

## RICH IN L.A. - THE COMMONPLACE MILLIONAIRES

# Researcher Finding Not All Rich Have Wealthy Attitudes

**P**AUL G. Schervish studies the wealthy. As professor of sociology at Boston College and director of its Social Welfare Research Institute, Schervish looks at the strategies of living and giving among millionaires. He has authored or co-authored several of the institute's research efforts and is currently co-directing two studies on the accumulation of wealth and charitable giving.

- John Brinsley

**Question:** Describe the so-called millionaire next door.

**Answer:** There has always existed, in addition to what is understood as the very wealthy, a group of upper-echelon individuals. Andrew Carnegie defined the truly wealthy as those who would remain able to continue to live at the standard of living to which they had become accustomed. He called the other group the "economically competent," competent to pretty much fulfill their wishes economically but not fortified against a major economic downturn, in which they would be reduced to the middle class. The group you're talking about is hard to define as either one or the other; perhaps they're something in between.



Schervish: Watches the rich.

**Q:** What are the elements of this class?

**A:** There was a book that came out a few years ago that talked about the "common millionaire." The way I would 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 tendency, 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 what they want to do with their money is provide nest eggs for their children.

**Q:** Is this because of the age in which this wealth has been created?

**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.



Going uptown: The commonplace rich shop at tony stores, but not all the time.

**Q:** This implies a set of values that is distinctly middle-class. Does this strata of society not shed these values even as they move up?

**A:** There are always consumption-oriented people, living at or above their means, no matter what the level of wealth. But the baby boomers and above, for the most part, envision a major category of their consumption expenses as nest eggs for their children. And that helps explain why it is not just the super-wealthy who are supporting the repeal of the estate tax. Because their view of wealth is not something that they see having led them to become part of an inherited aristocracy. It has provided them an opportunity to do, in a more abundant way, what they have always dreamt

of doing: not being a burden on their children, and giving their children a leg up in the world. And that continues to be a reason for saving hard and not just for working hard, but for spending frugally.

**Q:** So the "common millionaire" isn't going out and buying a new Lexus every year?

**A:** They may. But you have to look at buying a new Lexus every couple of years not as a \$50,000 purchase but a \$20,000 purchase because you get a trade-in. There is a difference between those who are young and have that net worth, but envision that they have 30 more years in the business world, versus those for whom the accumulation period is relatively

**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 2052, there 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.

over, and this is now a nest egg. The former group is more likely to be spending, more likely to even be overspending. In Los Angeles, you have both those groups. But the group you described still has kids in college and this group is very appreciative of the role of education and tends to think of their kids as going to the best schools. If it's a private university, you are talking about \$35,000 a year, room, board, tuition, more with spending money. Boston College is about \$31,000 a year, and that doesn't include books, living expenses and travel. So \$35,000 times four is \$140,000. Times three kids. And don't forget that's all post-tax money. You have to earn almost 50 percent more than that to pay \$140,000, that's what the tax rate is for people in that bracket after income, securities, excise and property taxes. So you see how these numbers mount up. And when these people start thinking about their kids and grandkids, you can see this money is dedicated not to be spent away. And it's dedicated to a real positive purpose. Whether it is accurately designated as what will turn out to be a necessity, they don't know yet. So these are people that are looking backward and looking forward at the issue of security. Looking backward at the insecurity, the ups and downs, from the Depression onward, and forward at the potential insecurity of their children and grandchildren.