

# EXECUTIVE SUMMARY

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

BY JOHN J. HAVENS and PAUL G. SCHERVISH\*

### Introduction

Despite the economic downturn and the fall of the equity markets, our nationally noted 1999 projection that a wealth transfer of at least \$41 trillion will take place in the United States by the year 2052 remains valid.

Following a thorough review of our 1999 report *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, we conclude in “Why the \$41 Trillion Wealth Transfer Estimate is Still Valid: A Review of Challenges and Questions,” that its projections have not been significantly affected by recent and prevailing economic conditions.

The current report reviews the validity of the \$41 trillion estimate in light of recent economic conditions, as well as several other critical challenges. While the new commentary does not explicitly deal with the middle- and upper-growth scenarios, the arguments made in support of the \$41 trillion estimate often apply to the higher estimates. Our principal conclusion is that the \$41 trillion estimate remains valid as a 2% growth estimate, even in light of recessionary growth, depressed stock market, and several other criticisms discussed in the new report.

The following summarizes some of the major challenges we have received and to which we respond in the new report.

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## BOSTON COLLEGE SOCIAL WELFARE RESEARCH INSTITUTE

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### 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

Over the past eighteen years SWRI has received generous support from the T. B. Murphy Foundation Charitable Trust, which funded SWRI's ground-breaking Study on Wealth and Philanthropy; from the Indiana University Center on Philanthropy, the W. K. Kellogg Foundation, and the Lilly Endowment, Inc.

### Contact Information

To arrange an interview with the researchers contact the Boston College Social Welfare Research Institute at 617-552-4070. An on-line version of the report is available at <http://www.bc.edu/swri>.

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## Challenge 1: What about the economy?

**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.**

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. Even if recessions are more common than expansions during the 55 years spanned by the simulation, 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.

## Challenge 2: Did the drop in stock values affect personal wealth?

**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.**

Like the secular growth rates, the \$32 trillion baseline estimate of personally owned wealth used in the original report is a conservative, low estimate and compares with the estimates released in 2001 by Federal Reserve Flow of Funds Accounts implying that total household wealth amounted to at least \$32 trillion in 1998. Although household wealth surpassed \$32 trillion after 1998, reaching a peak of about \$36 trillion in 1999, in the second quarter of 2002 it 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.

## Challenge 3: “We’re spending our children’s inheritance”—is the bumper sticker correct?

**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.**

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 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.

## Challenge 4: Longer life, less wealth?

**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 is estimated by the simulation.**

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, but to decrease it 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. Thus, 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.

## Challenge 5: Do annuities decrease the wealth transfer?

**If the trend toward increased annuitization continues, the amount of wealth to be transferred will decline because in order to purchase an annuity, individuals need to draw down their assets and because an annuity ceases to exist when the recipient dies, and so contributes no value to the estate of the recipient/decendent.**

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. We conclude that on balance 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, combine to make it likely that more than \$41 trillion will be transferred.

## Challenge 6: What will be the baby boomers share?

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

Many queries about the \$41 trillion wealth transfer estimate—often from boomers themselves wrongly assume two things about our report: first, that the entire transfer of wealth is going to heirs; and second, that it is going only to boomers. First, “wealth transfer” is not synonymous with “inheritance.” Our original report carefully points out that only \$25 trillion of the \$41 trillion transfer will pass from decedents’ estates to their heirs. The remaining \$17 trillion will go to estate taxes, charitable bequests, and estate settlement expenses. Second, it is equally 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—and 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.

## Challenge 7: Is it true that only 2% of estates participate in the wealth transfer?

**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.**

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. 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.

## Challenge 8: How will heirs benefit?

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

From the outset, it must be noted that not all of the \$41 trillion transfer is going to heirs, and that substantial amounts are going 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. The fundamental point in regard to the relative shares of the estate going to heirs, to taxes, to charity, or to estate fees—all of which are documented in the original report—is that they do not affect the validity of the \$41 trillion wealth transfer estimate.

## Challenge 9: Why is SWRI's estimate four times greater than the previous highest estimate?

**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 this simulation figure four times higher?**

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 1998-2052 from the estates of the entire 1998 adult population (age 18 and over) to heirs, taxes, charity, and fees. 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 aged 50 and older with children. SWRI's simulation also 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. Finally, 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.

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