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Affluence in America:
America's Changing Wealth Landscape

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Based on the latest comprehensive data from Nielsen's Claritas Services, this special report examines America's changing wealth landscape, describing the emergence of a "New Mass Affluent" class and exploring how financial services companies can better serve their varied consumers.

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P$YCLE Segment—12 Jumbo Mortgagees
There's money to be found in Jumbo Mortgagees, a collection of Baby Boom families living in affluent suburban-fringe areas. These 45- to 54-year-olds exhibit a fondness for mutual funds, securities and retirement savings. They also enjoy luxury lifestyles, filled with upscale sports, boutique shopping and media that range from NPR and oldies radio to business and airline magazines.

Executive Summary

In recent years, a new segment of wealthy Americans has emerged that represents 19 percent of all U.S. households. Known as the New Mass Affluent, they typically were born during the post-war baby boom and grew up in middle-class households, earning rather than inheriting their money. For the financial services industry, they represent a significant and often underserved market, especially now as they enter a pivotal period when many are rolling over 401(k) funds into retirement accounts and anticipating inheritances.

Based on an analysis by Nielsen's Claritas Services, which specializes in target marketing solutions, the New Mass Affluent consist of eight distinct groups, each with its own lifestyles, media patterns and preferences when considering financial services. But these high-earning households can be difficult to find and even harder to sell to. Many live in "second cities" beyond the major metros that have been the traditional centers of American wealth. And thanks to an explosion of financial media, the New Mass Affluent are sophisticated consumers who often tune out traditional marketing strategies. Perhaps most challenging of all, many simply don't think of themselves as rich.

The diversity of wealthy Americans makes segmentation essential for marketers hoping to reach them. Segmentation and survey data from Nielsen can help define the New Mass Affluent's eight consumer segments and provide strategies for effectively targeting them. By profiling customers according to unique segments, financial services companies can successfully match their products, services, channels and messages to the specific needs—and dreams—of New Mass Affluent households. Marketers will need to use such targeted solutions to find and win over these under-the-radar wealthy.

Introduction

Affluence in America brings to mind Palm Beach playgrounds, Telluride ski vacations and first-class plane seats (when the company jet just won't do). But the last two decades have spawned another class of wealth whose members aren't typically found driving Rolls Royces or summering in Europe. This new crop of wealthy Americans were born of the post-war boom, raised in middle-class suburbs and benefited from college educations and years of economic prosperity during the bull market of the 1990s. Today they're the empty-nesters converting their kids' old rooms to home gyms, the well-heeled shopping at Costco and the workaholics fiddling with their BlackBerry® on the express commuter train.

Call them the New Mass Affluent. An analysis of Claritas financial data defines this emerging group as households with incomes above $100,000 and income producing assets of $100,000 or more. Although earning $100,000 may seem modest compared to the salaries of the big city elite, that income still puts these households in the top 19 percent of all Americans—earning more than double the national median income of $49,280. They collectively own more than $22 trillion in assets. And their numbers are rising: some 22 million households now earn over $100,000, a 23 percent increase from a decade ago after adjusting for inflation. That's more higher-earning Americans than ever.

But while the New Mass Affluent may be all around us, they are often underserved by financial institutions that have not recognized the changing wealth landscape. Because many segments make up this new wealth class, marketers find themselves challenged to reach these splintered audiences. They're also discovering that the New Mass Affluent are sophisticated customers who often prefer to manage their own money through financial websites like The Motley Fool and TheStreet.com. In addition, the New Mass Affluent's growing prosperity has cushioned them, more than most, from the economic slowdown evident in early 2008—making them more desirable to financial companies. And, as a result of the Gramm-Leach-Bliley Act of 1999, which opened up competition among banks, brokerages and insurance companies, the battle for a share of their wallets has become fierce.

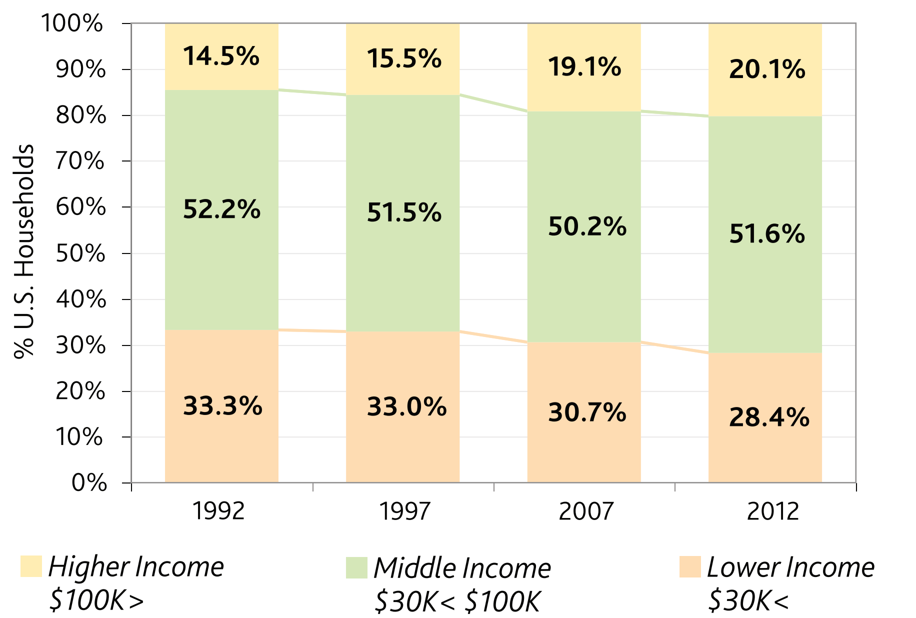
Now more than ever, financial services companies need a robust understanding of the New Mass Affluent class—who they are, where they live, what products they prefer and how best to market to them. Using both industry data and data from Nielsen's Claritas, such as P$YCLE®, a financial segmentation system, the annual Market Audit® financial survey and Financial CLOUT®, a database containing market penetration and dollar balances for more than 100 financial products, researchers analyzed the consumer segments that comprise the New Mass Affluent. To win over this group, marketers will need to develop new financial products and services, differentiated messages and varied channels to reach these under-served customers. But with the prize being the largest affluent group in America, the opportunities for financial services companies cannot be ignored.

The Rise of the New Mass Affluent

The last decade has been especially good to America's high-earners. When defining the New Mass Affluent, Claritas analysts first segmented Americans into three broad categories based on earnings: higher-income households that earn over $100,000 a year; middle-income households earning between $30,000 and $100,000; and lower-income households that earn under $30,000. Focusing on higher-income households, our research confirms what the media has been reporting: while median household income has moved sluggishly over the last decade, more people are joining the affluent class than ever before. Since 1997, median household income increased a modest 6.5 percent to $48,496 in inflation-adjusted dollars. By contrast, the number of households with an annual income of more than $100,000 jumped 23 percent to 21.7 million. No other income group grew as quickly.

In fact, both middle-income and lower-income households experienced a slight decline as a percentage of U.S. households. Contrary to reports citing a shrinking middle class, the number of middle-income Americans earning between $30,000 and $100,000 has actually remained relatively stable for 15 years—shrinking only slightly from 52 percent to 50 percent of the total population, or 57.1 million households. At the same time, the number of lower-income households earning under $30,000 in inflation-adjusted dollars has slowly declined seven percent to 34.8 million households. With the number of higher-income households increasing and lower-income households decreasing, America's household-income landscape is actually improving.

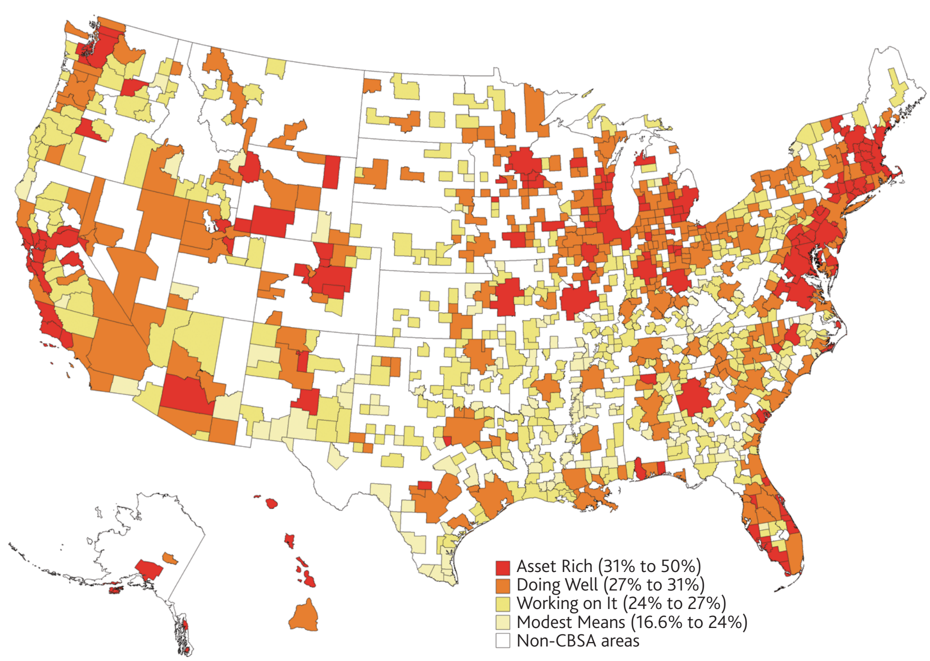
Rise of the New Mass Affluent



1. Source: Claritas Update Demographics™; income in inflation-adjusted dollars

But after a lifetime of quietly accumulating assets, the New Mass Affluent market is entering a pivotal period. With the oldest Baby Boomers turning 62 years old this year and starting to enter retirement, a small army of bankers, stock brokers and financial planners hope to profit as retirees start rolling over their assets from company 401(k) plans—more than $16 trillion, according to the Bank Administration Institute, a trade group for the banking industry. Add in the estimated $7.2 trillion in wealth that Boomers are projected to inherit over the next 50 years, as reported by the Boston College Center on Wealth and Philanthropy, and savvy financial marketers are gearing up for the greatest transfer of wealth in U.S. history.

Percent of Households with $100K+ Investable Assets, by CBSA



2. Source: Claritas Income Producing Assets, 2007

Top Markets for Households with $100K+ in Income Producing Assets

	CBSA Name	2007 HHs	% Penetration	Penetration Index
	Average Penetration Index			**100**
1	Los Alamos, NM	7,878	50%	165
2	Bridgeport-Stamford-Norwalk, CT	332,643	39%	131
3	Torrington, CT	75,778	38%	127
4	Washington, DC-VA-MD-WV	2,029,059	38%	126
5	San Jose-Sunnyvale, CA	593,262	38%	126
6	Naples-Marco Island, FL	135,886	38%	125
7	Oxnard-Thousand Oaks-Ventura, CA	262,246	38%	125
8	Gardnerville Ranchos, NV	19,761	37%	124
9	Trenton-Ewing, NJ	133,646	37%	122
10	Juneau, AK	11,865	37%	121
11	Barnstable Town, MA	97,697	36%	120
12	Truckee-Grass Valley, CA	40,724	36%	119
13	Napa, CA	48,928	36%	119
14	Lexington Park, MD	36,511	36%	118
15	Minneapolis, MN-WI	1,237,926	35%	117
16	Monroe, MI	59,522	35%	117
17	Hartford-West Hartford, CT	467,253	35%	116
18	Vallejo-Fairfield, CA	138,238	35%	116
19	Santa Rosa-Petaluma, CA	178,597	35%	116
20	Easton, MD	15,571	35%	116

3. Source: Claritas Income Producing Assets, 2007; index of 100 = U.S. average (30%)

But capturing these New Mass Affluent assets will not be easy. Whereas the well-off were once reliably concentrated in old money enclaves near the nation's big cities and in Sunbelt golf communities, today's prosperity is more dispersed. According to Claritas' analysis of high-asset households, the New Mass Affluent are increasingly found beyond the nation's large metros and moving to smaller, exurban markets beyond the nation's beltways. These top-ranked pockets of affluence include a number of "second cities" like Los Alamos, N.M., Torrington, Conn., and Monroe, Mich.—places noted for both livability and affordability. These communities are home to newly-retired or quasi-retired Americans who want to be connected to a big city without having to live there.

To map America's new communities of wealth, our research identified households that own more than $100,000 in Income Producing Assets (IPAs). These are the customers coveted by financial institutions because, unlike homes, cars or stamp collections, IPAs can readily be used to invest in big-ticket financial products. Using IPA data in 938 CBSAs (Core Based Statistical Areas), which includes both metropolitan and smaller "micropolitan" areas, analysts found that the nation's 20 highest-asset markets included such unlikely places as Trenton, N.J. (thanks to pockets of gentrification), Easton, Md., (a small town rapidly evolving into a retirement community) and Juneau, Alaska (a thriving state capital). Unlike traditional power centers like New York and Chicago, where residents possess lofty incomes and lavish homes, these high-IPA hotspots skew older than average, having attracted many Baby Boomers still adding to their nest egg and active retirees who haven't begun to crack theirs.

New Mass Affluent Segments

Segment Number	P$YCLE Segment	Description	Wealth according to Income Producing Assets	HH Income $200K+ % Pen	HH Income $200K+ Index	Average HH Income Average	Average HH Income Index
01	The Wealth Market	Millionaires	$500,000+	23.0	823	$178,344	268
03	Business Class	Wealthy Older Mix	$500,000+	16.4	589	$122,963	184
05	Power Couples	Midscale Mature Couples	$500,000+	15.9	571	$118,703	178
07	Family Fortunes	Wealthy Middle-Age with Kids	$500,000+	26.8	959	$122,222	183
08	Retiree Chic	Upscale Older Couples	$100K-$499K	11.7	419	$97,164	146
09	Big Spenders	Wealthy Middle-Age with Kids	$100K-$499K	15.3	548	$105,383	158
12	Jumbo Mortgagees	Upscale Middle-Age Mix	$100K-$499K	10.1	362	$87,937	132
15	Prosperous Parents	Upscale Middle-Age with Kids	$100K-$499K	12.4	444	$96,502	145

4. Sources: P$YCLE and Income Producing Assets, 2007; U.S. average for $200K+ income = 2.8%; average U.S. HH income = $66,670
Order of affluence based on combination of income and investable assets

And it makes little difference whether wealth is defined as high assets or strong earnings. A map of households earning over $100,000 a year is nearly identical to the map of heavy asset-owners. While some marketers hope to discover hidden wealth by targeting consumers with high assets or strong earnings, this analysis shows that the correlation between income and assets is undeniable: The New Mass Affluent possess both fat paychecks and healthy bank accounts.

P$YCLE Segment—01 Wealth Market
Home to the richest addresses in the nation. Consisting of suburban couples over age 55, most of the households boast more than $1 million in income producing assets. Residents are known for splurging on foreign travel and cultural events as well as hiring a small army of financial managers, estate planners and full-service brokers—the better to accumulate even more assets.

The Rich Are Different—From Each Other

F. Scott Fitzgerald had it only partly right: The rich aren't just different from the rest of us, they're different from each other as well. According to P$YCLE, the segmentation system that classifies households into 58 types based on demographics and financial behavior, eight distinct segments report both earnings and assets in excess of $100,000 to make up the nation's New Mass Affluent. However, these consumer types are very different from each other in terms of demographics, life stage, financial attitudes and—most important to financial institutions—preferences for products and services.

The top-ranked segment, dubbed *The Wealth Market*, most closely resembles the traditional portrait of old money. Filled with suburban couples over 65 years old, these 2.6 million households control a much larger share of assets in the country than their numbers would suggest. Some 48 percent of households in this segment have more than $2 million in assets—nearly 44 times the national average—and no other P$YCLE segment even comes close. Demographically, these super-rich tend to be married, white, older—more than 68 percent are over 55—and empty-nesters. Compared to the general population, they're 10 times as likely to own common stock, nine times as likely to own municipal bonds and seven times as likely to use a broker at Merrill Lynch. No wonder *The Wealth Market* members are sought after by everyone from yacht salesmen and custom clothiers to exclusive resort timeshares and, of course, all manner of financial services companies.

But the New Mass Affluent also includes seven other segments where the incomes and assets may not be as lofty but are certainly at a high altitude. In *Prosperous Parents*, middle-aged families are consumed with raising their families, paying off their mortgages and investing in college savings and retirement accounts. *Business Class* is home to fiftysomething executive couples who rank at the top for carrying prestige credit cards. *Jumbo Mortgagees* features Baby Boom families living in affluent suburban-fringe subdivisions. Tailoring products to affluent consumers at specific life stages can prove extremely useful with these segments. For instance, banks tend to be more successful marketing U.S. Treasury notes and home improvement loans to the members of *Business Class* than *Jumbo Mortgagees*; surveys find the former are twice as likely to use them.

"We've found that the mass affluent market consists of many segments characterized by different behaviors and attitudes," says David Toth, Director of Marketing at PNC, the Pittsburgh-based financial services group. "To be successful, we have to differentiate our message, tweaking the language and the proposition to the different segments." After classifying its customers by P$YCLE segment, PNC targets its affluent clients not to sell a product but to develop a personalized relationship. A bank official will call a customer who owns a CD with an offer to use online banking, streamline a loan process or obtain wealth management services. The campaign positions the bank as a trusted guide, helping customers through the maze of financial challenges and investment options. "We've learned that it's more important to connect with customers based on who they are than what financial product they want," says Toth.

Successful bank marketers are always on the lookout for "swing segments" that have varied financial needs but exist under the radar of many banks. One Florida bank marketer cited the fifth wealthiest P$YCLE segment, *Power Couples*, as just such an attractive market. The most affluent Baby Boom segment, *Power Couples* is characterized by high-earners with college educations and income producing assets in excess of $500,000. Yet these consumers still seek out professionals for help in managing their savings and investments, and they're omnivorous in their financial tastes. Although older P$YCLE segments often prefer deposit products like annuities, while younger segments want loan products such as home equity lines of credit, *Power Couples* sign up for both—and at rates twice the national average. "These are the kind of affluent customers a bank wants, someone with big tastes who isn't overly marketed by other banks," says a vice president at the Florida bank. "Our job is to find more of them."

The Rich Are Different from the Rest of Us: New Mass Affluent vs. the General Population

Marketplace Behavior	Users/100 HHs	Index
Average Penetration Index		**100**
Households that own vacation/weekend home	6.6	246
Households that own espresso/cappuccino maker	11.3	202
Adults who travel internationally at least once w/in last 3 yrs.	98.1	201
Households that consume brie cheese at least once w/in last mo.	3.8	221
Media that adults trust the most: Internet	45.1	155
Adults who use Internet banking	73.2	131
Adults who buy based on quality, not price	176.5	131
Adults who pay extra for a product that suits their image	85.6	125
Adults who don't buy based on advertising	146.2	120
Adults who will pay more for environmentally-safe products	134.0	119

The Rich Are Like the Rest of Us: New Mass Affluent vs. the General Population

Marketplace Behavior	Users/100 HHs	Index
Average Penetration Index		**100**
Adults who shop at Costco® at least once w/in last mo.	49.7	219
Adults who buy from Dunkin Donuts® at least once w/in last mo.	25.7	165
Adults who shop at Sam's Wholesale Club® at least once w/in last mo.	49.4	144
Adults who shop at 7-Eleven® at least once w/in last mo.	32.1	142
Households that are heavy coupon users, 12+ times w/in last 3 mos.	14.0	139
Adults who use coupons at a discount store at least once w/in last 3 mos.	21.1	137
Households who use coupons for fav. brands at least once w/in last yr.	35.2	136
Adults who buy costume jewelry at least once w/in last yr.	53.1	136
Adults who drink any domestic beer at least once w/in last wk.	55.6	133
Adults who shop at Sears at least once w/in last 3 mos.	51.9	131

5. Sources: P$YCLE and MRI; index of 100 = U.S. average

Despite their differences from one another, the New Mass Affluent segments do share an appreciation for luxury and status symbol products. Information from Mediamark Research & Intelligence (MRI) shows that the New Mass Affluent segments have high rates for owning vacation homes, taking foreign vacations and buying the latest technology. Compared to the U.S. average, they're nearly three times as likely to belong to a country club, more than twice as likely to donate to NPR and twice as likely to own a big-screen TV. In response to psychographic questions, the members of this group say they'll pay more for quality, acquire a product that suits their image and seek out an environmentally safe brand. While there's no survey question on whether money can buy happiness, Claritas data show that, at the very least, it can buy lots of high quality, environmentally-friendly, technologically-sophisticated toys.

P$YCLE Segment—15 Prosperous Parents
An upscale family segment, it's filled with investment-savvy 35- to 44-year-olds who exhibit high rates for owning stocks, mutual funds and employer stock options. The favorite indoor sport is going online, which residents do to trade stocks, pay bills and make travel plans for frequent business and family vacations.

But New Mass Affluent households also value their privacy. Jaded by relentless sales pitches, they have become a tough audience for marketers. Compared to the general population, they're 29 percent more likely to complain that most ads are "annoying" and "have no credibility." While this view applies to nearly every media channel, they make an exception for online marketing. High-earners are 55 percent more likely to say they trust the Internet, in part due to their fondness for its personalized interaction. Over the last decade, online banking users have grown from nine percent to 56 percent of the U.S. population in 2007, according to Claritas Market Audit. But among America's high-earners, 73 percent do their banking over the Internet.

And while they may appreciate the good life, the nation's New Mass Affluent lead a more prosaic lifestyle than one might imagine. According to MRI data, the eight top P$YCLE segments are more likely than the general population to shop at discount stores, wear costume jewelry and drink domestic beer. Nearly half patronize discount and warehouse stores like Sam's Club and Costco—a significantly higher rate than the national average. And coupons are surprisingly popular among this group. These households are a third more likely than the norm to clip coupons—even cents-off coupons.

The bottom line is that many of today's New Mass Affluent simply don't think of themselves as rich. Although they constitute the top fifth of U.S. wealthy, and spend selectively on luxury items, they are thrifty in other ways. Many grew up middle-class, earning rather than inheriting their money. Having survived the bursting of a stock market bubble and the 2001 recession, they've emerged as a levelheaded group who don't take their affluence for granted. They know the way to get rich is to not spend themselves into the poorhouse.

Age is also a factor. Increasingly, financial institutions are seeking future New Mass Affluent members among younger consumers. A 2007 Claritas Market Audit study found that two-thirds of all Baby Boomers began their retirement planning before they turned 45; one-third before their 35th birthday. With many younger people taking a more proactive approach to retirement planning, Claritas began helping financial services companies target their retirement products and planning services to P$YCLE segments that are home to upwardly mobile Generation Xers and Yers aspiring to wealth. These included segments like *Young Climbers* (childless singles and couples with upscale incomes but modest assets) and *Fiscal Rookies* (younger couples and families with upper-middle-class income and little savings). The goal for banks: capture upwardly striving young customers early to create loyalties that will last a lifetime.

That goal prompted one Eastern regional bank that formerly appealed to wealthy seniors to broaden its audience. Last year, it created two target groups based on two younger P$YCLE groups: *Flourishing Families*, which consists mainly of thirtysomething suburbanites with high incomes, large mortgages and substantial income producing assets, and *Young Up & Comers*, typically twentysomething professionals with upscale salaries, substantial investable assets and first-time home mortgages. Recognizing that younger households treat banks like

Adjustable Rate vs. Fixed Rate Mortgages by P$YCLE Segment

Top P$YCLE Segments	Adj	Fixed
01 The Wealth Market	148	94
05 Power Couples	124	99
55 Young & Thrifty	122	86
53 Social Insecurity	122	97
54 City Strivers	121	90
26 Early-Bird Specials	119	85
58 Bottom-Line Blues	119	88
22 Bargain Lovers	118	94
24 Young Climbers	113	100
15 Prosperous Parents	112	100

Fixed Rate vs. Adjustable Rate Mortgages by P$YCLE Segment

Top P$YCLE Segments	Fixed	Adj
12 Jumbo Mortgagees	115	72
38 Old Homesteaders	111	48
14 Financial Independents	110	81
28 Senior Solitaire	109	70
17 Home Sweet Equity	109	71
06 Civic Spirits	107	85
16 Leisure Land	106	76
27 Conservative Couples	105	80
40 Urbanistas	105	79
03 Business Class	105	92

6. Sources: P$YCLE and Claritas Market Audit 2007; index of 100 = U.S. average (ARMs: 13.9%, fixed rate mortgages: 13.5%)

a commodity and live most of their lives online, it launched a new, digital brand emphasizing convenience. The roll-out included a major overhaul of the bank's website, online account promotions and advertising via ATM machines—another channel preferred by these two P$YCLE segments. This type of direct banking allows a bank to move beyond its geographic footprint, opening up new markets in a very cost efficient way.

Challenging Times Ahead

Regardless of income level, few Americans likely feel better off financially today than a year ago. Even the wealthy aren't immune to tumbling home prices, tighter credit markets and the gloomy economic forecasts for 2008. When Claritas analysts profiled Americans by the kinds of mortgages they have, the top-ranked clusters for having adjustable-rate mortgages (ARMs) were *The Wealth Market* and *Power Couples*—two of the New Mass Affluent segments. While they may not have been beaten down by the subprime mortgage collapse, they were affected when ARMs reset to higher rates and they found it harder to refinance. In March 2008, the Office of Federal Housing Enterprise permitted government-sponsored companies to finance loans as large as $729,750—up from $417,000—to help stabilize the housing sector.

Because of changes in the economy, the growth in New Mass Affluent households seen in the last decade is not projected to continue at the same robust rate. Whereas the Baby Boom generation was able to rise up the socioeconomic ladder by going to college and landing well-paying jobs, today's Generation Xers and Yers face a much tougher climb. Over the past generation, women steadily moved into the workforce, pushing up earnings in dual income families until they broke into the ranks of the upper and upper-middle classes. But with 60 percent

P$YCLE Segment—03 Business Class
Business Class is known for its lavish spending style. Many of its fiftysomething executive couples live in pricey suburban areas, score high for domestic travel, high-end catalogue shopping, listening to classical radio and reading business publications.

of women already in the workforce, there's less potential for household incomes to increase substantially. At the same time, many firms are outsourcing professional positions, thanks to the Internet allowing workers to collaborate without regard to geography or time. And while the number of 401(k) retirement plans has soared in recent years, private-sector pensions have sharply declined, leaving many Americans unable to count on monthly checks in their old age. According to the Employee Benefit Research Institute, the number of private-sector employees who will receive a pension has dropped from 39 percent in 1980 to 18 percent in 2005.

All of these trends have converged to make it more difficult for future generations to accumulate enough assets to join the New Mass Affluent. Between now and 2012, Nielsen's Claritas predicts the number of New Mass Affluent Americans will grow by only five percent—one-third of the projected inflation rate. With last year's stock market declines and the ongoing credit crisis, New Mass Affluent consumers will become even harder to find and more challenging to sell. Financial marketers will need to alter their strategies to develop long-term relationships with the New Mass Affluent—and those on track to join their ranks. And the competition for the New Mass Affluent segment will only grow in intensity, as bankers, investments brokers and wealth managers battle over the big bucks rolling into retirement accounts.

Clearly, companies that seek to gain an advantage should consider employing segmentation solutions as one way to identify these affluent consumers. By doing so, they'll be better able to develop targeted products, differentiated messages and specific marketing strategies to appeal to these pockets of the so-called middle-class rich. Continuing to view affluent Americans as a single market of blueblood families is no longer an option. And with more than $22 trillion at stake, the prize is just too large to ignore.

About the Data

The analysis for this paper is based on several sources: Market Audit, a syndicated survey of financial behavior conducted in the U.S., with a sample size of 80,000 Americans; P$YCLE, a segmentation system that uses demographics and financial behavior to target U.S. households into 58 consumer segments; Financial CLOUT, a database that provides the market penetration and dollar balances of more than 100 financial products; and Mediamark Research & Intelligence (MRI), a leading consumer survey company that collects data on the adult public's use of media, product consumption and lifestyles and attitudes through approximately 26,000 interviews each year.

For more information call **(877) 707-2382** or visit us at **www.claritas.com**

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