THE PRIVATE BANK
By Nevada State Bank®

HIGH NET WORTH REPORT

FALL 2016 | THE FALL AND RISE OF INCOMES

KEY FINDINGS

During the Great Recession and the years of economic downturn that followed, households across Nevada saw their wealth and income decline. This was true across all income levels, but high-earning households saw their incomes fall further than all other groups. In fact, the total lost income for Nevada's high-earning households accounted for two-thirds of lost income in the state. Thankfully, several years of recovery have returned the Silver State to a period of stability and steady growth, and collective state incomes have grown significantly since hitting bottom.

According to Internal Revenue Service data, the collective adjusted gross income ("AGI") of Nevadans fell from a peak of $80.7 billion in 2007 to $67.5 billion in 2009, a 16 percent drop in just two years. The state's high-income households, defined as those with $200,000 or more in annual income, bore the brunt of that decline. During the same time period, total AGI for Nevada's high-income households collapsed by 41.9 percent from $28.6 billion to $16.6 billion. In fact, the $12.0 billion loss in income among high-earners accounted for 91 percent of the state's total loss of $13.1 billion during that time.

Since that 2009 trough, earnings for the high-income group rebounded 51 percent to $25.1 billion in 2014 (the latest year of available IRS data), which represented nearly a third of Nevada's total AGI. Additionally, the total number of tax filings by Nevadans earning $200,000 or more has climbed to an all-time high. In 2014, about 39,000 filers were in that income category, which was up nearly 47 percent from the 2009 low of 26,600 and up 9 percent from the pre-recession peak of 35,800 in 2007. Although total top-end incomes have not fully recovered, more Nevada households are seeing their annual earnings grow to surpass the $200,000 threshold. High-income households in 2014 accounted for 2.9 percent of all Nevada tax filers, outpacing the pre-recession peak of 2.8 percent.

These two trends – more high-earning households and rising-but-not-recovered incomes – have combined to impact the average AGI per tax filing. In 2007, Nevada households earning $200,000 or more reported an average income of $798,900. Two years later, that figure dropped to $625,100. Although that figure recovered to $796,300 in 2012, it dropped to

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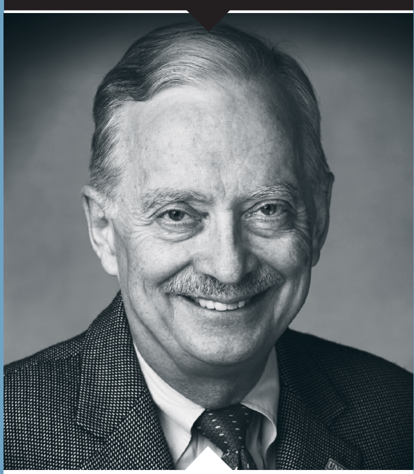
INSIGHTS FROM STEPHEN M. MILLER



DIRECTOR OF THE CENTER FOR BUSINESS AND ECONOMIC RESEARCH (CBER) AND PROFESSOR OF ECONOMICS, LEE BUSINESS SCHOOL, UNLV; AND CHAIRMAN OF THE BOARD: THE ECONOMIC CLUB OF LAS VEGAS

The worsening of the distribution of income between the rich and the poor in recent years has received significant attention from politicians, academics and policy makers. Most studies reach the general conclusion that high income inequality existed during the 1920s and the Great Depression. The Great Compression, which followed the Great Depression, ushered in an era during which the income inequality between the rich and the poor diminished greatly in relation to prior periods. The Great Compression ended in the early 1970s, and it was followed by a period of rising income inequality, called the Great Divergence, which still continues.

In Nevada, income inequality rose rather steadily from 1970 until the Great Recession between 2007 and 2009, when inequality dropped sharply. The inequality numbers in Nevada peaked in 2005, just before the Great Recession, with the most income inequality that Nevada experienced from 1917 to 2013. In 2005, the top 1 percent of the income distribution (i.e., the top 1 percent of the population earning the highest incomes) received 33.3 percent of total income in Nevada, whereas the top 0.01 percent received 13.0 percent of total income. Those numbers fell dramatically by 2009 to 21.3 and 6.6 percent of the total, respectively, as a result of the Great Recession and the devastation to the Nevada economy.

The upward movement in inequality began, once again, in 2010. By 2013 (the latest data available), inequality had recovered much of its decline during the Great Recession. The top 1 percent of the income distribution received 27.8 percent of total income in Nevada, while the top 0.01 percent received 10.1 percent of total income. This placed Nevada, based on the top 1 percent number, fourth on the list of most unequal income distributions of all 50 states and the District of Columbia, behind New York, Connecticut, and Wyoming. To belong to the top 1 percent in Nevada requires an income of over $311,300, which ranks Nevada as 29th in threshold income. Connecticut ranks first with a threshold of $1,063,556.

In sum, the U.S. and Nevada economies continue to experience increasing income inequality. As such, many observers wonder about the future of the middle class. The recent pick-up in wage growth is a positive sign.

$644,170 in 2014 as the number of filers in the high-income group surged to an all-time high.

A key reason that total income has not recovered among the state's high-income households has been the lack of a recovery in capital gains income, which accounts for about a quarter of total AGI for the group. Since the Federal Reserve has kept interest rates at historically low levels since the beginning of the recession, the rate of return on many investments has been similarly low. This leaves more volatile investments, such as stocks, as targets for earning a return. This volatility, along with a general lack of confidence in the economy leading to less overall investment, helps explain why capital gains income has had a considerably slower recovery than other sources of income. In 2007 capital gains accounted for $10.4 billion of income among Nevada's high earners, while in 2014 that figure stood at $5.9 billion.

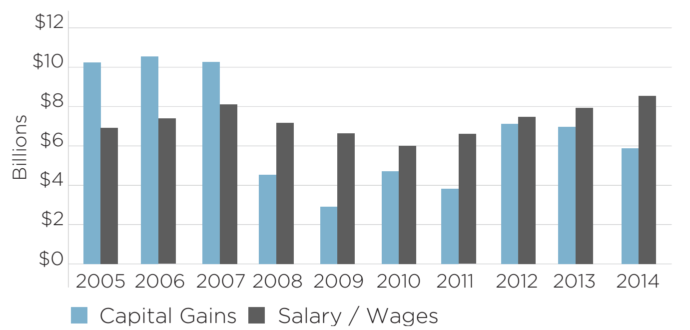
Comparing Nevada to the United States as a whole, the collapse of capital gains income has disproportionately affected Nevadans with high incomes. While those earning over $200,000 per year across the United States received just below 27% of their income from capital gains in 2007, their counterparts in Nevada received over 36% of their income the same way. By 2014, that share for the two groups had fallen to 17.4% and 23.6%, respectively. To compound the issue, high-income Nevadans received less of their income from the more stable salary and wage category, which accounted for about 29% of their income in 2007, compared to 42% for the national cohort. This income distribution left Nevadans more susceptible to losing income through the market changes of the Great Recession than other high earners throughout the country.

While Nevada was particularly hard hit by the Great Recession, there are signs that it has laid a much stronger foundation for the future. As mentioned, the total number of people in Nevada filing tax returns showing over $200,000 in income had surpassed the 2007 peak as of 2014, and has likely improved in the two years since. As new members of this group build wealth and others recover what was lost nearly a decade ago, capital gains should return as a more significant source of income for the group. Improvements in capital gains income, along with improvements already seen in other factors, should help push total income for high earners in Nevada back to peak levels.

In addition, the general diversification of Nevada's economy, where southern Nevada alone has returned to peak employment levels with 50,000 fewer construction jobs than during the 2007 peak, should help prevent Nevada from being susceptible to the economic volatility of years past. Less volatility should, in turn, promote income growth and stability for all participants in the state economy and high earners in particular, given the benefit that stability has to investments.

CAPITAL GAINS VS WAGE INCOME

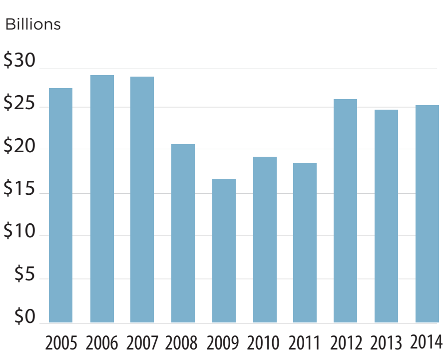
Nevada Tax Filers Earning More Than $200,000 Annually



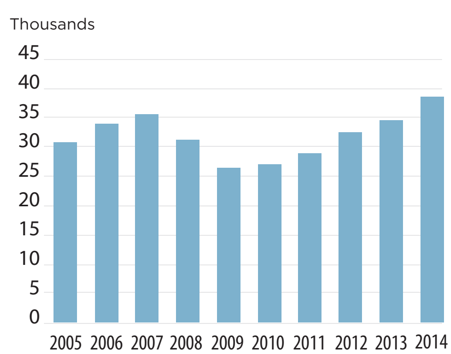
Source: Internal Revenue Service

TRENDS AMONG HIGH-EARNING TAX FILERS IN NEVADA

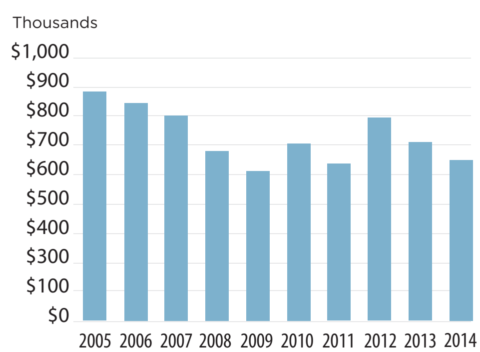
Total Adjusted Gross Income



Total Tax Returns



Adjusted Gross Income Per Tax Return



Source: Internal Revenue Service

The Private Bank by Nevada State Bank retained the team at Applied Analysis to explore the high net worth segment of the community. Specifically, the team has been working to better understand the size, consumer trends, needs and other aspects of this key segment of the market. Research efforts expected over the course of the next several months will focus on selected demographic and economic data, as well as information garnered through direct surveying techniques and other cutting edge research methodologies. This reporting series has been designed with these high net worth individuals in mind. We hope you find the elements of our research and analysis helpful in assessing the market.

The High Net Worth Report is published quarterly and can be found at www.nsbank.com/HNWreport.
For more information, please call The Private Bank by Nevada State Bank at 702.855.4596.