

WHY THE \$41 TRILLION WEALTH TRANSFER ESTIMATE IS STILL VALID: A REVIEW OF CHALLENGES AND QUESTIONS

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Introduction

The release of the report, *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy* by the Social Welfare Research Institute at Boston College in 1999 regenerated interest in the intergenerational transfer of wealth.¹ Although the report documented a low-, a medium- and a high-growth scenario, the most cited figure is the low-growth minimum estimate of \$41 trillion (in 1998 dollars) during the 55-year period from 1998 through 2052.²

During the year following the report's release, interest centered on how much greater than \$41 trillion the wealth transfer might actually be. As the recession of 2001 became apparent, the focus began to shift to whether the \$41 trillion figure was, in fact, too high. The continued downward trend in equity markets in recent months has renewed concern that the ultimate transfer may fall short of \$41 trillion.

This commentary reviews the validity of the \$41 trillion estimate in light of recent economic conditions, as well as several other critical challenges that were previously raised regarding the accuracy of the earlier \$10 trillion estimate³ of intergenerational wealth transfer.⁴ It does not explicitly deal with the middle- and upper-growth scenarios; however, the arguments made in support of the \$41 trillion estimate often apply to the higher estimates. The principal conclusion is that the \$41 trillion estimate remains valid as a 2% low-growth estimate, even in light of recessionary growth, depressed stock market, and several other criticisms discussed below. The 2% growth scenario provides a lower-bound estimate of wealth transfer over the 55-year period, which will be at least \$41 trillion.

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INSIDE

| | |
|---|---|
| INTRODUCTION..... | 1 |
| BACKGROUND..... | 2 |
| THE RECESSION-PROOF ESTIMATE..... | 2 |
| PAST AND PRESENT WEALTH..... | 2 |
| SPENDING THE KIDS' INHERITANCE?..... | 3 |
| LIVE LONG AND PROSPER?..... | 3 |
| ANNUITIZED INCOME AND THE WEALTH TRANSFER ESTIMATE..... | 4 |
| BABY BOOMERS AND THE WEALTH TRANSFER ESTIMATE..... | 5 |
| WEALTHY AND NON-WEALTHY ESTATES..... | 5 |
| HOW MUCH WILL HEIRS RECEIVE?..... | 5 |
| AVERY AND RENDALL'S \$10.4 TRILLION ESTIMATE..... | 5 |
| GENERAL COMMENTS..... | 6 |
| INTER-VIVOS GIFTS AND WEALTH TRANSFER..... | 6 |
| CONCLUSION..... | 7 |
| ENDNOTES AND RESOURCES..... | 7 |
| EXHIBIT A..... | 8 |
| ABOUT SWRI..... | 9 |
| CONTACT INFORMATION..... | 9 |

Background

During 1999 we developed a simulation model to project the transfer of wealth from the 1998 adult population via their final estates (estates with no surviving spouse)⁵ during the 55-year period from 1998 through 2052. Since there was no consensus on how wealth would grow in the future, we used the model to simulate three scenarios: 1) a low-growth scenario that assumed 2% real secular growth and lower than empirically estimated saving rates; 2) a middle-growth scenario that assumed 3% real secular growth and empirically estimated saving rates; and 3) a high-growth scenario that assumed 4% real secular growth and higher than empirically estimated savings rates. In each scenario, the model estimated the total value of estates and, based on historical data, the distribution of this total among heirs, government (taxes), charitable organizations (charitable bequests), and various estate fees.⁶

The results of these analyses are summarized in Exhibit A. The low-growth simulation estimates \$41 trillion, the middle-growth simulation estimates \$73 trillion, and the high-growth scenario estimates \$136 trillion of wealth transfer during the period from 1998 through 2052. It should be noted at the outset that prior to the release of the wealth transfer projections, staff economists at the Council of Economic Advisors reviewed the methods and assumptions used to derive the estimates. The Council subsequently adopted the \$41 trillion figure as its official estimate of wealth transfer. After its release, *Millionaires and the Millennium* was informally assessed by government economists at the Bureau of Labor Statistics, who concluded that the \$41 trillion projection was a reasonable lower bound. Furthermore, statistics from the report have been used by staff economists at the Congressional Budget Office in analysis related to wealth transfer. While we developed three scenarios, the most often cited and widely adopted has been the low-growth estimate. Since recent queries concerning the estimates suggest that even the low-growth estimate may be too optimistic, the following will focus on the continued validity of the \$41 trillion estimate.

Challenges and Comments

The following is a list of various issues surrounding the wealth transfer estimates that have been raised over the past three years.

The Recession-Proof Estimate

Challenge One: *The wealth transfer estimate is based on the robust growing economy during the latter half of the 1990s and fails to account for current and/or future recessions and downturns in equity, real estate, or other markets.*

Comments: The \$41 trillion wealth transfer estimate assumes only a 2% secular real rate of growth in the \$32 trillion of personally held wealth in 1998 rather than the high rates of growth in personally held

wealth attained in the late 1990s. The simulation model is not affected by short-term fluctuations downward due to recessions and depressed markets, or short-term fluctuations upward due to expansions and bull markets, since it relies on long-term trends in the growth of wealth to derive its estimates. Even if recessions are more common than expansions during the 55 years spanned by the simulation, 2% is still a low bound for secular growth.

Two points support the conservative nature of the 2% secular growth assumption and consequently the conservative nature of the \$41 trillion estimate. First, since 1950 (from 1950 through 2001), a period that includes both booms and busts, the gross domestic product of the United States grew at an average rate of 3.39% per year in inflation adjusted real terms; the value of household wealth grew at an annual real rate of 3.34%; and the value of all corporate stocks and mutual funds owned by households grew at a real rate of 4.47%. Thus, the \$41 trillion estimate, which assumes only a 2% secular trend in the growth of personally held wealth, is based on growth rates below historic secular trends.

Second, even if we assume a secular growth rate of 2%, as we did in the simulation, the \$32 trillion owned by Americans in 1998 will grow to \$95 trillion (1998 dollars) in 2052, and if we consider that if personally held wealth were to grow at its historical secular rate of 3.34%, the \$32 trillion of wealth owned by American households in 1998 would grow to \$196 trillion (1998 dollars). In other words, \$41 trillion will be less than half to less than a quarter of total personally held wealth in 2052. In this light, \$41 trillion is both a reasonable and plausible low estimate of the amount of wealth that will be transferred via estates in the 55-year period as the economy continues to grow and the population continues to mature, retire and eventually die.

The \$41 trillion estimate of wealth transfer is not affected by short-term economic fluctuations and if wealth continues to grow in the next 51 years as it has in the past 51 years, the transfer amount will be less than a quarter of the total value of personally held wealth in 2052.

Past and Present Wealth

Challenge Two: *The wealth transfer estimate is based on an unusually high level of personally owned wealth when stocks and bonds were near historic peaks; the estimate would be significantly lower were it based on the current level of personally owned wealth.*

Comments: Like the secular growth rates, the \$32 trillion baseline estimate of personally owned wealth is a conservative, low estimate and compares with the estimates released in 2001 by Federal Reserve Flow of Funds Accounts⁷ implying that total household wealth amounted to at least \$32 trillion in 1998.⁸

Our calculation of baseline wealth includes only the value of marketable assets and excludes such items as defined-benefit pension plans, present value

of annuitized income streams, non-luxury personal possessions (e.g., clothing, toiletries and other consumer non-durables), expected inheritance, and insurance without a cash surrender value, among other assets with little or no marketable value.

Despite much speculation, the net impact of financial markets on the aggregate value of personally owned wealth has been relatively small. Although the value of personally owned wealth has declined by 7% from its high in 1999, its value in the second quarter of 2002 is nearly equal to its value in 1998. The Federal Reserve Flow of Funds Accounts indicate that, although the value of personally owned equities fell 35% in real terms from 1998 to the second quarter of 2002, total household wealth declined by less than 1.3% in real terms, in substantial part due to a real increase of 22% in real estate and other tangible assets and an 18% real increase in personally owned municipal, corporate and foreign bonds during this period. In fact, were it not for an increase of 21% in household debt, personally owned wealth would have increased 2% in real terms from its 1998 value.

Although household wealth surpassed \$32 trillion after 1998, reaching a peak of approximately \$36 trillion, it has, as of Q2 2002, returned to its 1998 level of \$32 trillion (1998 dollars). Therefore, were the wealth transfer estimates based on the current level of household wealth instead of the 1998 value, they would remain unchanged. Specifically, the low-growth scenario would still produce an estimate of \$41 trillion.

Spending the Kids' Inheritance?

Challenge Three: *The majority of Americans start to spend down their assets when they reach retirement and the wealth transfer estimates do not take into account this expenditure pattern.*

Comments: Most American families do begin to spend down their assets when they reach retirement and most non-wealthy families continue to spend down their assets thereafter. However, for most wealthy families, a brief period of spending down their assets at retirement age, is followed by a growth of assets in their later years that exceeds their dissaving (drawing down of assets). The simulation takes this life-cycle pattern into account, with separate, empirically derived life-cycle savings rates for families with less than a million dollars in wealth and for families with at least a million dollars in wealth.

The empirically derived rate of annual savings for families with less than a million dollars in wealth (about 95% of families in 1998) is positive until approximately age 60 (roughly retirement age), after which it turns negative and becomes increasingly negative as the family members age, spend more than they earn, and spend down their assets. Even when their life-cycle savings rates are combined with 2% secular growth in their wealth, the assets of families with less than a million dollars continue to be drawn down after age 60. The simulation takes this into

account by incorporating a negative savings rate among families with less than a million dollars in wealth for all cohorts aged 60 and older.

The empirically derived rate of annual savings for families with a million dollars or more in wealth (about 5% of families in 1998) is somewhat different from their less wealthy counterparts. These families have a brief period of dissaving starting at approximately age 60 when they reallocate assets to provide a stream of income for their retirement years, a legacy to heirs, and a social capital legacy through taxes or charitable contributions. But unlike those of their less wealthy counterparts, the life-cycle savings rates of wealthy families become less negative as they grow older, i.e. beyond age 70. In fact, when their life-cycle savings rates are combined with 2% secular growth in their wealth, wealthy families see their wealth begin to grow after age 70.

It should also be noted that as a hedge against a potential decline in future savings rates, the low-growth simulation assumes that all life-cycle savings rates are a substantial 1% lower for all age cohorts than empirical estimates, based on data from the 1995 and 1998 *Survey of Consumer Finances*. Therefore, the low-growth scenario assumes that both wealthy and non-wealthy Americans consume their assets during retirement faster than in reality, thus allowing for retired American parents to spend an even larger amount of "their children's inheritance" without reducing the \$41 trillion estimate.

Live Long and Prosper?

Challenge Four: *Americans have been living longer and are projected to live even longer in the future. The average American family will be spending their assets for a longer period of time, leaving smaller amounts of wealth to be transferred than are estimated by the simulation.*

Comments: Americans have been living longer, are projected to live even longer in the future and are making financial plans to do so. Trends toward later retirement, increased part-time employment during retirement and the continued growth in wealth among elder wealth holders, mean that despite increased longevity, aggregate assets will be drawn down more slowly than would otherwise be the case.

The simulation is based on current rates of mortality and current rates of dissaving. Although Americans will live longer than indicated by the 1998 mortality rates used in the simulation, research shows that many Americans, at all levels of wealth, are employed at least part time well past age 60. They are able to maintain a given level of consumption without drawing down their assets as rapidly as if they were not employed.

The Center for Retirement Research at Boston College finds that in order to maintain their standards of living during their retirement years, older workers have increased their labor force participation from 59.5% to nearly 62.0% in the period from January 2000 to August 2002. The Center explains this in-

crease as compensating for lower values of private retirement plans, but the trend toward working during retirement may more generally be interpreted as an attempt by retirees to maintain their standard of living in light of better health and longer life spans relative to their parents.⁹

For the average non-wealthy American, longer life implies less wealth transfer via their final estates, especially if they do not work during retirement. Whether they work or not, retired wealth holders dissave less the longer they live since their wealth tends to grow faster than it is spent. A decline in wealth at age 60 turns into accumulation of additional wealth by the time wealth holders are age 70 and older, and for those over 70, the longer they live the more wealth they have, and the larger the value of their estates. Thus, for wealthy Americans longer life implies increased wealth transfer via their final estates.

The \$41 trillion wealth transfer is split unevenly between non-wealthy and wealthy estates. About a third of the wealth transfer comes from estates of families with less than a million dollars in assets at time of death (93% of families over the whole 55-year period); the remaining two-thirds comes from families with a million dollars or more assets at time of death (7% of families). Not counting the effect of greater labor force participation among older workers, the net effect of an additional year of life for all Americans would be to decrease the \$41 trillion estimate by less than \$0.3 trillion. For all retirees regardless of wealth, the final estates of those that remain in the labor force will have a larger value than the estates of those who do not work during retirement years. When coupled with increased labor force participation among older workers, an additional year of life for all Americans could actually increase the \$41 trillion estimate by a small amount.

Annuitized Income and The Wealth Transfer Estimate

Challenge Five: Annuitized income has been growing rapidly in recent years, in large part due to the growing number of retirees with annuitized retirement income. If the trend toward increased annuitization continues, the amount of wealth to be transferred will decline for two reasons. First, in order to purchase an annuity, individuals need to draw down their assets. Second, an annuity ceases to exist when the recipient dies, and so contributes no value to the estate of the recipient/decedent. If the \$41 trillion estimate does not take into account the reduction in wealth due to increased amounts of annuities, it will over estimate the coming wealth transfer.

Comments: Annuitized income has been growing rapidly in recent years, due in large part to the growing number of retirees with annuitized retirement income, much of it in the form of Social Security and other defined-benefit retirement plans, but also due to the whole or partial annuitization of defined-contribution plans. The effect of the growth in annuitized

income on the \$41 trillion wealth transfer estimate is a complicated issue and could potentially affect it in three ways: 1) if the present value of annuitized income in the calculation of wealth was included; 2) if the value of defined-benefit retirement plans in the calculation of wealth was included; and 3) if the annuitization of defined-contribution retirement assets in the simulation's dissaving rates were not included. However, none of the three were done in determining the wealth transfer estimate.

The simulation does not include the present value of annuitized income or any defined-benefit retirement plan income (e.g., Social Security, government pension plans and private sector defined-benefit plans) in the calculation of wealth since neither is transferable at death. Only the market value of defined-contribution retirement plans (e.g., 401k and 403b plans) and individual retirement accounts was included in the calculation of wealth. Furthermore, since current rates of annuitization of defined-contribution retirement assets are already included in the simulation's lifecycle savings rates, the \$41 trillion estimate is not affected.

Commentators have proposed two scenarios that might affect the estimate: 1) what if there were more participation in defined-contribution plans; and 2) what if more and more people choose to annuitize a larger proportion of their assets? First, since increased participation in defined-contribution plans would increase the pre-retirement estimate of wealth, the \$41 trillion estimate would be rendered too low. There is evidence that retirees are choosing to receive a larger proportion of retirement assets as lump-sum distributions rather than annuities, which they are more inclined to save than spend. Second, annuitization involves drawing down assets to purchase a future stream of income for life. Even if there were a substantial increase in the rate at which retirees annuitize their assets, there would be little net effect on their wealth at time of death because of the actuarial nature of annuities. When retirees choose to annuitize assets, they receive a guaranteed income for life and can support their standards of living in part from this income, therefore, they draw down their remaining assets less rapidly than if they had not annuitized a portion of their assets. Since annuities are calculated on an actuarial basis, the initial draw down of assets is closely balanced by reduced draw down of assets in later years for the population as a whole.

The \$41 trillion estimate is not compromised by the current level and trends in annuitization, or by the way the current simulation model takes them into account. If anything, the growth in defined-contribution pensions, the tendency to receive distributions from defined-contribution plans as assets, and the tendency to spend from such assets at a lower rate than had the pension been received as annuity income,¹⁰ combine to make it likely that more than \$41 trillion will be transferred.

Baby Boomers and the Wealth Transfer Estimate

Challenge Six: *The projected estimate is unrealistic since the baby-boom generation, the largest generation ever, will not inherit anything close to \$41 trillion.*

Comments: Many queries about the \$41 trillion wealth transfer estimate, often from boomers themselves, wrongly assume two things about the report. First, that the entire transfer of wealth is going to heirs; and second, that it is going only to boomers. “Wealth transfer” is not synonymous with “inheritance.” The original report carefully points out that only \$25 trillion of the \$41 trillion transfer will pass from decedents’ estates to heirs. The remaining \$17 trillion will go to estate taxes, charitable bequests and estate settlement expenses. It is important to understand that while \$25 trillion is going to heirs, that figure is the amount of wealth that will be inherited from 1998 through 2052 by all generations, not just the boomers. Boomers may well inherit \$7.2 trillion, but the majority of the inheritances will be transferred to subsequent generations, including the children and grandchildren of the boomers. As the boomer generation ages and dies during the 55-year period, their role in the wealth transfer process will be far greater as benefactors than as beneficiaries.

Wealthy and Non-Wealthy Estates

Challenge Seven: *Only approximately 2% of estates, those of the wealthiest citizens who die each year, are required to file federal estate tax forms. Since wealth transfer is concentrated among this very small fraction of estates, the vast majority of estates will not participate significantly in the \$41 trillion wealth transfer.*

Comments: The \$41 trillion is an estimate of total wealth transfer via final estates of the entire 1998 adult population, regardless of the size of the estate. Due to growth in personal wealth and an increased number of estates from the baby-boomer generation, the number of estates valued at \$1 million or more will grow from somewhat less than 2% in 1998 to approximately 7%, on average, over the entire period from 1998 through 2052. Although two thirds (\$27 trillion) of the transfer will be concentrated among this wealthiest 7% of estates, a still substantial amount (\$14 trillion) will be dispersed over a broad range of less wealthy estates. The inequality of the size of estates does not affect the \$41 trillion estimate and how it is divided: \$6.0 trillion in total charitable bequests, \$24.6 trillion in total bequests to heirs, \$8.5 trillion in total estate taxes and \$1.6 trillion in total estate fees.

How much will Heirs Receive?

Challenge Eight: *The \$41 trillion transfer is not a realistic estimate of wealth transfer since the vast majority of heirs will receive small inheritances, if any.*

Comments: All of the \$41 trillion transfer is not going to heirs. Substantial amounts will go to charity, taxes and fees. The share of the low-growth estimate of wealth transfer going to heirs is \$25 trillion. Because most estates have more than one heir, the size of inheritance will be relatively small per heir and the effect will be diffused throughout the population.

While the simulation does not identify individual heirs and does not separately estimate the size of each inheritance, the initial report documents that about half of the aggregate bequests to heirs will be concentrated among heirs of the wealthiest 7% of estates with the remaining half disbursed among heirs of the remaining 93% of estates. The average total transfer to heirs from estates valued at \$1 million or more will be approximately \$1.9 million, 13 times larger than the average amount (approximately \$150,000) that will be shared among the heirs of estates valued at less than \$1 million. In each case, the total bequest amount will be divided among the total number of heirs of a given estate. As estates get smaller, the proportion going to heirs approaches 100%, with little or nothing going to charity or taxes. The larger the estate, the greater the proportion bequeathed to charity and taxes, and the lower the proportion bequeathed to heirs. Nonetheless, heirs of wealthy estates will likely receive hundreds of thousands, if not millions of dollars, while heirs of less affluent estates will receive at most thousands of dollars, while tens of millions of potential heirs will receive little or nothing at all.

The fundamental point in regard to the relative shares of estates going to heirs, taxes, charity or to estate fees is that they do not affect the validity of the \$41 trillion wealth transfer estimate.

Avery and Rendall’s \$10.4 Trillion Estimate

Challenge Nine: *Robert B. Avery and Michael S. Rendall estimated an intergenerational wealth transfer of \$10.4 trillion for the 55-year period from 1990 through 2044. Why is the Social Welfare Research Institute’s (SWRI) simulation figure four times higher?*

Comments: Avery and Rendall’s \$10.4 trillion estimate is not an estimate of the transfer of wealth from the entire 1989 adult population over the subsequent 55 years, but an estimate only of wealth to be transferred from the World War II generation to their baby-boom children, estate taxes, charitable bequests and estate fees. In contrast, SWRI’s \$41 trillion estimate is a low estimate of wealth to be transferred over the 55-year period from 1998 through 2052 from the estates of the entire 1998 adult population (age 18 and

over) to heirs, taxes, charity and fees.

The goal of Avery and Rendall's analysis was to estimate the prospective inheritances of the baby-boom generation from 1990 to 2044. In order to do so, they ensured that that all adults in the analysis would die within 55 years. They restricted their analysis to families with children headed by a person age 50 or older in 1989, who was a generation older than the baby boomer generation and whose heirs were baby boomers. Their analysis predicted that this segment of the World War II generation would transfer a total of \$10.4 trillion in 1989 dollars, or \$13.7 trillion in 1998 dollars, via their estates during the 55-year period from 1990 through 2044. This estimate is often mistakenly thought to be an estimate of total intergenerational wealth transfer during the period.

SWRI's analysis differs from the prior analysis of Avery and Rendall in three important ways.

- 1) SWRI's goal was to estimate the total wealth transfer from the entire 1998 adult population during the 55 years from 1998 through 2052, rather than from the segment age 50 and older with children.
- 2) SWRI's simulation starts with a larger pool of wealth. The wealth of the 1998 population was 5.27% larger in real terms compared to the wealth of the 1989 population.
- 3) SWRI's simulation includes wealth transferred from aging baby boomers as well as wealth transferred to them. The bulge in the size of the boomer generation produces a similar bulge in the number of estates and the aggregate amount to be transferred when the boomers die.

In light of these differences, SWRI's \$41 trillion estimate appears less discordant with Avery and Rendall's \$10.4 trillion estimate than it might at first glance.

General Comments

In addition to the issues raised above, the \$41 trillion estimate is a conservative estimate of total wealth transfer from 1998 through 2052 for two further reasons. First, SWRI's estimate neglects wealth transfer from the estates of persons who have not reached adulthood in 1998, the estates of anyone born between 1998 and 2052, and the estates of immigrants who enter the country and die during the 55-year period. Second, SWRI's projection underestimates the value of estates of people who are less than 30-years old in 1998, because it does not simulate marriage and business formation for these age cohorts.

The simulation estimate is based solely on wealth transferred from the population aged 18 or older in 1998. For those in the sample who age and die over the 55-year period, the simulation estimates the value of their estates at time of death to be \$41 trillion. However, there is a continuous stream of people being added to the population through birth and net immigration, who will also engage in economic activity, acquire some degree of wealth, and some of whom will die during the 55-year period,

adding their wealth to the total wealth transfer. The \$41 trillion estimate is a low estimate in part because it ignores these groups and their contribution to wealth transfer.

The wealth transfer model neglects family formation and new business formation, which are the cornerstones of wealth accumulation, especially among younger age cohorts. Among middle and older age cohorts there is little net effect of the exclusion of these trends, because the simulation also neglects the offsetting factors of divorce and business bankruptcy among these cohorts. However, the exclusion of the effects of family and new business formation among the youngest age cohorts, those under age 30, means that for these younger people the path to increased wealth in the simulation is confined to their incomes, received inheritance, and growth in their relatively modest individual portfolios. The simulation is thereby biased against young people increasing their wealth and produces a smaller number of millionaires in the later years of the simulation than would be the case had family formation and new business creation been taken into account. At the end of the simulation, persons who were aged 20 to 29 in 1998 are aged 75 to 84. Fewer simulated millionaires in this age cohort means smaller value of estates and less wealth transfer than there should be in these latter years. The \$41 trillion estimate thus underestimates wealth transferred near the end of the 55-year period.

Inter-Vivos Gifts and Wealth Transfer

In recent years, there has been evidence, especially among the wealthy, of a growth in the systematization of charitable giving during the donor's lifetime and of increased utilization of planned-giving vehicles that allow donors to make substantial charitable contributions while they are alive. These trends, in combination with what appears initially to be a decline in charitable bequests, may presage a shift among many wealth holders from making charitable bequests to making inter-vivos charitable gifts. Both empirical and anecdotal evidence points to donors wishing to make their charitable contributions in life rather than at death, in part, to increase the effectiveness and significance of their giving. Furthermore, this desire by donors is being complemented and encouraged by new approaches to financial planning, where tax considerations take a subordinate role to the exploration of clients' values in shaping their financial biography.¹¹ If there is a shift from charitable bequests to increased inter-vivos giving, it will reduce the wealth of donors (unless they reduce their consumption) and will subsequently reduce the size of their estates and the amount of wealth transferred via their estates.

As more substantial charitable gifts are made during the donor's lifetime and as more transfers to heirs are made as gifts during the donor's lifetime, the size of estates may well decline. However, if we combine the additional inter-vivos and bequest dona-

tions, there will be no overall decrease in charitable giving, and indeed, there could be an increase in the amount donated to charity, as more donors experience the satisfaction of a more engaged philanthropy.

A major shift from charitable bequests to inter-vivos giving could well reduce the \$41 trillion estimate of wealth transfer, but only if we continue to define wealth transfer in terms of the value of final estates. If the definition of wealth transfer is broadened to embrace both inter-vivos transfers (to heirs, charity, and wealth taxes) as well as transfers via estates, then the \$41 trillion transfer estimate is too small, even as a low-end estimate.

Conclusion

Several issues that may affect the value of personally held wealth in either the short or long term have been discussed, including recessions and booms, the initial amount of personally owned wealth in the first year of the simulation, dissaving during retirement, increased longevity and increases in annuitized incomes. None of these factors warrants a reduction in the \$41 trillion low-growth estimate. Based on the average real growth rate during the previous 51 years, wealth owned by the entire population alive in 2052 will reach \$196 trillion (1998 dollars). In that year, the validity of the \$41 trillion estimate will be known. Even in view of all the issues we have discussed, we still believe that the \$41 trillion estimate will be low. The relevant question is not whether \$41 trillion will be transferred, but how much more than \$41 trillion will be transferred?

Endnotes

1. The complete report is available for download at our website: <http://www.bc.edu/swri>.
2. The 55-year period was chosen because that was the same period selected by Avery and Rendall for their \$10.4 trillion wealth transfer estimate. "Estimating the Size and Distribution of Baby Boomers' Prospective Inheritances," Avery, Robert B. and Rendall, Michael S., *American Statistical Association, Proceedings of the Social Statistics Section*, 1993, pp. 11–19.
3. *Ibid.*
4. "The Baby Boomers' Mega-Inheritance—Myth or Reality," Gokhale, Jagadeesh and Kotlikoff, Laurence J., Federal Reserve Bank of Cleveland, *Economic Commentary*, October 1, 2000, www.clev.frb.org/research/com2000/1001.htm.
5. The word "estate" used in the remainder of the commentary refers to a final estate, i.e., one with no surviving spouse.
6. *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, Schervish, Paul G. and Havens, John J., Social Welfare Research Institute, Boston College, Boston, MA, October 1999, www.bc.edu/bc_org/avp/gsas/swri/swri_features_wealth_transfer_report.htm.
7. Calculated by John J. Havens based on the Federal Reserve's *Flow of Funds Accounts of the United States*, www.federalreserve.gov/releases/z1/current/data.htm.
8. The Federal Reserve Flow of Funds Accounts estimate that in 1998 households and nonprofit organizations had a combined total net worth of \$37 trillion. If we subtract the 10% owned by nonprofit organizations, household wealth was approximately \$33 trillion in 1998. Because of differences in definitions, household wealth reported in the Flow of Funds Accounts tends to be about \$1 trillion higher than the conservative definition of "marketable assets" used in the simulation.
9. "Are Older Workers Responding to the Bear Market?" Eschtruth, Andrew D. and Gemus, Jonathan, Boston College Center for Retirement Research, *Just the Facts on Retirement Issues*, September 2002, www.bc.edu/centers/crr/jtf_5.shtml.
10. "How will the Rise in 401(K) Plans Affect Bequests?" Munnell, Alicia H., Sunden, Annika, Soto, Mauricio, and Taylor, Catherine. An Issue in Brief, no. 10, Center for Retirement Research at Boston College, November 2002, <http://www.bc.edu/crr>.
11. *Values-Based Estate Planning: A Step-by-Step Approach to Wealth Transfer for Professional Advisors*, Fithian, Scott C., John Wiley and Sons Publishing, New York, NY, 2000.

Resources

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EXHIBIT A

Projections for Intergenerational Wealth Transfer 1998-2052*

| Total | Low Estimate (2% secular real growth in wealth) | Middle Estimate (3% secular real growth in wealth) | High Estimate (4% secular real growth in wealth) |
|--------------------|--|---|---|
| Number of Estates | 87,839,311 | 87,839,311 | 87,839,311 |
| Value of Estates** | \$40.6 | \$72.9 | \$136.2 |
| Estate Fees | \$1.6 | \$2.9 | \$5.5 |
| Estate Taxes | \$8.5 | \$18.0 | \$40.6 |
| Bequest to Charity | \$6.0 | \$11.6 | \$24.8 |
| Bequest to Heirs | \$24.6 | \$40.4 | \$65.3 |

*Derived from tables in *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, Schervish, Paul G. and Havens, John J., Social Welfare Research Institute, Boston College, Boston, MA, October 1999,

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**All dollar values are in trillions of 1998 dollars.

BOSTON COLLEGE SOCIAL WELFARE RESEARCH INSTITUTE

About SWRI

The Social Welfare Research Institute (SWRI) at Boston College is a multidisciplinary research center specializing in the study of spirituality, wealth, philanthropy, and other aspects of cultural life in an age of affluence. Founded in 1970, SWRI is a recognized authority on the relation between economic wherewithal and philanthropy, the motivations for charitable involvement, and the underlying meaning and practice of care.

The leading cultural and spiritual question of the current era is how to make wise decisions in an age of affluence. The increase of personal affluence and wealth has put before increasing numbers of people the opportunity to decide something substantial: whether and how they wish to move from an emphasis on the quantity of their wants to the quality of their needs. The implication for charitable giving is that we will increasingly find affluent and wealthy individuals across all generations and business backgrounds tending either to freely give as a path to care for others and happiness for themselves, or to politely meet quotas. In an environment of liberty, giving that is extracted will be resisted; giving that is invited as a way for donors to identify with the fate of others will be honored.

Affiliated Organizations

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