Researchers Finding Not All Rich Have Wealthy Attitudes

By: John Brinley

A: There was a book that came out a few years ago that talked about the "common millionaire." The way I define the common millionaire would be the group that has, in some ways, achieved wealth through a series of investments, salaries and appreciation in housing. A lot of this group was fortunate to have started pensions and IRAs when the Dow Jones industrial average was under 1,000. And so willy-nilly, without having to do much, there has been a group of people who are far wealthier than they ever thought they would be. So in many ways they don't consider themselves financially secure or even among the wealthy. And it depends on the composition of the family. Somebody with $5 million but with four kids going to college and a business isn't as secure as someone with $5 million who is 80 years old. But there is always a risk even at the higher levels of wealth, for people to suggest they are not financially secure. They usually, if asked how much of their wealth they need for the rest of their life, say "all of it and more." Not selfishly, but because they don't trust the stability. And in addition, they see that they want to do with their money is provide nest eggs for their children.

Q: What are the elements of this class?

A: This run-up in real estate and run-up in pensions is so historically unique, they don't envision it as something they can count on for the next generation.

Q: To what extent is this phenomenon more prevalent in a place like Los Angeles?

A: Los Angeles, San Francisco, New York, Boston, Connecticut, Washington D.C. Don't forget, part of the looking-forward insecurity is that the run-up moves from the capital gain side to the expense side when you talk about the next generation. They have to buy into this market. So not only is college more expensive, anything you want to help your kids with, be it education or housing, is also a relatively higher cost.

Q: What about the transfer of wealth to the next generation?

A: The starting point in all of this is how financially secure someone recognizes they are. We have to understand that financial security is a complex intersection of objective net worth and subjective expectations. So the major question for this group in transferring wealth is whether they have come to understand themselves subjectively and objectively as being financially wealthy or financially competent.

Q: So does this bode well for charities in the years to come?

A: Yes it does. In what we have done, in our study on wealth transfer, is figure that if there's a mere two percent growth over the next 55 years, from 1998 to 2053, will be $41 trillion transferred from final decedents to their heirs, using a higher-than-average consumption rate. So there's a big horizon for philanthropy. Understand, the whole federal budget is $2 trillion now.

Q: Are heirs to this class of common millionaires likely to move away from the same middle-class values as their parents, given the wealth they inherit?

A: Yes, in two ways. One is they may be less security-minded if it proves, that in addition to their inheritance, their own business continues to grow at a regular high growth rate. But also they will be different because they won't be looking backward with the same insecurity. This will enable them to consume more. On the other hand, they may also spend more time looking for ways to carry out financial morality, using financial resources for the care for others in need. If you can have what you want in the material world, there's no guarantee that you'll make better choices, but there's also no guarantee that you won't.