mass Affluent market, the main focus will be on the households characterized by the Real Asset Builders, Focused Builders, and Emerging Affluent segments because more than 70% of the households in each segment fall into the Mass Affluent group. If, on the other hand, one is pursuing the Millionaires market, the Wealthy Retired, Balanced Builders, and Entrepreneurs segments represent 90% of households that have a net worth of $1 million or more. Those three segments are also well represented in the Mass Affluent population and may represent the best opportunity in terms of growing profitability by an acquisition and retention strategy. Figure 3 puts into perspective the relative shares of each segment that qualifies as Mass Affluent or Millionaires households.

Figure 3
PROPORTION OF MASS AFFLUENT VERSUS MILLIONAIRES HOUSEHOLDS WITHIN EACH CFD-PROPRIETARY AFFLUENT SEGMENT
(Percent of Households)



The fact that all the segments represent opportunities within both the Mass Affluent and the Millionaires groups suggests the complex marketing challenge that the Affluent market represents. The key to unlocking the Affluent market opportunity is a thorough understanding of who these households are financially and how they react to changes in the overall market environment. The events of the past two years offer a unique opportunity for gaining meaningful insight into the behaviors and attitudes of the U.S. Affluent population.