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THE WEALTH TRANSFER

Seema Nayyar

Four years ago, sociologist Paul Schervish accomplished a mathematical feat that proved to be more controversial than he ever imagined. He and his colleagues at Boston College calculated the sum of all American inheritances to be distributed over the next half-century. The amount was $41 trillion. Schervish's research seemed especially good news for the Baby Boomers, who stood to gain $7.2 trillion over the next 50 years - roughly $92,000 per person, by Schervish's calculation.

Although Schervish still stands by his estimates, in this month's cover story, Contributing Editor Michael J. Weiss describes how the impending generational transfer of wealth in America may be more myth than reality. In fact, Weiss reports, most Baby Boomers are in for a rude awakening. Not only has the size of their future windfall been vastly inflated, so too has the number of Boomers likely to receive any inheritance at all.

"A weak economy, a sputtering stock market and a Social Security system that may run dry are all fueling skepticism regarding the size of the transfer of wealth from Boomers' parents to their children," Weiss writes. "Since 2001, the stock market meltdown has erased some $8 trillion in shareholder wealth, slashing the net worth of Boomers' parents. Plus, Americans are living longer and increasingly tapping their nest eggs to fund their own extended retirements. Despite heated debate about the exact size of the bequest, there's universal agreement on one stark point: The vast majority of Boomers will never inherit one single dime of inheritance."

Even so, a small percentage of Boomers are expected to claim a legacy. And, despite the newly deflated estimates of the wealth transfer, businesses are still vying to help Boomers spend their parents' money. In his article, "Great Expectations," Weiss offers up several industries most likely to benefit. Look for his story on page 26.

This month, there's a transfer of sorts taking place at American Demographics as well. After three years as editor, I'm leaving the magazine. Although a successor has yet to be named, I'd like to take the opportunity to thank everyone I've worked with over the years - especially our readers. We've always encouraged an open forum with you, and have been delighted when you've made the extra effort to contact us. It has been a privilege to edit a magazine whose readers are as passionate about the material as we are.

One parting note: Editors are only as good as the people they work with. We have a small but hardworking staff of writers, editors and designers. It's been an honor to work with them over the past three years. They, and our talented pool of contributors, have provided flashes of brilliance along the way - for which I am eternally grateful. To all, thank you for your dedication, and best wishes.

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GREAT Expectations

BY MICHAEL J. WEISS

Realistic or idealistic? In recent years, economic researchers have debated the amount of money Baby Boomers will inherit from their parents with an exuberance once reserved for Internet stock touts. At least $10 trillion over the next 55 years, proclaims one. No, $12 trillion over the next 20 years, insists another. Make that $136 trillion over 55 years, according to a third estimate. To a confounded public, the astronomical figures sound more like a debate involving Japanese yen than American greenbacks.

But now that the oldest Baby Boomers have turned 57 and are approaching retirement, this question is more pressing than ever. The answer will determine whether Boomers - the largest generation in U.S. history - can expect a cushy financial future or a bleak retirement. And lately, the economists' rosy estimates have wilted. A weak economy, a sputtering stock market and a Social Security system that may run dry are all fueling skepticism regarding the size of the transfer of wealth from Boomers' parents to their children. Since 2001, the stock market meltdown has erased some $8 trillion in shareholder wealth, slashing the net worth of Boomers' parents. Plus, Americans are living longer, to an all-time high of 77.2 years in 2001, and increasingly cracking their nest eggs to fund their own extended retirements. Then there's the sheer number of Baby Boomers, born between 1946 and 1964. There are 78 million of them, most with their hands outstretched for a bequest. "Boomers are too numerous to expect a windfall," says economist Laurence Kotlikoff at Boston University. "I'm sorry to burst anyone's bubble, but there's no economic justification for any bonanza inheritance."

Despite heated debate about the exact size of the bequest, there's universal agreement on one stark point: The vast majority of Boomers will never inherit a single dime. Less than 20 percent of them have received a bequest, according to the 1998 Survey of Consumer Finances [SCF], a poll of about 4,300 families conducted every three years by the Federal Reserve Board in Washington, D.C. And the average bequest was less than $50,000. Yet the staggering wealth of Boomers' parents means that, at the very least, $1 trillion will shift to their children in the next decade, influencing the economy and quality of life in America for years to come. It's no surprise, then, that a small army of lawyers, accountants and financial planners - as well as real estate brokers, travel agents and car salesmen - hope to profit from whatever wealth transfer does occur.

YOU CAN'T TAKE IT WITH YOU

The 50 million Americans born before 1945 - the so-called World War II Generation, or, in Tom Brokaw's words, the Greatest Generation - are the wealthiest batch of seniors in U.S. history, although they didn't start out that way. Their early years were shaped by the Great Depression, which gave them an inclination for thriftiness. Then their luck turned. For millions in the late 1940s and in the 1950s, the GI Bill was a ticket to college and middle-class status. Their work years coincided with a period of robust economic growth during the 1960s. Their home values increased during the 1970s, and they caught the updraft in stock prices through the 1980s and 1990s. Today's seniors enjoy full Social Security and Medicare benefits and receive the most generous pensions in the nation's history.

Consider this measure of the World War II Generation's wealth. Ken Dychtwald, president of Age Wave, Inc., a business development firm in Emeryville, Calif., reports that people over age 55 currently control nearly two-thirds of all the nation's financial assets. They own some 40 percent of all mutual funds, 60 percent of all annuities and 48 percent of all luxury cars.

But if seniors possess unprecedented wealth, they also face enormous expenses - that's one reason why it's hard to figure how much they'll pass on to future generations. The budgetary item eating into the size of inheritances more than any other is health care. Americans are living longer today than ever before, which also means they're spending more on medicine and medical procedures as they age. Some 40 percent of Americans over age 65 may spend time in a nursing home, and 75 percent will likely need some type of home care, reports the Health Insurance Association of America. The average cost of care in a nursing home: more than $52,000 annually.

"With every breakthrough in health care, the wealth transfer declines," says Russ Alan Prince, president of the market research firm Prince & Associates, in Shelton, Conn. "If everyone starts living to the age of 100, the money's gone."

Just as troubling, the recent stock market collapse has eroded seniors' wealth - at least on paper. Unless the market rebounds dramatically, seniors will have less to bequeath to their heirs. Baby Boomers can expect to receive 20 percent less in their inheritance than they would have gotten in 2000, projects Kotlikoff. Prince agrees. "In 1999, everyone was getting rich and ready to hand down fortunes," says Prince. "But a lot of people aren't rich anymore. Cisco has gone from $80 to $18. And Enron is no longer a good investment. A lot of people have less to leave their children."

Another inheritance wild card is what researchers delicately call a "declining bequest ethic." Think of the bumper sticker that declares, "Retired - Spending My Children's Inheritance." It's more than a slogan. Kotlikoff reports that the percentage of those older than 65 who say it's important to leave an inheritance dropped to 47 percent in 2000 from 56 percent in the early 1990s. Only 22 percent of people over 65 plan to make a significant bequest. Why? One explanation is that families these days are more geographically dispersed, stretching familial ties.

It seems that the psychology of inheritance is changing. As seniors live longer, they are more worried about running out of money. So they're keeping more for themselves and giving less away. Their heirs' expectations are changing too, says Larry Cohen, director of consumer financial decisions at SRI Consulting in Princeton, N.J. In a 2002 survey of 4,000 Americans, SRI found that Boomers are less likely to expect an inheritance than other age groups. "If you've got a vibrant, skiing Frank Lautenberg of a father," says Cohen, referring to the 79-year-old New Jersey senator, "you're probably not expecting an inheritance any time soon."

WHAT RETIREMENT NEST EGG?

Seeking insight into how Boomers envision their own retirement, the AARP surveyed 2,000 of them in 1998. The results support the stereotype of a selfish but optimistic generation. Comparing themselves to their parents, 75 percent admit they're more self-indulgent and 67 percent believe they'll live longer. Yet Boomers understand that their lifestyle comes at a price: 84 percent recognize that they have to make more money to fund their retirement. A whopping 80 percent plan to work at least part-time during retirement, and 23 percent say they are counting on an inheritance to help fund their retirement. With this patchwork safety net, 65 percent of Boomers feel confident that they will have enough to retire in comfort. John Gist, associate director of the Washington, D.C.-based AARP Public Policy Institute, says that while many Boomers are better off than their parents were at the same age, "their expectations are also greater, and some will find their resources falling short."

Gist thinks Boomers are too sanguine. By his estimate, only a quarter of them will be comfortably set in retirement; at the other extreme, a quarter will end their years in poverty. Half of all Baby Boomers fall somewhere in between. Unless they collect some form of employer-backed benefit, like a pension - and many of them won't - they'll likely have to work part-time to make ends meet. "By and large, Americans today aren't retiring with a lot of resources," says Gist.

It's possible that most Boomers will inherit not a windfall, but simply the wind.

REALITY CHECKS

All this speculation has led researchers to try to pin down an exact figure for the largest and most anticipated transfer of wealth in U.S. history. This transfer of wealth includes inheritances passed from the estates of Boomers' parents to their heirs as well as money going to estate taxes, charitable bequests and settlement expenses.

The debate kicked off a decade ago, when two Cornell University professors claimed that $14 trillion [in 1999 dollars] would be passed from parents to children during the next 50 years. Four years ago, sociologist Paul Schervish, director of the Institute for Social Welfare Research at Boston College, joined the fray, when he and his colleagues, while reexamining the Cornell estimate, calculated the sum of all American inheritances to be distributed over the next half-century to be $41 trillion. A staggering pile of cash by any measure, Schervish deemed the estimate conservative, based on a modest growth rate in wealth of 2 percent annually. The high estimate came in at an eye-popping $136 trillion.

Schervish's research seemed especially good news for Boomers, known more for their conspicuous consumption than their thriftiness. Even by his more modest calculation, they stood to haul in $7.2 trillion of the jackpot within the next 50 years. A mega-inheritance would mean the chance to retire to a Mediterranean villa without the hassle of actually having to save for one.

But earlier this year, Schervish and his colleague John Havens went back and checked their math. Critics had questioned the researchers' underlying assumptions, so this time, Schervish and his team took into account economic recessions, market gyrations and the impact of longer life expectancy. The new figure? Still $41 trillion. According to Schervish, the original estimate did take into account periodic recessions and depressions in the stock market. And longer-living Americans didn't decrease the figure, because many seniors still work part-time in retirement.

As Schervish sees it, the big shocker isn't the staggering amount that Baby Boomers will inherit from their parents [he stands by the $7.2 trillion figure], it's the even larger amount they will pass on to their own kids. "Much of the wealth transfer will be from the Boomers to their children," he says. "The Me Generation may be surprised that, as a group, they're going to be benefactors and not beneficiaries."

So how much of their wealth will Boomers' parents pass on to their offspring? Kotlikoff argues that long-term estimates, such as Schervish's 50-year guess, are statistically meaningless. In his words: "Reliable data on inheritances and bequests is not available and, indeed, may not be collectible." But Kotlikoff is comfortable predicting how much Boomers can expect over the next five years. Surprisingly, it tracks almost exactly with what their parents received in 1962: about 3 percent of their income from work. By his calculations, with labor income accounting for about

70 percent of the total $11 trillion U.S. economy, or $7.7 trillion, this year's total "bequeathable wealth" should amount to about $230 billion. Of that, Kotlikoff figures that Boomers should receive about 70 percent, or $161 billion, in inheritances in 2003.

WHERE THERE'S A WILL

But the money won't be distributed equally among Boomers. In fact, the bulk of the wealth will go to relatively few people. Just 8 percent of all Americans have ever received an inheritance, according to a 1998 study of the Survey of Consumer Finances. [At press time, results of the 2001 survey had not yet been released for demographic analysis.] And according to some estimates, less than 20 percent of Baby Boomers will ever receive an inheritance. Even for those fortunate few, the amount of an inheritance generally isn't astonishing: Most inheritances are less than $25,000, and sources say that this figure isn't likely to change for Baby Boomers.

A closer look at the SCF data reveals that an old adage still applies: The rich keep getting richer. Just 1.6 percent of heirs in 1998 received more than $100,000 - and they tended to be the wealthiest Americans. Some 45 percent of people who inherited money were already worth between $1 million and $10 million. By contrast, only 6 percent of Americans who had no net worth on paper received a bequest.

Race and ethnicity also figure into who gets a windfall. An analysis of the same survey found that 23 percent of white Americans had already received an inheritance, compared with only 11 percent of black Americans. For Hispanics, the inheritance rate was 4 percent. And for Asians and other races, it was 9 percent, although the sample size was too small to make general conclusions about these groups.

"Blame the income effect," says Edward Wolff, an economics professor at New York University. "Groups with lower income accumulated fewer assets to transfer as inheritances."

Although some have proclaimed retired African Americans the first minority cohort to have accumulated enough assets to pass on bequests, the SCF data paints a different picture. Despite large gains in income, it seems black Americans aren't amassing significant wealth to pass on to their children. Over the past decade blacks' median income rose 34 percent, while their median inheritance rose only 12 percent. The numbers are most distressing for the elderly. More than half of all blacks in households with a member 70 years or older have no financial assets to speak of, and therefore nothing to bequeath.

"If you look at the history of African Americans, it's mostly been a 200-year struggle for survival," says Rodney Jackson, president of the National Center for Black Philanthropy in Washington, D.C. "We've had to worry about self-preservation in order to survive segregation and Jim Crow laws. We haven't had the luxury of accumulating assets to pass on to another generation."

There are several factors that could account for the low inheritance rate among Hispanics. Perhaps the most important is that nearly half of all Latinos born outside the U.S. send money back to their country of origin. Though their median annual income is only $30,000, Hispanics nevertheless send an estimated $23 billion to South America each year, reports the Washington, D.C.-based Hispanic Association on Corporate Responsibility.

"Rather than accumulate money to pass on to the next generation, the pattern for Hispanics and other immigrants is to send money home to their families as they're earning it," says Roberto Suro, director of the Pew Hispanic Center in Washington, D.C. "It's going to spouses, children and sometimes parents who've remained behind."

Not surprisingly, inheritance size is related to income, albeit with some demographic wrinkles. In 1998, the median amount of bequests to whites was $55,100, compared with $44,400 to blacks. But Hispanics and Asians received disproportionately large sums of money - a median amount of $94,700 and $76,100, respectively. "There are few truly wealthy Latinos in this country, but they are generous," says Dario Marquez, Jr., president of the Washington, D.C.-based Hispanic College Fund. "The Hispanic inheritance story is about immigrant families whose parents haven't accumulated very much wealth. They came as laborers and caught the American Dream to send their kids to college. So while you can have a prosperous Latino in his 40s earning a lot of money, his immigrant parents are probably quite poor."

By and large, however, these patterns are familiar to most Americans. The haves continue to pass their wealth on to their heirs, keeping money in the family. Meanwhile, the have-nots can only wish they had that luxury.

WHERE THE MONEY GOES

Even with the lowered estimate of the wealth transfer, no one denies that more than $1 trillion will still end up in Boomer pockets over the next decade. Predictably, businesses and charities are lining up to help them spend it. Arnold Brown, a futurist and principal in the Manhattan-based firm Weiner Edrich Brown, believes that the housing industry will be one of the big winners here. He says that purchasing a second home will be the No. 1 splurge of Boomers who receive an inheritance. "Boomers have already begun boosting second-home sales, thanks to money from their parents," he explains. "And it's not just the leading aspiration of the well-off, but of middle-class Boomers as well." And the surge in second homes and vacation cottages should spill over into related industries, those that sell furniture, appliances and garden supplies.

Unlike their parents, who traveled to sunbathe and sightsee, Boomers with cash will likely broaden their horizons by taking classes and going on spiritual journeys, according to Brown. He predicts that businesses offering adult education programs and online college courses will experience an uptick in revenues as Boomers pursue learning for its own sake. Already, the Elderhostel movement, which arranges for seniors to stay at college campuses, has seen interest steadily rise, to a quarter of a million bookings each year. Among its offerings: a trip to a scientific research center in Manitoba and a walking tour of Ireland emphasizing Irish history. The prime minister of New Zealand recently introduced the New York previews of The Lord of the Rings: The Two Towers, which had been shot in his country - the ultimate marketing pitch for spiritual travel. Pam Danziger, president of Unity Marketing, a Stevens, Pa.-based company that focuses on the luxury market, believes that empty-nesting Boomers will use their inheritances to help them acquire personal experiences - whether it's traveling to an exotic locale, taking gourmet cooking lessons or learning to play a musical instrument.

"I call Boomers 'butterfly consumers,' because they're just starting to emerge from their cocoon at home," says Danziger, author of Why People Buy Things They Don't Need [Paramount Market Publishing, 2002]. "When their parents' money comes down, they're going to spend more on experiential things. They'll want to make up for things they couldn't do before. The money will be directed toward their passions." This bodes well for the travel and leisure industries - ranging from airlines and hotels to restaurants, casinos, cruise lines and theme parks - provided that the U.S. is not involved in a protracted war.

Boomers' future purchasing decisions will also reflect attitudinal differences from their parents, says Danziger. While the World War II Generation transformed their frugal roots into a fondness for collectibles - plates, Precious Moments dolls, Hummel figurines - Boomers have shown little interest in such decorative items. She sees newfound wealth going to jewelry, clothes and luxury cars. And she downplays predictions that the health-care industry will explode as Boomers reach retirement age.

"Boomers are the healthiest generation in history," Danziger says. "They're not going to need major surgery at 65. They'll be out hiking in the woods." Instead of inheritance money being needed for serious medical procedures, it will go for cosmetic surgery and drugs like Botox, Viagra and Propecia.

Despite the recent stock market slump, it's likely that much of the Boomers' jackpot will wind up on Wall Street. And they'll probably take bigger investment risks than their parents did, according to economist and author Harry S. Dent, Jr. "While their parents bought bonds, their children will look for hot stocks or a growth fund," he says. "They're more aggressive." Admittedly, Dent offered a similar view three years ago ["The Demographic Investor," American Demographics, December 2000], before the tech bubble burst. But he remains optimistic that consumer spending, low inflation and a surge in investment will fuel another rally in this decade.

This transfer of assets will ripple through the economy as lawyers, accountants, estate planners, wealth managers, real estate brokers and banks expand their services to manage Boomers' inheritances. Already, such financial institutions as Wells Fargo, Bank One and Prudential have expanded their trust departments. Bank of America bulked up on financial advisers by 20 percent last year during a dismal market period. "The financial services providers will be the beneficiaries of this wealth transfer if they do their jobs well," says Kathleen Gibson, a Bank of America trust executive based in Dallas. "We're tremendously enthusiastic about growth in the business."

You can see it in Bank of America's ads. In one for its Private Bank service, a Boomer with gray-streaked hair and a leather jacket sits astride a motorcycle. This "Motorcycle Man" ad was designed to appeal to Boomers who've achieved financial success and are ready to enjoy active retirements. And it's based on demographic reality: The median age of Harley-Davidson owner is now 47, the heart of the Boomer cohort.

Even mom-and-pop wealth managers have seen a bump-up in business. A decade ago, eight small trust companies formed the Association of Independent Trust Companies to handle wealth transfers; today the group boasts 125 members. "Everyone wants a foot in the door of whatever wealth transfer will occur," says Herb McPherson, president of the Chicago-based association. "We think the wealth transfer is real."

But marketing wealth transfer services to the people who will leave estates, and to the people who will inherit them, is no small feat. When Prudential commissioned focus group research into estate planning several years ago, it discovered that different segments of seniors have very different views toward inheritance. Americans who came of age in the 1930s wanted to leave a financial legacy to their children, whereas those who reached maturity in the 1940s wanted to keep more for themselves. "People who grew up during the Depression said, 'I don't want my children to go through what I did,'" says Geoffrey Meredith, president of Lifestage Matrix Marketing, a Lafayette, Calif., company that conducted the research. "The ones who grew up around World War II said, 'These kids today don't know the meaning of a nickel. There's no point in leaving them any money.'" With that information, Prudential designed a two-pronged marketing approach for its sales force: The Depression-era customers would get a tax-shelter pitch to preserve their assets, and the younger seniors would hear how they can maximize income so they can spend it while they are alive.

There's another group of professionals who also may profit from the wealth transfer: psychotherapists. With a wave of new millionaires on the horizon, psychologists are offering counseling in what they call "sudden wealth syndrome." One program offered by the Phoenix Company, a wealth management firm based in Hartford, Conn., is called the Family Dynamics of Wealth. It advises people on how to raise children in an affluent environment, teaching them how to budget and to get involved in charities at an early age. "We help clients establish family mission statements," says Walter Zultowski, the company's senior vice president. "It's not just about making money to pass it down but to do something good with it."

To that end, charities are bound to receive a sizable chunk of the Boomers' attention. In Schervish's wealth transfer estimate of $41 trillion, he projected $6 trillion going to charities. Many members of the World War II Generation donated their money to churches and religious institutions. Will many Boomers do the same? Ann Cohen, a philanthropic consultant based in Washington, D.C., doesn't think so. "They're trying to find their own way," she says. "Boomers want to make a statement that the world has changed, and they want to define giving in today's world. So they're looking for needs that are still unmet." Cohen reports that a lot of money in the Washington, D.C., area goes to educational organizations that build bridges between religious and ethnic groups, such as Jews and Arabs. And rather than donate to individual charities, as their parents did, Boomers are setting up foundations to support broad causes - education, AIDS, domestic poverty.

Ironically, some Baby Boomers who receive an inheritance won't have much choice about what to do with it. That's because the money is increasingly arriving in the form of a trust with strings attached, such as a clause requiring that they marry at a certain age. Some seniors who worked a lifetime for their money worry about turning their children into trust-fund brats. "Children are being told, 'Now that you're rich, you're not going to get a Corvette and travel around the country,'" says Prince. "More and more, parents are controlling money from the grave."

What's clear is that Baby Boomers are living very differently from the way their parents did - and this affects the choices they make upon receiving an inheritance. Boomers generally married later and began having children later. So even in their 50s, many are still facing child-rearing expenses. At least 20 percent of retired Boomers are still paying college tuition for their own children. In addition, the Boomers' taste for SUVs and expensive houses means they are carrying exponentially more debt than their parents did. Financial planners report an emerging trend in grandparents establishing trusts in 529 Plans for their grandchildren - bypassing their Boomer kids altogether.

Some evidence shows that Boomers are inclined to use an inheritance windfall to pay off their debts. A 2002 survey of 3,773 households by SRI Consulting found that about 70 percent would use a $25,000 boon to pay off debt or set it aside for savings and investments. Only 40 percent of Boomers would immediately go on a spending a spree - but that's still a higher rate than for any other age group.

THE ECHO EFFECT

Ultimately, the real beneficiaries of any wealth transfer will be the grandchildren of today's seniors: Generation Y, those born between 1977 and 1994, who are now in their teens and 20s. It's safe to say few of them have even thought about retirement. Yet in Schervish's projections, they get the biggest slice of the inheritance pie: $17.8 trillion.

Why so much? For all the wealth that the World War II Generation enjoyed, Boomers are even wealthier. Plus, many frugal Boomers will likely let their own inheritance trickle right through to the next generation. Research indicates that Boomers are more willing to pass money to their heirs than their parents were. In a 2001 Allstate Financial survey of 1,004 Boomers, 67 percent said that they planned to have money left at the end of their lives to give their children as an inheritance. Economist Kotlikoff predicts that inheritances will rise to more than 8 percent by 2050 from about 3 percent today, thanks to the Boomers' relative wealth and their purchase of term life insurance. As he concludes, "It is the Boomers' offspring - not the Boomers themselves - who can expect a bequest bonanza."

But some experts claim even this may be wishful thinking. Gen Y is the second-largest population group behind Boomers, and this young cohort will also have plenty of outstretched hands for bequests as they age. The big question is whether Gen Y will suffer because of their parents' spendthrift ways. If Boomers continue saving little and running up large credit card balances into retirement, there may not be much left to pass on.

So even as Boomers fret about their parents frittering away their inheritances, there's no assurance that they will behave any differently themselves. It's possible that all they'll have left to bequeath is a ragged old family heirloom: the bumper sticker that declares, "Retired - Spending My Children's Inheritance."

Michael J. Weiss, a contributing editor at American Demographics, is a journalist, author and marketing consultant.

Why the Rich Get Richer

Only a small percentage of Americans will ever receive an inheritance. According to one analysis, just about 7 percent of the population will inherit money - and then typically less than $25,000. A mere 1.6 percent will receive more than $100,000.

PERCENT OF POPULATION RECEIVING INHERITANCES Inheritance Income $0 $1-$25,000 $25,000-$50,000 $50,000-$100,000 More than $100,000 Less than $10,000 54.9% 2.0% 0.4% 0.5% 0.7% $10,000-$25,000 6.4% 0.5% 0.1% 0.0% 0.2% $25,000-$50,000 14.1% 0.7% 0.2% 0.2% 0.2% $50,000-$75,000 9.0% 0.5% 0.1% 0.2% 0.2% $75,000-$100,000 3.9% 0.3% 0.2% 0.1% 0.1% More than $100,000 3.6% 0.3% 0.1% 0.1% 0.2% Total 91.9% 4.3% 1.1% 1.1% 1.6% Sources: Jagadeesh Gokhale [Federal Reserve Bank of Cleveland] and Laurence Kotlikoff [Boston University]; analysis of Survey of Consumer Finances, 1998

Boomer Pipe Dreams?

The $41 trillion wealth transfer estimated by **Boston College** has been widely debated for years. While this model calls for Boomers to receive $7.2 trillion in inheritances, others claim that the figure is much too high.

PROJECTIONS FOR GENERATIONAL WEALTH TRANSFER, 1998-2052 Total Low estimate* [2% wealth growth rate] Middle estimate* [3% wealth growth rate] High estimate* [4% wealth growth rate] Number of estates 87,839,311 87,839,311 87,839,311 Total 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 Bequests to charity $6.0 $11.6 $24.8 Bequests to heirs $24.6 $40.0 $65.3 *Dollar values are in trillions of 1998 dollars Source: Paul G. Schervish and John J. Havens, Social Welfare Research Institute, **Boston College**; 1999 and 2003

Eroded Assets

One reason for declining inheritances is the depressed stock market, which has erased $8 trillion in shareholder wealth since 2001. The losses have hurt stock owners between the ages of 50 and 70 in many ways. PERCENTAGE OF RESPONDENTS WHO: Lost money in the stock market in the past two years 77% PERCENTAGE OF RETIREES WHO: Modified current lifestyle because of losses 63% Modified expectations of retirement lifestyle because of losses 57% Postponed retirement or plan to work in retirement because of losses 27% Are working in retirement because of losses 10% Source: AARP survey of 1,013 Americans nationwide, 2002

Heirs Apparent

15 WAYS to find out who's in the money

FREE DATA RESOURCES

GOVERNMENT, ACADEMIC AND OTHER NONPROFIT RESEARCH ORGANIZATIONS THAT PROVIDE INFORMATION AND PROJECTIONS ON INHERITANCES:

AARP Conducts a wide range of research on economic, social and demographic trends affecting the Baby Boom generation, including a recent survey on Boomer attitudes toward retirement. Sarah Zapolsky, senior research adviser, urges caution in predicting a windfall. "Certainly the Silent Generation is more thrifty and has less debt, but older people today are living longer and are sometimes healthier," she says. "Medicare doesn't cover things like prescription drugs, so I think there's going to be a bigger hit to many estates than many people realize. Plus, any inheritance is going to be split up among all the siblings. When you look at the subtotal, it's a lot, but what will actually be inherited is vastly overestimated." Contact: www.aarp.org or [800] 424-3410.

CONSUMER EXPENDITURE SURVEY Conducted by the Census Bureau for the Bureau of Labor Statistics, this annual survey has produced extensive spending statistics for more than 100 years. Everything from small-ticket items, like frozen orange juice and toilet paper, to larger purchases, such as health insurance and home renovations, is recorded by 15,000 Americans through a combination of self-reporting and in-person interviews. Ask about giving and receiving lump-sum payments from estates, trusts, royalties, alimony, prizes or games of chance, and from individuals outside one's family. Contact: www.bls.gov/cex/home.htm or [202] 691-6900.

CURRENT POPULATION SURVEY The Money Income annual survey, conducted by the Census Bureau for the Bureau of Labor Statistics, breaks down household income according to employment status; income; age, race and ethnicity; and other household characteristics. Contact: www.census.gov/hhes/www/income.html or, for general census income information, [301] 763-3243.

NATIONAL BUREAU OF ECONOMIC RESEARCH A leading nonprofit economic research organization, the NBER conducts economic research for policymakers, business professionals and the academic community, and administers the Conference on Research in Income and Wealth [CRIW]. Jeffrey Brown, faculty research fellow, expects inherited wealth to be concentrated among a small group of Boomers, who often act in unexpected ways. "Evidence suggests that most people tend not to spend money until they get it," says Brown. Boomers are "not always doing what an economist would consider a rational, forward-thinking response to an expected inheritance. Instead, most wait until they get the money and treat it like it's a big windfall." Contact: www.nber.org or [617] 868-3900.

NATIONAL OPINION RESEARCH CENTER Based at the University of Chicago, the NORC has an Economic and Population department, which conducts nationwide surveys on economic and social life. Its Center on Demography and Economics of Aging conducts demographic and economic research on the aging population, and the Population Research Center tracks the relationship between demographic trends and broader economic issues. Contact: www.norc.uchicago.edu or [773] 256-6000.

SURVEY OF CONSUMER FINANCES A comprehensive look at consumer finance conducted every three years by the Federal Reserve Board, this survey tracks the balance sheet, pension, income and demographic characteristics of U.S. families, including data on which Americans have received inheritances. Contact: www.federalreserve.gov/pubs/oss/oss2/scfindex.html.

More or Less Money for Inheritances?

The net worth of American families has risen 40 percent over the last decade, but not all demographic groups have benefited equally. African American and Hispanic families have seen their net worth rise only 16 percent, affecting current and future bequests.

CHANGES IN FAMILY NET WORTH MEDIAN CHANGE 1992 2001 1992-2001 All families $61,300 $86,100 40% AGE OF HEAD OF HOUSEHOLD Under 35 $11,400 $11,600 2% 35-44 $55,500 $77,600 40% 45-54 $96,800 $132,000 36% 55-64 $141,100 $181,500 29% 65-74 $121,700 $176,300 45% 75 and older $107,500 $151,400 41% EDUCATION OF HEAD OF HOUSEHOLD Less than high school $23,100 $25,500 10% High school graduate $47,600 $58,100 22% Some college $71,400 $71,600 0.3% College degree or higher $121,500 $213,300 76% RACE OR ETHNICITY OF RESPONDENT White, non-Hispanic $86,200 $120,900 40% Nonwhite or Hispanic $14,800 $17,100 16% Source: Survey of Consumer Finances, Federal Reserve Board, 1992 and 2001

Shrinking Bequest Ethic?

The increasing life expectancy of Americans has caused seniors to be more concerned about the costs of living longer - and less likely to think about leaving an inheritance. A recent survey of millionaires found that only 4 percent care about passing on an inheritance to the next generation.

FINANCIAL GOALS OF THE WEALTHY Assume a comfortable standard of living during retirement 31% Minimize my income and capital gains tax 21% Protect my estate from the impact of taxes 11% Provide for long-term care for myself and/or spouse 7% Begin transferring wealth to beneficiaries 5% Finance my children's college expenses 4% Leave an estate to my heirs 4% Start or buy a business 2% Create a foundation legacy 1% Not currently working on any of these financial goals 14% Source: Phoenix Wealth Management survey of 1,649 millionaires, 2002

Where Will the Money Go?

Americans used to save or invest their bequests. No more. The sputtering stock market has prompted Americans to consider other options if they receive a $25,000 inheritance. Baby Boomers are more likely to spend the money than other groups. 1998 2000 2002 THOSE WHO WOULD SAVE OR INVEST A $25,000 WINDFALL All Americans 75.3% 72.5% 70.4% Generation X 77.8% 77.1% 67.6% Baby Boomers 74.7% 71.1% 69.0% Seniors/still working 75.1% 71.6% 71.8% Retirees 73.6% 69.7% 74.8% THOSE WHO WOULD PAY OFF DEBT WITH A $25,000 WINDFALL All Americans 60.4% 62.4% 57.6% Generation X 72.1% 72.6% 71.2% Baby Boomers 73.0% 71.2% 69.4% Seniors/still working 55.4% 54.1% 48.0% Retirees 31.8% 39.8% 29.7% THOSE WHO WOULD SPEND A $25,000 WINDFALL All Americans 34.8% 30.8% 34.7% Generation X 41.1% 34.1% 34.4% Baby Boomers 35.5% 33.0% 39.4% Seniors/still working 30.2% 25.1% 31.7% Retirees 29.8% 26.5% 29.9% Sources: 2002-2003 MacroMonitor; SRI Consulting Business Intelligence

Boomer Plans for Future Inheritances

Ever the optimists, Baby Boomers believe that many more of them will get inheritances, and for larger amounts than previous research has suggested, according to a new online survey of 1,204 Americans conducted by Knowledge Networks for American Demographics. And contrary to their image as conspicuous consumers, Boomers claim they plan to put the money into savings or pay down debt, not splurge on renovating their house.

BABY BOOMERS [39-57 YEARS OLD]

Those who have already received an inheritance 24% Those who anticipate receiving a future inheritance 26%

HOW MUCH THEY EXPECT TO RECEIVE FROM THEIR PARENTS Less than $25,000 44% $25,000-$50,000 18% $50,000-$100,000 17% More than $100,000 15%

WHAT THEY EXPECT TO DO WITH THEIR INHERITANCE Put it into savings 65% Pay off debt 44% Splurge 26% Invest it in the stock market 24% Pay for their children's college education 22% Renovate their house 15%

WHEN THEY EXPECT TO RECEIVE THEIR INHERITANCE 2003-2008 8% 2008-2013 28% 2013-2023 45% After 2023 19%

PROFESSIONALS THEY PLAN TO CONSULT Financial planner 34% Accountant 22% Attorney 21% Banker 10% Stockbroker * Wealth manager * Therapist * *Sample size too small for valid results Source: Knowledge Networks