When Great Expectations Falter

As debate about the great American wealth transfer moves back to academia, development officers and advisors focus on helping clients give—one bequest at a time

By **Karen Donovan**, freelance journalist, Boston

In October 1999, two academics at Boston College's Social Welfare Research Institute alerted the financial services business to an epic opportunity. They calculated that $41 trillion would be transferred over a 55-year period from the World War II "Greatest Generation" to their baby boomer offspring and then to the next generation. Charities quickly seized on a tantalizing detail: The researchers predicted that $6 trillion of that pot would become bequests to charity. "Our general conclusion is that a golden age of philanthropy is dawning," pronounced the report's authors, John J. Havens and Paul G. Schervish.

Over the years, the numbers have taken on a life of their own and been pumped into all sorts of business plans. Some planned giving offices staffed up in anticipation. The report certainly was a factor in Boston College's development office adding 30 people. Others were openly skeptical. And some ignored it entirely. Lindsay Lapole, director of planned giving for the Salvation Army's southeastern U.S. region, says: "We didn't build the program because of the report, and we are not dismantling the program. My impression, though, is that some organizations did. Some people were expecting a huge dump truck was going to back up and all this money was going to be dumped into the street."

After the 2000 recession and the ravages of the market crash of 2001 to 2002, the idea of a gargantuan intergenerational transfer provoked more questions. Havens and Schervish responded with a report in January 2003 reasserting their estimates. In a press release declaring that the $41 trillion transfer "remains valid," Schervish said: "The news should come as a great relief to universities and charities across the country who expanded their development offices and overhauled their staff in response to our prediction."

This spring the debate got hotter when *The Chronicle of Philanthropy* ran a cover story seeming to prove that the Havens and Schervish projections could not possibly be realized, at least as far as charitable giving was concerned. Starting with data from *Giving USA* on annual bequests for the years 1998 through 2004, *Chronicle* reporter Holly Hall showed that the rate of giving has been far slower than Havens and Schervish had expected. In the first 20 years of the 55-year period that their projections cover, the academics said a total of $1.7 trillion would flow to charities. But only $127.6 billion has come in those first five years, according to *Giving USA*, the yearly report on philanthropy published by the Giving USA Foundation. Put another way: in one quarter of the time allotted, only 7.5 percent of the $1.7 trillion has materialized. To hit the $1.7 trillion mark, charitable bequests "would have to average $120.9 billion annually for 13 years straight, beginning in 2005," Hall wrote.

That seems highly unlikely: It would be six times the annual record of $20.9 billion, set in 2002, according to *Giving USA*, which has been tracking philanthropic giving since 1955. Leo Arnoult, a Memphis, Tenn.-based consultant to nonprofits, told *The Chronicle* that it would be impossible to meet the 2017 estimates for charitable bequests "short of an avian epidemic, or some other major dislocation of population."

The Chronicle story was published just as the Association of Fundraising Professionals was gathering for its annual conference in Atlanta. This is the biggest conference of the year for charitable giving fundraisers, and Schervish was on the program as a "distinguished speaker." Seemingly unfazed by the latest assault on his projections, Schervish did concede that his 20-year target would not be met, but said he still stands by the long-range total. A lot of giving that is triggered by death (such as IRA beneficiary designations) does not show up as bequests, he notes, claiming the $6 trillion charity windfall is still coming. *The Chronicle*, Schervish says, misses "the bigger picture."

While accuracy of the predictions of the great wealth transfer will continue to be debated—in truth, Schervish, Havens and their critics may be long dead before the results are in—one thing is becoming clearer: Fewer professionals in the charitable giving field are building business plans around it. Charitable giving remains healthy overall. Schervish notes that Boston College still has those extra 30 in its development office. Still, there are no signs of a rapid acceleration that would fill the coffers of charities, cultural institutions and universities. Charities will have to earn money the old-fashioned way: by convincing donors of the worthiness of their causes. In the long run, says Arnoult, the projections of Schervish and Havens may prove to be well founded. But, Arnoult adds, as John Maynard Keynes said, in the long run, we are all dead, too. "The thing is," Arnoult says, "who cares in 2006?" Advisors can only truly help those clients who do care by creating gifting and estate plans that fit their current reality. (See "Strategies for Today's Realities," p. CGS 8.)

Several things happened to wealthy Americans since 1999 that suggest the wealth transfer activity and charitable giving may proceed on a lower trajectory. Chief among these are longer life spans and rising health care costs. According to philanthropy experts, potential donors are increasingly hesitant to pledge money in their 50s and 60s and even 70s, because of concerns over how they will support longer life spans and shoulder astronomical health care costs. Those concerns grow more acute with the critical baby boom cohort, many of whom are still

Data on annual bequests show that the rate of giving is lower than the report expected.

waiting for inheritances and must fund their own retirements (factoring in perhaps three decades of income needs).

Meanwhile, market returns have not been robust enough to propel portfolio values beyond pre-crash levels, leaving many potential donors with less to give. Lapole at the Salvation Army says gifts have remained constant but their value has gone down as stock market values plunged.

Most importantly for charities, the prospect of estate tax repeal—or even reform with exclusions jumping to $6 million to $10 million per couple—may cause many potential donors to rethink giving plans; they may no longer need the deductions.

At a minimum, those factors will tend to cause all but the wealthiest to postpone commitments to charitable giving. But that doesn't mean that the pace won't pick up. "We're still really early in this time line," says Douglas Bauer, senior vice president at Rockefeller Philanthropy Advisors in New York, which was established in 1891 to counsel Rockefeller family members on their giving plans and in 2001 started offering the service to other wealthy families. "We all need to see how this plays out."

But, Bauer adds, the kind of clients he deals with are making commitments. "Tremendous amounts of money have been opened up and dedicated to philanthropy," he says. Indeed, these very wealthy Americans are critical to the Havens and Schervish predictions: By their math, two-thirds of the $41 trillion wealth transfer will come from the top 7 percent of the nation's estates and those fortunes will be a significant source of the $6 trillion in expected bequests.

Charities are not likely to get a clear picture of whether the wealth transfer windfall is really coming until the boomers start to die off. "The big money is going to come in 2020 and beyond," says Robert F. Sharpe, Jr., of the Sharpe Group, a Memphis, Tenn.-based planned giving advisor to nonprofits. "Most baby boomers have to die themselves. Most estate planners and fundraisers alive today will not live to see the wealth transfer: That's the unfortunate reality."

For those who did commit resources to catch the expected largesse, the past few years have been sobering.

RELIEF

What isn't debatable is the continuing impact of the wealth transfer report. As a result of his report, Schervish became a sought-after expert in the wealth management industry. Merrill Lynch hired him to write a white paper and to give a speech to its wealth advisors. The wealth transfer report had arrived at the right moment: Financial services firms like Merrill Lynch were exploring ways to get into the trusts and charitable giving practices that had traditionally been the province of banks. So they were "drooling" over his findings, Schervish crowed in an interview with the *Saint Paul Pioneer Press* in June 2000.

Arnoult says he saw planned-giving offices at nonprofits and financial firms hire more staff to get the pot of gold pictured in the report: "They geared up mightily," he says. Recently he says, he was approached by a member of the finance staff of the Christian Brothers University in Memphis, Tenn., where he is a trustee, about increasing CBU's fundraising staff to capture its part of the great wealth transfer. Arnoult advised against what he told the board would be "a waste of money."

But for those who did commit resources to catch the expected largesse, the past few years have been sobering. "There were people who were hurt by this and programs that were held to unrealistic expectations," says Sharpe. Planned giving professionals were damned if they did and damned if they didn't, he adds: Charities that merely kept pace with the *Giving USA* numbers were scolded by their boards for failing to cash in on the wealth transfer, and those that got record results didn't get any credit because boards believed the money was there for the taking.

For the financial services firms, the wealth transfer report was not the impetus for expansion but another indication that there was growth and opportunity among the wealthiest investors. H. King McGlaughon, Jr., says he was hired as a first vice president by Merrill in 1995, as it responded to "internal client demand" for philanthropy and trust services. The business grew eight-fold from 1995 to 1997, he says, pushing charitable assets held at the Merrill Lynch Charitable Trust Co. from $270 million to $1.5 billion. The business faltered in 2001 after the terrorist attacks of Sept. 11. "We continued to monitor the numbers and wonder whether it [the transfer] was going to hap-

pen." In 2003, McGlaughon left for academia and recently joined Wachovia Wealth Management as the managing executive of its philanthropic practice.

David Luckes was a senior philanthropic consultant at Merrill's Wealth Management Services Division and Trust Company from December 1999 to December 2001. Now president of the Greater St. Louis Community Foundation, Luckes chuckled heartily at the notion that Merrill based its efforts on the wealth transfer figures. "The wealth transfer study is just one data point," he says. "To get the impression that they were going to get rich as a result of this stuff is just absurd."

For the most part, it seems, the notion of the vast wealth transfer lingers in the background but is no longer driving business plans. "Everyone throws around those numbers," says Charles Slamar, Jr., a senior vice president with the Bank of America's charitable trust division in Chicago. But, adds Charles Burton Gordy II, managing director of planned giving services at the Bank of New York, "it sort of misses the point."

What is more important for planned giving officers—and for wealth advisors—to consider, says Gordy, is the behavior of the baby boomer generation. Gordy, who was the planned giving director at Yale University when the wealth transfer study was released, is not optimistic: "Baby boomers have other financial interests," Gordy says. "The wealth is going to be a lot stickier intra-family, which could mean less for charity."

Add to this the potential impact of any estate tax repeal or reform: Some economists say charitable giving may lose as much as $25 billion a year if the estate tax is eliminated as an incentive to shelter large inheritances, while others believe there will be more money available to donate. It's a wild card, says Gordy, and one about which people have been speculating for about 10 years.

"Rather than simply saying, 'Hey, there's a lot of money out there and we're going to get it,'" Gordy says, the most important thing is cultivating the donor base of any charitable cause.

NUMBER CRUNCHING

Meanwhile, though, Havens and Schervish are back at the drawing board, gathering data on methods of charitable giving triggered by death that do not necessarily show up in bequests. They cite the rise in formation of foundations and donor-advised funds, and charities that show up as beneficiaries of a person's IRA or life insurance policy: all forms of giving that suggest a change in people's behavior. Havens is gathering the data and plans to make it available on the center's web site at *www.bc.edu/cwp*.

Havens is also examining data that he says he learned about since his correspondence with *The Chronicle* reporter: a Federal Reserve analysis of the Survey of Consumer Finances. That 2004 survey showed more than $1 trillion in inheritances from 1998 to 2002, almost double the $600 billion reported in the survey of inheritances from 1992 to 1998. That, in turn, was a doubling of $300 billion from 1988 to 1992. "If that pattern were to continue, we would be very close to the mark" on the wealth transfer report's prediction that estates will be valued at $11.6 trillion by 2017, says Havens.

Ironically, Havens—who along with Schervish and Sharpe sits on the advisory committee that decides the methods for the *Giving USA* estimates—disagreed with Sharpe over figures for the 2005 yearbook, which will be released June 19. Sharpe pressed for an estimate that was actually $15 billion higher in charitable bequests from people of modest means. Havens says he believes that longer lives and increased health care costs were limiting charitable bequests from such sources.

The study of rates of charitable giving is an "incredibly immature" field, says Luckes. "I give Paul [Schervish] and John [Havens] credit for putting a stake in the sand and saying maybe the world is far more abundant than we thought." Now, he says, the question is, 'How deep is the well?'"

SPOTLIGHT

In Fashion: American couturier Mainbocher's raspberry evening ensemble sold for $5,000 at Doyle New York's "Couture, Textiles and Accessories" auction on April 11. Proceeds benefitted the Greenville Baker Boys & Girls Club.

NOTICE

The preceding article has been reproduced by permission of Trusts & Estates magazine

Trusts & Estates frequently publishes articles and other materials of interest to charitable gift planners. For more information contact

http://www.trustsandestates.com/