“Wealth Transfer Estimates for African American Households”

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Between now and 2055, the amount of wealth to be transferred by African American households will be small compared to the aggregate transfer from all households. This relative scarcity places a special emphasis on wise allocation of financial resources and an equal burden on the organizations that receive charitable donations to honor the gifts by using them wisely.

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Wealth transfer estimates for African American households

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In 2001 there were 13.2 million African American households in the United States. These households constituted 12.4 percent of all households, earned 7.1 percent of aggregate household income, owned 2.5 percent of aggregate household wealth, and contributed 5.4 percent of aggregate household charitable giving.

This chapter summarizes selected findings from work in progress at the Center on Wealth and Philanthropy at Boston College and

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presents new information on wealth and wealth transfer within the African American community.

**Overview of findings**

The trends in the financial resources (income and wealth) and philanthropy (cash and in-kind giving) of African American households are dialectical in that they portray two almost contradictory themes. The first theme is that income, wealth, and charitable giving in the African American community have risen rapidly in recent years. From 1992 through 2001, after adjustment for inflation, both aggregate income and aggregate wealth for African American households have risen at an annual rate of 4 percent, and aggregate charitable giving has risen at an annual rate of 5 percent. Part of the growth in these aggregates reflects an increase in the number of African American households, but the remaining part reflects changes in average income, wealth, and contributions per household. If we look only at the inflation-adjusted household averages for wealth, income, and charitable giving among African American households, we find the same pattern as shown by the aggregates, albeit at somewhat lower rates of growth. These income and wealth statistics demonstrate that African American households as a group gained substantial financial purchasing power in terms of both income and wealth during the period and that their charitable giving increased even faster than either their income or their wealth.

The second theme in these trends is that the share of aggregate national household income, aggregate national household wealth, and aggregate national household charitable giving in the African American community has declined during this same period. African American households increased their purchasing power during this period, but not as fast as non-African American households, especially non-African American households that own $1 million or more in net worth. In terms of aggregate financial resources, the African American community as a group was substantially better off in 2001 than in 1992, but their gains in income and wealth were not as large, on average, as for the total population, whose income and wealth grew even faster than that of African American households. As the financial resources of African American households grew, their charitable contributions more than kept pace with the rates of growth in income and wealth. Once again, however, the rate of growth in charitable contributions among non-African American households was even greater than among African American households, due in substantial part to the higher rates of growth in financial resources among non-African American households. The result is that African American households gave a larger amount but a smaller share of aggregate national household giving in 2001 than in 1992.

**Wealth transfer microsimulation model**

We used the Wealth Transfer Microsimulation Model (WTMM) developed and housed at the Center on Wealth and Philanthropy to estimate wealth transfer among African American households from 2001 through 2055. The model is based on data from the 2001 Survey of Consumer Finances, sponsored by the Board of Governors of the Federal Reserve System, mortality rates published by the National Center for Health Statistics, and historical patterns of the distribution of the value of final estates (estates without a surviving spouse) based on Internal Revenue Service (IRS) data on estate filings.

In each set of analyses, we developed estimates for three scenarios, defined in terms of secular growth. The low-growth scenario assumes a 2 percent national secular trend in the growth of wealth and a lower-than-average life cycle savings rates. The middle-growth scenario assumes a 3 percent national secular trend in growth of wealth and average life cycle savings rates. The high-growth scenario assumes a 4 percent national secular trend in the growth of wealth and higher than average life cycle savings rates.

The WTMM was used to produce estimates for each of these scenarios, assuming first that the high-growth rates among young African American households were a life cycle effect. It was then
used to produce corresponding estimates for each of the three scenarios, assuming that the high-growth rates among young African American households were a cohort effect.

**Distribution of wealth**

Household wealth among African American households is unequally distributed both within the African American community and contrasted with non–African American households. There were relatively few (about 112,000) African American households that owned at least $1 million in wealth in 2001 and relatively few (about 333,000) that owned even $500,000 in 2001. This is important for the estimation of wealth transfer because (1) households must own wealth in order to transfer it, (2) the majority of wealth transfer for the population of all households originates in households whose estates are worth at least $1 million at the time of death, and (3) the fraction of the value of estates contributed to charity increases dramatically as the value of estates increase above $1 million. Because African American households own limited wealth compared with non–African American households, their potential for wealth transfer and charitable bequests is similarly limited.

**Rate of growth in wealth**

From 1992 through 2001, the inflation-adjusted rate of growth in the average wealth of African American households was about 2.42 percent as compared with 5.88 percent for all households during the same period. For any household, wealth grows from three sources: (1) net savings out of household income (household income less household taxes less household consumption), (2) appreciation of assets, and (3) net financial transfers (including forgiven debt and inheritance) to the household. On average, African American households have had lower amounts of savings, appreciation, and net transfers received as compared with non–African American households. Among other factors, one reason for these lower amounts is the concentration of African American households at the lower end of the income and wealth distributions. It is hard to accumulate much savings when house-
cycle effect. We also ran an alternative set of analyses, however, in which we assume that it is a cohort effect. We find that the difference between corresponding estimates from the two sets of analyses is negligible for 2 percent secular rates of growth but becomes significant at 3 and 4 percent secular rates of growth, amounting to $0.4 trillion and $0.7 trillion in additional wealth transfer, respectively.

**Estimates of wealth transfer**

We measure the value of wealth transfer as the net worth of final estates at the death of the decedent. The major results of the simulation indicate that the total amount of wealth transfer from African American households will range from $1.1 trillion to $3.4 trillion (2003 dollars) during the fifty-five-year period from 2001 through 2055. The estimates ranged from $1.1 trillion (low-growth scenario) to $2.7 trillion (high-growth scenario) for the life cycle set of scenarios and from $1.2 trillion (low-growth scenario) to $3.4 trillion (high-growth scenario) for the cohort set of scenarios.

The estimates of wealth transfer from African American households are large, but they account for less than 2.5 percent of the $46.3 trillion to $153.7 trillion (2003 dollars) of our 1999 estimate of total wealth transfer for the nation. African American households constituted 12.4 percent of all households in 2001 but will generate less than 2.5 percent of the national total wealth transfer. This is due to the low endowment of wealth owned by African American households in 2001 and the lower-than-average rates of growth in the wealth of African American households.

The total amount of wealth transfer is not transferred in its entirety to heirs or to charitable causes. It is distributed among taxes, heirs, charitable bequests, and estate fees (including burial costs and legal fees). If wealth transferred from African American households follows national historical patterns, estate fees would range from $40 billion to $133 billion (2003 dollars), estate taxes would range from $71 billion to $687 billion (2003 dollars), charitable bequests would range from $40 billion to $283 billion (2003 dollars), and bequests to heirs would range from $939 billion to $2.3 trillion (2003 dollars), depending on the scenario and assumption regarding life cycle versus cohort interpretation of high growth rates in wealth among young African American households.

According to our analysis, African American households will leave a greater fraction of their wealth to heirs and a smaller fraction to charity as compared with our national estimates of all households. African American households will bequeath from 68 to 87 percent of their wealth to heirs as compared with 48 to 60 percent bequeathed to heirs from all households. African American households will bequeath from 4 to 8 percent to charitable causes as compared with 15 to 18 percent bequeathed to charitable causes from all households.

In aggregate, African American households may appear less charitable than other households, but this is not true. The relatively low percentages bequeathed to charity by African American households reflect the concentration of African American estates below $1 million (and even below $500,000) and the relatively few African American estates that will be valued at $1 million or more. Historically, estates below $1 million bequeath relatively small proportions of their estates to charity (and relatively large proportions to heirs) in contrast to estates of $1 million or more, which bequeath relatively large proportions of their estates to charity (and relatively small proportions to heirs). The relatively higher concentration of African American estates at the lower end of the distribution of the value of estates means that African American households leave smaller percentages of their estates to charity (and higher percentages to heirs) compared with the percentage of the estates of all households left to charity (or to heirs).

**Limitation of the estimates**

The distribution of the value of estates to estate fees, charitable bequests, taxes, and heirs is based on national patterns for the entire population. At the current time, the data do not permit the examination of distributional patterns specific to African American households. If African American households depart from national patterns and leave larger or smaller fractions of their estates as
charitable bequests as compared with non-African American households at the same level of wealth, their aggregate charitable bequests will be larger or smaller than the estimates in the scenario.

The WTMM model is based on trends in secular growth of household wealth; current mortality rates; distribution of estates among heirs, charity, taxes, and estate fees based on historical data from the IRS; and the joint distribution of wealth and demographic characteristics embedded in its microdata file. The WTMM uses the 2001 Survey of Consumer Finances (SCF) as its microdata file, which is a subset of data from the 2001 SCF. The SCF has no oversample of African American households. It contains 462 African American households in the sample; only 21 of these households have assets in excess of $500,000, and 12 have assets in excess of $1 million. The sample is thus sparse at the high end of assets and wealth. The degree to which the sample is nonrepresentative of the high-wealth African American population is an important open question. To the extent that this group is underrepresented, the wealth transfer estimates are conservatively low.

Implications of wealth transfer for wealth and charitable bequests

Because African Americans on average have proportionately lower values of household wealth and also lower-than-average growth rates in wealth, relatively small percentages of the total value of African American final estates (29 to 63 percent) will be concentrated in a very small number (1.3 to 6.0 percent) of African American households, whose final estates will have a net worth of $1 million or more. These households will account for a lower-than-average proportion (61 to 87 percent) of charitable bequests.

The implication for fundraising among African American households is that such efforts may have to follow strategies that differ from fundraising among households in general. Although successful strategies may involve extending efforts to lower levels of affluence, strategies may more likely be successful if they engage affluent and wealthy African Americans in a process of discernment to identify and act on their own values and goals with respect to their philanthropy.

In addition to intensifying the fundraising efforts that are already in place in communities and churches, this analysis suggests three strategies for increasing charitable giving among African American households. The first is to work more directly and intensely with the relatively few identifiable very high-wealth African American households populated by celebrities, athletes, and business owners in order to create a more visible culture of giving that will set the tone for and inspire giving among their peers and others. The second is to develop a longer-term strategy for the cohort of young African American professionals and business owners who may not at this time be very wealthy but will become very wealthy as their assets grow over the next two decades, perhaps at rates comparable to their white counterparts. The third strategy is the most obvious mainly because it is so fundamentally true. The most consequential long-term strategy for increasing African American philanthropy is to increase African American income and wealth. This means bolstering educational attainment, business ownership, and home ownership. The greater the income and wealth of households, including African American ones, the more is given to philanthropy, both in inter vivos giving and through charitable bequests. In the end, perhaps the most creative and effective strategy might be to enlist the philanthropy of the identifiable celebrities, athletes, and business owners to accomplish the third strategy.

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