Investment News

December 18, 2006

Report highlights wealth inequality; Vast majority in world lack access to financial advice

BY: Riva Froymovich

NEW YORK - The richest 1% of adults in the world owned 40% of the assets, while 50% of the world's adults owned just 1% of its wealth as of 2000, the most recent year for which data are available, according to a recently released study.

The study was released this month by the Helsinki, Finland-based World Institute for Development Economics Research of United Nations University.

The study charts, on a global basis, all household assets, including income, any additional financial resources, minus debts, plus land and other tangible property. The authors of the report dubbed that net total ``household wealth."

U.S. shows gap

All country data were based mostly on national balance sheets and various surveys from countries around the globe. The data showed that the richest 10% of adults in the world owned a minimum of $61,000 in assets in 2000. More than $500,000 in assets lifted adults to the richest 1% group, which had 37 million members worldwide.

The unequal wealth distribution was significant in the United States, according to the report's findings.

For instance, the Gini value, a 0-to-1 measure of inequality, found that wealth inequality in most countries typically was between 0.65 and 0.75. The United States had a wealth Gini of about 0.8, while Namibia and Zimbabwe led the pack, with values of 0.846 and 0.845, respectively. ``[The findings are] not surprising to me," said Michael Joyce, president of JoycePayne Partners PC in Richmond, Va., and president of the Arlington Heights, Ill.-based National Association of Personal Financial Advisors' Consumer Education Foundation. His firm manages about $300 million.

``The unfortunate part is, the vast majority of all people that need good financial help won't be able to afford it in the future," Mr. Joyce said.

Advisers often must set asset minimums, primarily because they have too many clients, and ``the amount of time they need to put in to really get a good handle on a person's financial situation is really labor intensive," he said. In addition, it would be difficult for advisers to make money without any minimums, particularly if they are fee only, Mr. Joyce said.

``The wealthy people, the millionaires or multimillionaires, will always have access to good financial advice," he said. ``There is a growing source of advice for so-called middle-market people."

Another option is The Garrett Planning Network Inc. of Shawnee Mission, Kan., a network of advisers who offer hourly, as-needed financial planning and advice regardless of income or net worth, Mr. Joyce said, but the realm of low-income financial advice will be governed mostly by not-for-profits.

The generalized advice of not-for-profits ``is unfortunately as good as it's going to get for majority of financial consumers," he said.

Housing counts

However, Tokyo-based United Nations University's report looked only at countries at a particular point in time, noted Edward Wolff,a study author and professor of economics at New York University. Since 2000, middle-class household wealth has been on the rise in the United States.

``Since [2000] in the U.S., there hasn't been a very big increase in wealth inequality, even though income equality has risen dramatically, because 75% of Americans own their own home, and home prices continue to rise," Mr. Wolff said. ``Housing is a major asset of the middle class," he said, which ``means their wealth has actually gone up relative to the rich."

In addition, the role of retirement assets, including 401(k) plans and individual retirement accounts, has been ``a big source of savings for the middle class particularly," Mr. Wolf added.

In fact, a decade from now, the United States will see a 16% increase in the number of households with assets of at least $1 million, meaning that some middle-class households will be lifted up a notch, too, according to another report released this month by the Economist Intelligence Unit on behalf of Barclays Wealth, the wealth management arm of London-based Barclays PLC.

``[The reports point] to the future for the need for a lot more financial advisers in the country," said Peggy Cabaniss, president of Lafayette, Calif.-based HC Financial Advisors Inc. and a former NAPFA president. HC Financial Advisors has $170 million in assets under management.

``The rest of the world that's left behind [needs] really good comprehensive programs through companies or individual planners," Ms. Cabaniss said of those with stagnant or nonexistent household wealth.

``I guess what I'm thinking about is places like [The] Vanguard [Group Inc.], Fidelity [Investments] and [The Charles] Schwab [Corp.] who can take care of plans regardless of the assets they have," she said.

Riva Froymovich can be reached at rfroymovich@crain.com.