“Wealth Transfer: A Digest of Opinion and Advice”

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Editor’s Note: On April 6, 2006, *The Chronicle of Philanthropy* published an article titled, “Much-Anticipated Transfer of Wealth Has Yet to Materialize, Nonprofit Experts Say.” The article reported:

“Boston College scholars [Paul G. Schervish and John J. Havens] said that, in the first 20 years of the wealth transfer alone, from 1998 to 2017, at least $1.7-trillion in bequests would go to charities, so nonprofit groups already should have seen a substantial increase in the amount they receive from bequests.

Some $127.6-billion was bequeathed to charities from 1998 through 2004, the last year for which Giving USA, a yearbook on philanthropy, has data available. That is just 7.5 percent of the charitable-bequest totals that the researchers said would be received through 2017.

To meet the researchers’ projections, charitable bequests would have to average $120.9-billion annually for 13 years straight, beginning in 2005. That’s six times more than the highest annual amount received in bequests since 1998, the first year of the wealth transfer. In 2002, bequests reached $20.9-billion, the highest sum Giving USA has recorded since it started its tally in 1955. Since then, bequest totals have been lower.

It is unlikely that charities will receive the bequests they were expecting by 2017, unless the death rate in the United States suddenly and unexpectedly soars, fund raisers and philanthropy experts say.”

Does that mean that Paul Schervish and John Havens were wrong when they estimated that $6 trillion could be transferred to charity between 1998 and 2052? Or have fundraisers and nonprofit executives been wrong to expect an orderly progression of gifts into their endowments and program budgets? In a statement to the Chronicle, John Havens cautioned, “No model is going to predict behavior 55 years into the future (or 20 years into the future) with close accuracy. None of these projections should be taken as anything more than ballpark estimates, based on the data and knowledge at the time the projections were made.”

In this article, we review highlights of wealth transfer analysis from the media and conferences since the early days of the wealth transfer estimates. In the age of information overload, we expect that many gift planners have overlooked the nuances of this discussion. We also consider the facts “on the ground” in a conversation with gift planners about their own experiences with the intergenerational transfer of wealth. The panel members see many of the issues and trends identified by analysts.
Panel: Wealth Transfer and the Work in Progress

In your personal experience and/or opinion, is a $6-trillion boom in charitable giving by bequest in progress, or on the horizon? How has bequest giving at your organization or among your clients fared since the wealth transfer estimates were released in 1998?

Margaret Holman: According to the figures from the Giving USA studies, it does appear that the transfer is beginning, but not to the degree predicted by the Havens/Schervish study. With only 7.5 percent of $1.7 trillion minimum predicted by the original study to be received by charities from 1998 to 2004 in hand, it seems that we’re off to a slow start. None of my clients has experienced an unexpectedly large increase in bequest income during this period. When they did experience increases they felt it was due primarily to their increased efforts to market bequests and to cultivate planned gift donors. The other factor that may have had some effect is that the number of their oldest donors is beginning to decline now as the members of the “Greatest Generation” pass from the scene.

Paul Comstock: Charitable gift planning for the families I work with (those having $20 million or more in financial assets) has become increasingly popular over the last 10 years for reasons different than most would think. The charitable giving motivation is centered on the maximum they want to leave their children rather than the amount they want to give to charity. Very few of our clients are planning to have any taxable estate at the time of their death.

The decision regarding how much to leave to each child varies from family to family. It has certainly grown in dollar value recently. What used to be $2 million to $5 million per child now ranges from $5 million to $10 million. Regardless, it is generally something below 50 percent of their estate.

After our clients answer the question, “How much do you want each child and their line to have in dollars?” and then subtract the combined value they feel is appropriate from their total estate value, there is normally a significant amount for philanthropic purposes. The wealth
THE THREE-PHASE TRANSFER

In 2001, Robert F. Sharpe, Jr. predicted a three-phase wealth transfer.

Phase 1—Estates of persons born prior to the mid-1920s (gifts maturing roughly through 2009). This group includes a large contingent of women in their 80s, a very important donor cohort.

Phase 2—Estates of persons born during the low birth-rate period between 1925 and 1945 (gifts maturing roughly between 2008 and 2023). There will be fewer deaths during this period, but estates will come from the wealthiest generational cohort in American history. Sharpe said, “Charities that pay special attention to their constituency in the 65 to 75 age range can be expected to pass through Phase 2 of the wealth transfer with little or no adverse impact on the amount of funds they receive from estates.”

Phase 3—Estates of the Baby Boomers, those born between 1945 and the mid-1970s (gifts maturing roughly between 2020 and 2050). Sharpe advised that when planning for this group, “it is more important than ever to help [donors] meet multiple objectives. Important financial obligations such as the need to provide financial assistance to parents or other loved ones while funding children’s education [will come] a decade later [for this group than for] earlier generations.”


WEALTH TRANSFER? WHAT WEALTH TRANSFER?

“Gearing your practice around the expectations of a windfall is a mistake,” noted RegisteredRep.com. “What is practical, analysts say, is to concentrate on building relationships with the children and grandchildren of existing clients so that you don’t lose those assets when inheritances finally do occur.”

According to the president of one financial management firm quoted in the article, “...this is largely about high-net-worth clients transferring assets to the next generation, which means you have to have those clients. If an advisor is looking at the whole family and multiple generations, they’re doing their job. It becomes more of a question of, will they lose this money because they’re not doing a proper job than, ‘How can I pick up this money?’”


created since 1998, even when considering the tech bubble collapse, has played a greater role in my clients' philanthropic planning than the wealth in place when the Havens/Schervish study was first announced.

Robert Shafis: It is certainly in progress. I re-read the Havens/Schervish defense of the 1999 projections, and was reminded of the very complicated sets of variables they used. That is not a criticism, but a compliment. The things that were considered, included and not included is really impressive. Their defense of the $41 trillion figure, and by extension, the $6 trillion charitable figure, is convincing.

Data presented in the Giving USA study of charitable bequests casts some doubt on the accuracy of the idea that $1.7 trillion will transfer between 1998 and 2017, but the factors cited by Havens and Schervish are the correct ones, I think, along with a few others. I would conjecture that estate tax changes, 9/11, the post World War I baby-bust, and how early we are in the transfer period (eight years out of 54) are all factors. I wonder, also, if those dying during this short time frame are largely still survived by spouses, thereby delaying the intergenerational transfer. I wonder, too, what the ultimate effect of the Katrina Emergency Tax Relief Act (KETRA) will be. I know of some very large gifts made during that window.

I have worked for several major organizations with large bequest programs and large volumes of bequests, so those are better gauges of what this question tries to get at. The organization I am most familiar with showed great growth in the number and value of bequests and other testamentary distributions from the mid 90s up through about 2001, then a flattening thereafter. This same pattern happened in another large organization from the early 80s through the early 90s, although this was in all types of planned gifts. I have asked a few friends in the business (both local and national organizations), and the consensus is pretty much that things have flattened out since 2000-2001. One organization has seen a steady to decreasing number and amount of bequests over the past five years, the other saw the same, but then has seen increases the past two years (although it has received
THE BOSTON TRANSFER: THE BIG GET BIGGER

In May of 2006, the Boston Foundation released results of a regional wealth transfer study using the Havens/Schervish model. The regional study projected that during the coming 50 years, $172 billion will be donated to charity by Bostonians. An additional $187 billion is expected to be given as charitable gifts during donors’ lifetimes. In an editorial follow-up to the regional report, the Boston Business Journal wrote: “All of [this] is gleeful news to the world of charity. However, the Boston Foundation’s report is meant to serve as a wake-up call to the nonprofit community. The message: Along with the larger bequests come great challenges and a greater need to understand donors. The boost in charitable giving will not rain down evenly as donors become more discriminating and charities adopt aggressive strategies in courting them. As the report notes, the ‘smallest nonprofits are at a serious disadvantage—since they often have an executive director who also serves as their primary development officer, raising funds while simultaneously trying to run the day-to-day activities of the organization.’”

“Boston’s overpopulated world of nonprofits already is dealing with fewer deep corporate pockets. In the nonprofit world, just as in many other industries, there’s a real concern that the big will get bigger and some of the smaller entities that fill important niches may fade away. The growth in giving also means a greater role for intermediaries such as the Foundation, which often helps individuals and families set up donor-advised funds.”


THE ST. LOUIS TRANSFER: A LATE BLOOMER

In St. Louis, a regional wealth transfer study on the Havens/Schervish model found that, unlike the national average, wealth in the St. Louis region is concentrated among younger households. In the St. Louis region, 62 percent of total wealth was owned by households whose head was aged 40 to 59, and 27 percent was owned by households whose head was 60 years or older. The corresponding national percentages were 49 percent of aggregate wealth owned by households whose head was aged 40 to 59, and another 41 percent owned by households whose head was 60 years or older. The concentration of wealth at a younger age than the national distribution is consistent with a pattern of wealth generated by self-made entrepreneurs. One implication of the age distribution of wealth in the St. Louis region is that a larger fraction of the wealth transfer in this region is expected to occur later in the 55-year period as compared to the entire nation.


RESETTING EXPECTATIONS

In an article in Give & Take, Robert F. Sharpe recommends, “Now may be the time to carefully examine your programs and re-evaluate your goals. You may discover that your planned gift potential is more or less than previously estimated. Shift your attention from the ‘macro’ level of dealing with the entire wealth transfer to focusing on what is realistic given the age and other characteristics of the constituency that determine your ‘micro’ level of potential.”

Do you think the economic simulation model and its underlying assumptions are well understood by most people in the nonprofit sector? Do managers at your organization (or organizations you’ve worked with) understand the basis for the wealth transfer projections?

Craig Wruck: No, the model and assumptions are not well understood at all. In general, the estimate was simply accepted at face value. The number was big...really big! The perceived opportunity was huge, and provided the impetus for heightened hopes and expectations. Nobody was very interested in exploring the arcane details underlying the number.

“$41 trillion” is most often cited as the value of the intergenerational transfer. However, the Havens and Schervish estimate actually sets forth three different projections—$41 trillion, $73 trillion, and $136 trillion—depending upon economic assumptions. Details of the confidence levels associated with each projection are almost never discussed, and the three-fold range between the high and low estimates is often ignored. What is more, there is little concern expressed over the fact that even the low estimate is nearly four times higher than the Rendall and Avery estimate of $10.4 trillion, which was published just six years before.

However, the biggest misconception is the mistaken notion that the intergenerational transfer of wealth is a discrete point or period in time and that funds will inevitably flow, right on schedule, once the time comes. In fact, the intergenerational transfer of wealth is a continuous process. We will never see the day when the headlines announce that the intergenerational transfer of wealth has concluded. The intergenerational transfer of wealth is, indeed, the never-ending story.

Robert Shafis: The answer for me, for all of the questions, is no. People, in seminars, on the Internet, in articles, have seen and remember the $41 trillion figure, the $6 trillion figure, and not much else. “Hey, there’s $41 trillion out there and we gotta get our share,” seems to me to be the deepest most people in the nonprofit sector have delved into this, and it is only overly-analytical types like me that get into the meat of it. I have no doubt that some programs have been based on an in-depth analysis of these figures, and more power and credit to them.

As I think about this, it does seem like quite an opportunity for us, doesn’t it? With this discussion on-going in the nonprofit world, perhaps this would be a good time to educate our CFOs, vice presidents and board members on what has transpired so far (in the wealth transfer arena), and why this is NOT the time to pull back on planned giving and estate planning education. I think, too, that the underlying information (especially the transfer from the World War II generation to Baby Boomers) is a good incentive to continue marketing planned gifts to a broad constituency, not just to the oldest segments of the donor base. Remember, the $6 trillion transfer happens over many years, and includes transfers from the Baby Boomers who, sadly, will also pass away during this period.

Margaret Holman: I do not think most people in the nonprofit sector understand the modeling for the wealth transfer predictions. In fact, I think most vaguely remember the headlines from the original study trumpeting the trillion-dollar transfer and little else. This extends to nonprofit managers who can talk in generalities about the amount to be transferred, but don’t have a grasp of the demographics or pay much attention to the timeline for the transfer or the fact that economic and political conditions have changed greatly since the study was first released. All of these factors have changed the way people give and who is giving.

There were some who began to delve into the assumptions as far back as 2000. One of them is Robert F. Sharpe, Jr., who said at the 2000 National Conference on Planned Giving, “At the low end of the charitable transfer estimates, the total for the next 50 years would be 375 times the amount transferred to charity in 1999, or an average of 8 times current levels—an average of $125 billion per year over the next 50 years. For this to occur, the 4,000 charities represented in NCPG would have to have an average of $30 million per year in asset transfers each year for 50 years.” Mr. Sharpe addressed this again in his 2005 NCPG presentation when he said, “It is important to note that the estimated amounts charities will receive are projected to be realized over a 50-year period. The next decade will be a critical one for charities. Those who understand the dynamics of the wealth transfer will continue to succeed, while others may be disappointed.”

Kathryn Miree: I have far more confidence in the overall
wealth transfer figures in the Havens/Schervish report than in the amount projected to transfer to charity. The wealth transfer figures are grounded firmly in statistics. Further, those statistics were confirmed after the massive market adjustments. I've always understood the great difference between their study and Avery/Rendall was the fact the Avery/Rendall study was based on wealth assumptions in 2000 (study published in 2003) while the Havens/Schervish figures were based on a vastly increased wealth following eight years of bull markets. The numbers projected for charity are less compelling, simply because those were primarily predicated on the results seen on 706 returns, a group of decedents representing about four percent of the decedent population at the time. I do not believe (but am not sure) the projections anticipated the impact of the 2001 Tax Act, and the formula certainly could not include the activity of the charities across the country that greatly impact the result. I've observed many charities over the last three years cutting planned giving budgets (communications, stewardship, travel) and staff, which negatively impact gift results at those charities.

Having said that I have confidence in the next generation transfer numbers, I think it is very easy to draw inappropriate conclusions from the figures without understanding the underlying pieces. The average recipient in the transfer receives only a modest amount. The number of individuals with estates of $1 million or more represent a small percentage of this group. Of course, many significant bequests come from individuals with smaller estates. I use the figures primarily to signal the opportunity—not to project the result.

Bottom line? I believe an enormous amount of wealth will transfer over the next 50 years or so. Whether it is $41 trillion or $136 trillion, it's enormous. How much of that wealth is captured by charities has everything to do with the relationships those charities build with their donors and how actively and professionally they approach and steward the gift planning process.

What's the appropriate way to use the Havens/Schervish wealth transfer projections in organizational goal-setting and decision-making? How have the projections been used at your organization (or organizations you've worked with)?

Robert Shafis: I used these basic projections in a very superficial way to justify increased emphasis on and funding for planned gift marketing and staffing. I don't think I would do so now because, as this whole discussion shows, there are many problems with how this all plays out. As I said yesterday, it is more an opportunity for education of staff, board and others about what the broad overview of wealth transfer is, and that now is the time to continue marketing planned gifts to reach the wealth transferors.

I think to use this information to project anything more micro and less macro would be misleading. You can't really use it to say, "well, we got $1 million in bequests last year and therefore we can extrapolate from the Havens/Schervish data. In fact, as time goes on and we get more and more data, the best we can hope for is that we get a clearer picture of not only how much is
“well, we got $1 million in bequests last year and therefore we can extrapolate from the Havens/Schervish data. In fact, as time goes on and we get more and more data, the best we can hope for is that we get a clearer picture of not only how much is being transferred, but also what factors are affecting the $41 trillion figure, pro or con.

Margaret Holman: I will continue to educate my clients about the transfer by helping them to understand the underlying factors: the economy, demographics, and how charities create planned gift opportunities. It will be a process of setting expectations for nonprofit boards, staff and volunteers. They must understand the wealth transfer will be a gradual influx of funds they must work to get over the next several decades.

If the wealth transfer projections create unrealistic expectations for fundraising results, what is a more realistic way for an organization to project bequest income?

Margaret Holman: In my view the traditional way of projecting bequest income is still the best: a thorough review of the charity’s bequest expectancy files, along with a review of those bequests in probate, added to the rolling three to five-year average of bequest income is, I think, the conservative method of predicting bequest income.

How would you characterize your Baby Boomer donors’ or clients’ attitudes toward their charitable giving at this moment in time? How are they planning for the costs of continuing care as they age? How are they affected by the uncertain future of the estate tax?

Robert Shafis: One factor that I know to be an issue for my donors is the growing preference for inter-vivos gifts, rather than transfers after death. Even with some very large gifts, I think there is a growing desire to see the effect of the gift while one is still around to enjoy it. This is separate from the usual perks of large gifts—recognition, naming, etc. Some of the people I have worked with affirmatively want to see the effect of their gift and receive joy from seeing their favorite charity succeed.

Margaret Holman: My clients report a continuous challenge to effectively solicit the Baby Boomer generation. This generation does not (for the most part) respond to direct mail, hates to be called, doesn’t give via the Internet and seems only to be interested in face-to-face solicitation, potentially the most expensive method to raise money. They didn’t name the Baby Boomers the “Me Generation” for nothing! They continue to be self-absorbed and sure they will never die. An enormous segment of the Boomer generation has not saved for retirement, and is sandwiched between ailing parents and children still in college or moving home. The Boomers are facing longer lives and higher retirement costs (with no assurance that Social Security will be there). It’s no wonder they are not generous givers.

Since most Americans still do not have wills (including a high percentage of the Boomer generation, since they comprise a large percentage of the American population), I suspect that most of the Boomers haven’t paid any attention to the potential changes in the estate tax laws either. I don’t think this will have an overwhelming effect on the charitable bequests, since the estate tax laws favor the truly wealthy and most bequest donors continue to be those of modest means. It’s my experience that the old rule of thumb will continue to be true in the future—the reason donors make charitable bequests is because they love the mission of the charity, the charity has had a consistently close relationship over a long period of time with the donor, and they’ve recognized these contributions in an appropriate and meaningful way.

PANELISTS

Paul L. Comstock is chairman of Paul L. Comstock Co. in Houston, Texas, a fee-only financial advisory firm serving philanthropic organizations, qualified plan sponsors and families of substantial net worth. Comstock has served the professional community through leadership roles in the Estate Planning Council of Houston and as 1996 president of the National Committee on Planned Giving. A member of the Board of Visitors for the Indiana University Center on Philanthropy, Mr. Comstock has authored articles for several professional journals and is a frequent lecturer. He is a member of the Planned Giving Council of Houston, and has been granted the professional designations of ChFC andCLU.

Margaret M. Holman is the president of Holman Consulting, Inc. She has more than 20 years of fund raising and fundraising management experience in the nonprofit sector. Prior to founding Holman Consulting, Inc., she served as senior vice president for development and communications at the American Society for the Prevention of Cruelty to Animals (ASPCA), and has also held senior fundraising management positions at a variety of arts, health and educational institutions throughout the country. Until November 1997, she was a senior consultant in the Northeast region for Robert F. Sharpe & Company (now the Sharpe Group). She is a member of the Planned Giving Group of Greater New York, and a senior advisor for the European Association of Planned Giving in London, England.
Kathryn W. Miree is president of Kathryn W. Miree & Associates, Inc., a consulting firm that works with boards and staff of nonprofits and foundations to develop administrative policies, structure, and planned giving programs. She received her undergraduate degree from Emory University and her law degree from The University of Alabama School of Law. Ms. Miree spent 18 years in trust banking working with nonprofit organizations and high net worth clients before starting her consulting firm in 1997. Her clients include a variety of national, regional and local nonprofits and foundations across the country. Ms. Miree is a member of the Alabama Planned Giving Council.

Robert M. Shafis began his fundraising career with the Lutheran Church-Missouri Synod Foundation, where he served as senior vice president. He also was director of planned gifts for the National Alzheimer’s Association and for Alexian Brothers Health System Foundation. He is currently director of major gift planning at Chicago’s Museum of Science and Industry. Mr. Shafis has spoken to many national and local groups about planned giving, estate planning, charitable taxes, and the process of fundraising, and has taught major and planned giving at North Park University. He is a member of the Chicago Council on Planned Giving.

Craig C. Wruck is associate vice president of development and director of gift planning at University of Minnesota Medical Foundation. He is former director of client development for Kaspick & Company, and has also worked for the University of Minnesota, The Saint Paul Community Foundation, U.S. Trust Company and U.S. Bank, where his work focused on the needs of individual donors and charitable organizations. Mr. Wruck is a past president of the Minnesota Planned Giving Council and the National Committee on Planned Giving, and he currently chairs NCPG’s Government Relations Committee. He has also served as chair of the National Conference on Planned Giving and is the recipient of the NCPG Distinguished Service Award.