

Matriarchs on the rise



Refined approaches for estate planning and investing

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Author

Kristen L. Kostiw
Portfolio Strategist, UHNW
Kristen.kositw@ubs.com
786-394-2902

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UBS centers of excellence

UBS serves high net worth and ultra high net worth individuals, families and family offices around the world—by delivering the expertise, advice and customized solutions you need from across the firm and around the globe.

The Family Office Solutions Group delivers the entire wealth management offering exclusively to ultra high net worth (\$100M+) and family office clients in a seamless and dedicated manner by providing holistic advisory support and customized solutions. The group brings the best of UBS insight and expertise to our exceptional clients. Whether it’s investing for a legacy that lasts for generations, pursuing successful business ventures or having philanthropic impact, you have the resources all under one roof.

The Advanced Planning Group (APG) consists of former estate planning attorneys with extensive private practice experience and diverse areas of specialization, including income and transfer tax planning, asset protection planning, business succession planning and charitable planning. APG provides comprehensive planning and sophisticated advice and education to UHNW clients of the firm. APG also serves as a think tank for the firm, providing thought leadership, creating a robust intellectual capital library of whitepapers on estate planning and tax topics of interest to the ultra high net worth space.

The Portfolio Advisory Group consists of specialists intensely focused on constructing customized investment portfolios to help address your specific needs. The team’s hallmarks include sophisticated quantitative analysis, research-driven asset allocation and portfolio construction advice tailored to help meet your identified goals and objectives.

Introduction

With so many women in charge of the family wealth, they are frequently responsible for the family legacy. In 2015, women held 51%, or USD 14 trillion, of personal wealth in the United States, and this number was expected to grow to USD 22 trillion by 2020.¹

There are several demographic tailwinds that will continue this trend. First, 40% of women make more money than their husbands. This number is substantial because it is up almost four-fold since 1960.¹ Second, women’s workforce participation continues to grow and they now hold 52% of management, professional and related positions in the US. Lastly, there is a strong pipeline of talent as women make up the majority of both graduates from undergraduate programs and advanced degrees.² In addition, there is a high likelihood that women will end up managing their estates by themselves at some point in time because of two sobering statistics:

- Women in heterosexual relationships outlive their husbands by five years.
- The divorce rate continues to be over 50% and is rising for couples over 50 years old. (*Own your worth*, 2018.)

As investors, women can benefit from financial advisors’ increased focus on the ways in which “standard” advice may or may not apply. As the keepers of the senior generations’ memories and desires, matriarchs can use the estate planning tools available to implement lifelong goals.

Executive summary

Maximizing a family’s chances of success

Careful estate planning is an ongoing exercise. By using the set of tools and strategies available, you can continually fine-tune your estate and legacy planning. The tools include personal estate and philanthropic planning, exercising powers over trusts, and making tax and financial decisions. Thoroughly reviewing your family’s situation can uncover new opportunities to achieve long-held goals.

A distinct approach to investing

Women are increasingly overseeing their families’ wealth. Yet they value a more distinct approach to investing than men. As women build businesses, accumulate wealth and inherit assets, they are demanding a new way of investing that’s longer term and more closely matched to their financial and personal goals. UBS Wealth Way offers an effective framework for investing based on three strategies: Liquidity. Longevity. Legacy.³

¹ *Breadwinner Moms*. Pew Research Center (2013).
² Corley, J. W. *The Women’s Leadership Gap*. Center for American Progress (2017).

³ UBS Wealth Way is an approach incorporating Liquidity, Longevity, Legacy, strategies that UBS Financial Services Inc. and our Financial Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different time frames. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment. Time frames may vary. Strategies are subject to individual client goals, objectives and suitability.

Estate planning for matriarchs

Matriarchs have a variety of tools to make their estate planning more effective. They can take strategic actions with respect to existing trusts, review state income tax planning, embrace flexibility-based drafting for wills, consider future giving and work with loved ones to create an enduring philanthropic plan. All of these actions can help implement goals both during life and as part of a legacy.



Women may carefully calibrate their estate planning to achieve goals. They have an extensive tool set that allows them to anticipate a range of possibilities.



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Care and feeding of long-term trusts

Trusts are not always set in stone. Many can be adapted and optimized over time to maximize wealth transfer and suit family circumstances.



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State income tax efficiency (to Florida or not to Florida?)

Moving to a sunshine state with low taxes can be tempting but requires attention to detail to make it work.



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Planning ahead for flexibility

When drafting wills and trusts it's possible to make them flexible in a range of areas that leave options open down the road.



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Potential additional giving

For a number of reasons, it might make sense to make additional gifts sooner rather than later.



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Philanthropy—incorporating the past and looking to the future

Talking to the family fosters a smooth path for defining a philanthropic legacy.

Care and feeding of long-term trusts



Many families accumulate a number of trusts over a lifetime. Some of these reflect circumstances and decisions from long ago. Therefore, certain provisions may no longer be appropriate.

Fortunately, a trust is not always set in stone. The agreement itself, and/or default state laws, can allow for many aspects to be changed and optimized. Smart decisions may increase total wealth transfer. Changing family circumstances may also be addressed.

Here are some common opportunities:

Addressing the needs of younger beneficiaries. Many older trusts were drafted to make principal payouts at the ages 25, 30 and 35 or a similar pattern. However, it may be possible to extend a trust through either the trust instrument or the state law governing the trust. Over time, trusts lasting for the beneficiary's lifetime have become more popular. They may provide increased creditor protection (including against divorcing spouses). Additionally, they may allow generation-skipping transfer (GST) tax-exempt assets to continue to be protected against transfer tax for future generations.

It may also be possible to create "silent trusts" so that younger beneficiaries do not become aware of the assets held for their benefit until later in life.

State income tax planning. Trusts are sometimes based in states with high taxes but it may be possible to move them elsewhere. Different states have different standards for taxing income earned by a trust. For example, some states tax trust income based on the residency of the grantor, whereas other states tax the trust income based on residency of the trustee, or place of trust administration. These characteristics may change over time, so a trust that had to be in a particular high tax state may no longer need to be located there. Take New York as an example. An "exempt resident trust" is a New York trust but may avoid New York state income tax if there are no New York trustees, no New York property and no New York source income. Review the trust's assets, beneficiaries and fiduciaries

with your counsel to see if state income tax efficiencies can be achieved.

Planning for grantor trusts. A grantor trust is a trust that, due to certain provisions in the document, is not considered a separate taxpayer from its grantor—meaning that the trust's income, deduction, credit, etc. all flow up to the grantor's income tax return. Certain grantor trusts may provide the ability for a grantor to substitute or "swap" assets from her estate for other trust assets. If the trust contains low basis assets that could benefit from a step-up at death, swapping any such assets for higher basis assets might make sense.

A grantor could also swap assets with her trust to optimize liquidity. If the trust contains liquid assets (which might not possess as much appreciation potential), and the grantor has illiquid assets she does not need (and/or needs liquid ones), a swap could benefit both parties. Grantors should also review the



burden of paying the trusts' income taxes. If that burden is too high, you may consider: (1) being reimbursed for taxes in a particularly high-income year, which is only possible if the trust or state law permits this to occur, or (2) terminating grantor trust status permanently. Both options are frequently allowed under trust agreements. Paying a trust's income taxes is a good way to leverage the estate tax exemption that was used to fund the trust, because it allows the trust to grow income tax free, which effectively transfers additional wealth to the trust's beneficiaries without making a taxable gift. However, it is important to review over time whether the grantor continuing to pay the trust's income tax liability still makes sense for a grantor and her family.

Fiduciary management. It may be possible to subdivide the role of trustee into different functions such as one for distributions, one for administration and one for investments. However, not all states allow that type of division of fiduciary roles.

Simplification. It may be possible to merge certain trusts, if the trusts are for the same beneficiaries and have relatively similar terms. This could help keep the family's overall planning and administration more manageable. Another idea: create a family entity in which many family members and/or trusts invest. This would allow for a larger investment pool—creating the opportunity for cheaper investment costs and the ability to invest in instruments requiring higher minimum funding, as well as easier diversification. A

family entity also allows for multiple family trusts to share proportionately in capital appreciation (rather than investing differently and winding up with differing asset values). Finally, this approach permits the manager of the entity to control the flow of income from the investments to the trusts and/or beneficiaries. If the grantor initially funds a portion of the family entity, she could make gifts of minority interests in the entity, which might benefit from minority and marketability discounts for gift tax purposes. (The grantor retaining any such interests in her own name may present certain estate tax risks.)

Investment opportunities. It's important to continue to leverage the original use of the gift tax exemption by, for example, purchasing appreciating assets within

trusts, allowing trusts to take advantage of business and investment opportunities, and reviewing asset location as between the grantor and the trust. In general, and assuming the grantor has sufficient cash flow for her own needs, the goal is for stable assets to be housed in the grantor's estate, and assets with significant growth potential to be owned by irrevocable trusts.

Keeping the various tools and opportunities in mind can help ensure that a well-drafted plan is not sidetracked over time. Instead, it can be adapted to a variety of different situations, even those that may not have been originally anticipated.



State income tax efficiency (to Florida or not to Florida?)

Many seniors feel the pull of moving to a state with no income or estate tax. It is important to understand the magnitude of effort required to fully break ties with the home state. For example, New York's definition of a resident includes both a "statutory resident"—a person who maintains a home in New York and spends 184+ days there in a year—and someone whose "domicile" is New York.

Domicile is the place that you intend to come back home to after you leave it. The abandonment of a domicile is a feeling in your heart that is demonstrated by outward acts, including but not limited to: the relative size of homes in the two states; where holidays are spent; where prized possessions are located; and more. Additionally, it is not uncommon for someone who has spent her early retirement years in Florida to eventually decide that she would prefer to be closer to her children and grandchildren. While such a woman would have enjoyed saving income tax during her years in Florida, there might not be any estate tax savings if she moved back to New York. This is because both New York estate tax and federal estate tax may be due at her death.

Planning ahead for flexibility

Modern will and trust drafting incorporate a host of flexibilities that can provide options down the road. As you think about the financial legacy that you can leave your loved ones, consider the following:

Powers of appointment. A will or a revocable trust that creates long-term trusts to hold assets after the grantor's death will include provisions for distribution of those assets both during a beneficiary's lifetime and upon his or her death. Some trust provisions also provide the beneficiary with a "power of appointment." This power allows a trust beneficiary—either during life or, most commonly, upon death—to divert trust assets from where they would otherwise go under the terms of the trust. A spouse could give such a power to the surviving

spouse, or to children as to trusts for their benefit. The power may be extremely broad (for example, a beneficiary may appoint assets to anyone other than him- or herself, creditors, his or her estate or its creditors). But the power is more typically limited to descendants and/or charity. Also, children are sometimes given a power to appoint assets to their surviving spouses, frequently an income interest with limited principal access only and almost always in trust form with the remainder to the couple's children.

5x5 power. This power over a testamentary trust allows a spouse or other beneficiary to withdraw the greater of USD 5,000, or 5%, of trust assets annually. It decreases the creditor protection as to the portion of the trust that may be withdrawn,

but can allow a trust beneficiary to feel in control of his or her own finances.

Remove/replace power. Allowing a trust beneficiary the power to hire and fire the trustees can similarly provide a feeling of control, and allow for changes in the trusteeship when necessary to address family and individual dynamics. If you are not comfortable giving a beneficiary such a power, you could award it to a "trust protector" instead. Alternatively, you could allow the beneficiary to exercise the power, but place limits on its use (for example, it can be exercised only once every five years, or the beneficiary can only name a professional trustee, such as a bank, attorney or accountant).

Powers under others' estate planning.

If there are trusts for your benefit under a predeceased spouse's will, you may have powers of appointment. You may wish to review with counsel whether it makes sense to exercise them in light of your current situation. For example, you could use a power of appointment to address issues that have arisen since your spouse's death. Assets might be passing outright to a descendant who is showing a propensity for poor financial decisions, and a power of appointment could instead create a trust for that individual. If there are aspects of a spouse's planning that no longer seem desirable, it is worth reviewing what possibilities for change might be available.



Potential additional giving

The estate, gift and GST tax exemptions are presently USD 11.7 million per person, but are scheduled to decrease to USD 5 million per person (inflation-indexed) at the end of 2025. Individuals who make gifts before that date will not be penalized or owe gift or estate tax on those gifts, even if they use exemptions that are later reduced. It is also possible that Congress might pass legislation reducing exemptions ahead of the planned sunset date. Therefore, if assets and cash flow permit, it might make sense to make gifts before any decrease in the exemptions. Moreover, even if exemptions do not decrease, a gift can move appreciation out of the grantor's estate and potentially avoid a state-level transfer tax. Where possible, gifts can be made to pre-existing trusts to avoid adding additional complexity to the family's estate planning.

When considering future gifting, it is also important to be aware of any gift tax exemption that may have been inherited from a predeceased spouse under the "portability" rules. This exemption is used before your own.



Philanthropy—incorporating the past and looking to the future

Matriarchs can influence the future of a family’s community engagement through their own philanthropic involvement and their communication with loved ones.

Matriarchs may have been supporting charitable causes as part of a couple or coordinated senior generation plan for decades. How they have communicated to younger generations varies among families. Some younger descendants may have few connections to the causes with which their elders were

involved. It is important to take time now for more specific conversations about the organizations that have been supported through financial efforts, volunteering and more. Educating about an organization’s mission and results—and the potential impact of a sudden loss of support—might persuade a descendant to keep giving to the same nonprofit in the future.

However, these should be two-way conversations. By listening to her children and grandchildren, a

matriarch may gain insight into how loved ones are likely to conduct the family’s philanthropy in the future. She may learn of new causes as well as new philanthropic tools, such as program-related investments for foundations. Working together, a donor and her descendants can create a smooth path for new family members to be involved in and eventually define the family’s philanthropic legacy.

Final thoughts

Matriarchs have the pleasure, and the responsibility, of communicating a life’s worth of lessons to the family. They also have the tools to maximize a family’s chances of success on both financial and personal levels. These tools include personal estate and philanthropic planning, exercising powers over trusts, and making tax and financial decisions. A thorough review of the family situation can uncover new opportunities to achieve long-held goals.

Investing for matriarchs

When it comes to investing, women have different preferences and behaviors than men. They have a unique set of challenges and research has shown that a deep understanding of their investment goals and a customized approach will help create a meaningful experience.⁵ A lot of the age-old growth investing models don't resonate with women because they tend to be less concerned about beating an investment benchmark. Consequently, there is an opportunity to set up a comprehensive framework to help matriarchs create a portfolio that resonates with them and establishes a legacy that is aligned with their goals and objectives.



Women have different investing preferences and behaviors than men. This requires a more customized and distinct approach to investing.



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Understanding differences

Research shows important differences in the way women think about and approach investing.



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Liquidity

A Liquidity strategy brings peace of mind, providing the stability to meet short-term cash needs during periods of market stress.



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Longevity

Women live longer than men. They need to equip themselves to invest accordingly.⁴



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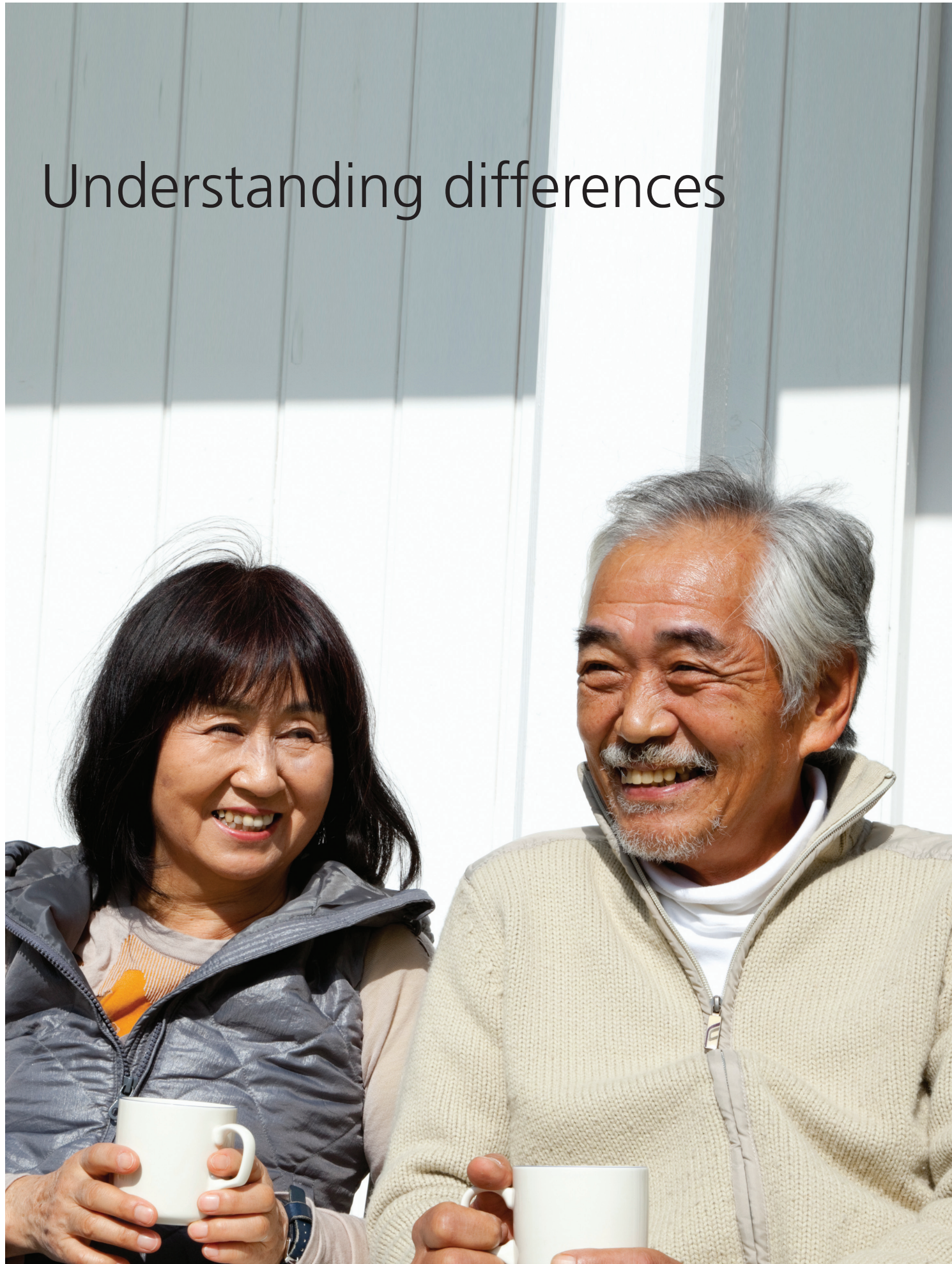
Legacy

Good communication strengthens families' relationships and helps to preserve wealth for the future.⁴

⁴ Time frames may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

⁵ Zakrzewski, A. et al. *Managing the Next Decade of Women's Wealth*. Boston Consulting Group (2020).

Understanding differences



While many wealth management firms and financial advisors believe that men and women have the same financial needs, research shows that a more customized approach may serve women better.⁵ When developing an investment framework, it's vital to understand how women view financial success. For most women, financial success is a means to live and improve their life. A recent PIMCO survey showed that women rank health and wellness on par with financial longevity.⁶ By contrast, male investors typically prioritize market outperformance as their primary goal.⁵

There also tend to be marked differences between men's and women's investment decision-making and behavior. Three behaviors that tend to differentiate men and women from an investment standpoint are: confidence in investing abilities, portfolio risk tolerance and financial discipline. As highlighted in UBS's *Own Your Worth*, research shows that "women consistently underestimate their own abilities while overestimating what is required to be financially involved." Women's lack of confidence in their financial literacy and the belief that it is too complicated or that they don't know where to begin are some of the primary reasons women invest less than men.⁷ Education is key to overcoming this hurdle. Financial advisors who take the time to provide comprehensive explanations can help women become more comfortable with investing.

While men and women are both willing to take risk, women are more comfortable taking calculated risks that are based on the certainty

of achieving their goals. Women take a more "fact-based" approach, however; this can make them less willing to invest in the capital markets.⁵ Higher cash balances and an over-allocation to low risk investments, including fixed income, can dampen returns. Thoughtful financial planning can help women take an appropriate amount of risk aligned with meeting their goals.

Lastly, on average women are more disciplined investors than men; they trade less and are less likely to try to time the market.⁸ Women tend to stick to a long-term plan, which discourages buying and selling assets opportunistically. By contrast, men trade more over time, which detracts from their portfolio returns, with the result that women's investment portfolios often outperform men's, assuming the same level of risk.⁹ These findings are supported by a 2017 study by Fidelity, which found that women outperform men by 40 basis points by analyzing clients' data.¹⁰

⁵ Zakrzewski, A. et al. *Managing the Next Decade of Women's Wealth*. Boston Consulting Group (2020).

⁶ Shanahan, E. R. *Women, Investing and the Pursuit of Wealth-Life Balance*. PIMCO (2019).

⁷ *Own your worth*. UBS (2018).

⁸ Odean, T., Barber, B. M. *Boys will be boys: Gender overconfidence and common stock investment*. Quarterly Journal of Economics (2001).

⁹ *Taking Action*. UBS (2017).

¹⁰ *Who's the Better Investor: Men or Women?* Fidelity (2017).

Our UBS Wealth Way approach can provide a robust framework for managing capital calls and your entire portfolio.

UBS Wealth Way

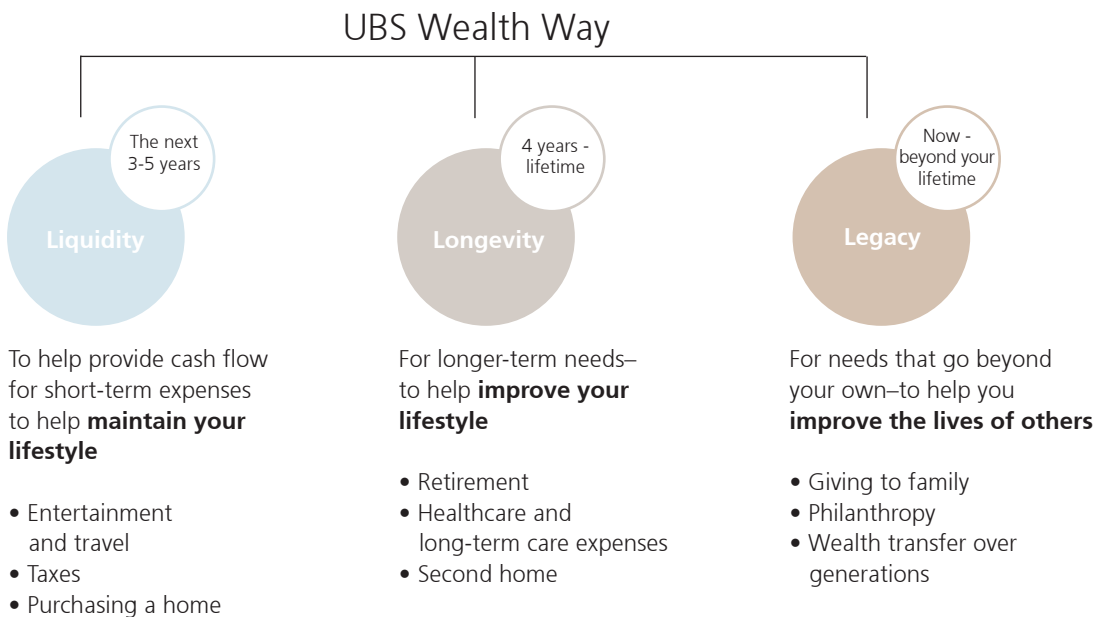
Given what we know about the differences between men and women, it is important to have a way to address these differences. UBS Wealth Way can be an effective approach to help prioritize and pursue personalized goals and objectives.¹¹ Building from a deep understanding of your

family’s goals and priorities, UBS Wealth Way helps you to focus on what’s really important. This allows your Financial Advisor to help organize your financial life into three key strategies:

- Liquidity to help provide cash flows for short-term expenses,

- Longevity for longer-term needs and
- Legacy for needs that go beyond one’s own.

This framework allows women to define risk and returns based on the financial and personal goals that are uniquely important to them.



Liquidity

Having a Liquidity strategy offers peace of mind, as it provides the stability for a portfolio to meet short-term cash needs during periods of market stress.¹² The goal is to put aside enough resources to help you meet three to five years’ of spending. Allocating money to safe, liquid investments—and setting aside some borrowing capacity for a rainy day—can

help you maintain your lifestyle regardless of short-term market conditions, and allows you to avoid locking in otherwise-temporary losses in the assets earmarked for your long-term spending needs. For women who perceive and value wealth as a source of security, this liquidity can provide them with the confidence to take more calculated risks to pursue their long-term goals.¹³

Longevity

One of the most publicized facts about life expectancy is that on average women live five years longer than men.¹⁴ In the US, women’s life expectancy is 6.7 years longer than men’s. While this gap is narrowing, even a few years of longer life can impact a women’s wealth.¹⁵ What’s important to recognize is that many investors underestimate how long they will live, which can lead to underestimating how much saving and investment growth is needed in their portfolio to support their lifestyle after retirement. In most developed countries, longevity data suggests it is prudent to plan for at least one partner, typically the woman, to live to 100.¹⁵ And regardless of perceptions on aging, building sufficient funds can also help to establish a legacy.

any changes. The discovery process and goal setting helps to create an effective purpose-based Longevity strategy that is designed to maximize your ability to achieve financial success.¹² Every woman is different. One may choose to prioritize growth in exchange for the possibility of reducing spending needs in the future. Another may choose to prioritize a lower likelihood of reducing spending, and would prefer to potentially leave a smaller legacy. When constructing a portfolio, these are all questions that should be discussed. From there, your Financial Advisor will help develop a plan based on the amount of personal risk you are willing to take, and what your family prioritizes.

One of the first steps in UBS Wealth Way is to establish deep understanding of your family’s priorities. Discussing your financial and non-financial goals with a Financial Advisor will give you a more accurate assessment of your cash flow needs. Identifying these goals by yourself is far more challenging and speaking with a Financial Advisor can help ensure you think through your goals and needs comprehensively. What’s more, as goals and objectives are likely to change throughout life, Financial Advisors should be informed of

A Longevity strategy should focus on a well-diversified risk-adjusted portfolio. Longevity strategy resources are often invested across multiple account types, such as IRAs, 401(k)s, and Health Savings Accounts, and are often invested in many types of investments. It is important to educate yourself to make sure you are comfortable with all the different options, especially those that are unfamiliar. Notably, a UBS survey showed that three-quarters (74)% of women don’t consider themselves very knowledgeable about investing.¹⁶ Learning about investment options results in more possibilities to maximize return for a given level of risk.

¹² Time frames may vary. Strategies are subject to individual client goals, objectives and suitability.
This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.
¹³ *Taking Action*. UBS (2017).
¹⁴ *Own your worth*. UBS (2018).
¹⁵ Carbone, A. *Modern Retirement: What does “life expectancy” actually mean*, UBS (2019).
¹⁶ *Own your worth*. UBS (2018).

Legacy

The Legacy strategy is designed for needs that go beyond one’s own for the benefit of others, such as leaving money for future generations. Women—and matriarchs in particular—have the potential to shape that legacy. It can mean feeling confident that loved ones are secure and content, and having the ability to make a positive impact on society. A Legacy strategy often encompasses both financial goals, such as passing on wealth to the next generation, and non-financial goals, such as donating to a charity or setting up a philanthropic vehicle.¹⁷

Matriarchs are likely to be the stewards of a family’s Legacy strategy. They may place more value on leaving a legacy to their loved ones than men, as they view wealth as a way to provide security for future generations.¹⁸ Because of a long time horizon and few short-term cash flow needs, you can generally afford to implement a more aggressive and less liquid investment approach for the Legacy strategy, when compared to the Longevity strategies. This, in turn, can allow you to get a higher level of growth from your Legacy strategy assets, and increase the amount of after-tax wealth you’re able to give to future

generations and to philanthropic interests. Depending the size of your Legacy strategy, it could be distributed among multiple entities, including but not limited to trusts, educational accounts, donor-advised funds or foundations.

The conversation about your legacy sits between two topics most people avoid—death and money—which is why only just over half (54%) of clients have discussed their inheritances with their heirs.¹⁹ The millennial generation is expected to receive USD 30 trillion through wealth transfer in the United States. Just as women’s wealth is growing fast, millennials’ wealth is expected to accelerate in the coming years.²⁰ As matriarchs leave money to the next generation, involving them early has the advantage of making them actively involved in the family’s legacy. Women are more amenable to including the next generation in discussions regarding estate planning, finances and philanthropy. Such discussions help to strengthen families’ relationships and, hopefully, create positive dynamics to preserve wealth far into the future.

Final thoughts

Gender biases may be ingrained from an early age and create dynamics that play out in the way men and women approach investing. Men are often taught to be more aggressive and view wealth as a source of abundance, whereas women are taught to budget and be careful with money.²¹ Matriarchs have an opportunity to safeguard the financial well-being of their families and lead by example when it comes to investing. Closing the gender gap in investing will be one of the

key ways to close the gender wealth gap. Women now own the largest emerging pool of wealth. They are better educated than ever before, start more businesses, accumulate more wealth and inherit more assets. As women increasingly oversee their families’ wealth, a more customized approach is important. UBS Wealth Way offers matriarchs a framework to guide decisions and tailor a portfolio aligned with their financial and personal goals now and into the future.

¹⁷ Time frames may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.
¹⁸ *Taking Action*. UBS (2017).
¹⁹ Waring, J. *Legacy Strategy: How to leave a meaningful inheritance*, UBS (2019).
²⁰ Haefele, M. *Millennials—The global guardians of capital*, UBS (2017).
²¹ Gold, M. *Helping Women Overcome Society’s Outdated Messages on Money*, The New York Times (2019).

Conclusion



Women are quickly assuming greater wealth and greater responsibility within families than at any other point in history. But they have different objectives and instincts than men. They can make a difference on their own terms. They have both the wealth planning tools to fashion legacies to their own visions, and the investment options to fashion portfolios to their specific requirements. The net result: greater confidence in shaping their estate planning and investing according to their preferences and values.

For further reading

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Authors

Kristen L. Kostiw

Kristen is responsible for articulating and delivering comprehensive, research-driven asset allocation and portfolio strategy advice to Financial Advisors and their ultra high net worth clients. She conducts detailed portfolio review sessions with private clients to understand their wealth structure. She seeks to develop customized strategic and tactical asset allocations implemented with the most suitable products for each client.

Prior to joining the Portfolio Advisory Group, Kristen worked on the Premier Taxable Fixed Income desk. Previously, Kristen worked for Morgan Stanley Wealth Management on the UHNW Taxable Fixed Income desk. She was also involved with the integration of Smith Barney financial advisors onto the Morgan Stanley platform.

Kristen received a B.S. in finance and a B.A. in economics from Villanova University. She currently holds the Series 7, 63 and 66 securities licenses.

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