

# Wealth Transfer and Philanthropy

An Interview with Paul G. Schervish, PhD, and John J. Havens

*Wealthy individuals contribute to philanthropic causes for a variety of reasons. In June 2009, Investments & Wealth Monitor asked Paul G. Schervish, PhD, and John J. Havens to describe the primary motivators behind wealth transfers. Dr. Schervish is professor of sociology and director of the Center on Wealth and Philanthropy at Boston College and national research fellow at the Indiana University Center on Philanthropy. He earned a BA in literature from the University of Detroit, a masters degree in sociology from Northwestern University, an MDiv from the Jesuit School of Theology at Berkeley, and a PhD in sociology from the University of Wisconsin, Madison. He serves as a consultant to financial and development professionals and to wealth holders on the patterns and motivations of charitable giving, on the moral biography of financial life, and discernment as a spiritual process of conscientious decision-making around wealth and philanthropy. He currently is co-directing, with Mr. Havens, the Survey on Wealth, Values, and Philanthropy funded by the Bill and Melinda Gates Foundation.*

*Mr. Havens is senior research associate and senior associate director of the Center on Wealth and Philanthropy at Boston College. He received undergraduate training in mathematics, economics, and physics at Yale University and graduate training in economics at the Massachusetts Institute of Technology. He is involved in the study of patterns and trends of household financial resources, philanthropy, and wealth transfer among African-American households; the estimation of wealth transfer within states and metropolitan areas; and, with Dr. Schervish, the study of the impact of financial planning on*



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*donors' decisions regarding philanthropy as well as a study of giving and generosity within states and metropolitan areas.*

*Their 1999 report, "Millionaires and the Millennium," estimates that during the 55-year period from 1998 to 2052, wealth transfers in the United States will total at least \$41 trillion.<sup>1</sup>*

**IWM:** What are the main reasons for the transfer of wealth to philanthropic endeavors? Has donor intent changed as a result of what's happened with the economy over the past year?

**Paul Schervish:** Philanthropy results from the intersection of capacity and intent. Intent has to do with values, goals, and aspirations. Capacity includes resources such as intellectual capital, connections, the economy, financial wealth, and other assets. Without capacity, it is likely that intent cannot be fulfilled as completely as desired. But capacity is latent until mobilized by a purpose. The purpose could be charitable giving, planting trees in Israel, improving inner-city schools in Detroit, or keeping a business alive.

Currently, capacity is down. But there is a group of people for whom this decrease in capacity has not been as great as on average. These are people who may have anticipated the economic downturn or who already had a substantial amount of their assets in bonds

or in liquid form rather than in equities or real estate. An example might be a foundation that still has its principal intact. Or consider a donor-advised fund that was worth \$50,000 a year ago. Now it's worth \$25,000, but if in August 2007 half of its assets had been transferred into a money market fund, it would still have money for philanthropic purposes.

Another group of donors is so wealthy that even if their assets have been hit hard, they have such financial security—their assets grew so substantially before the economic downturn—that they still can give at a level that fulfills their aspirations.

Donors also may give gifts as pledges. Pledges can be stretched out over time, taking into account the probability that the asset will grow. Pledges may even be linked to a certain level of return on the donor's investments.

**John Havens:** Although assets and markets have fallen, personal income for the wealthy has not. In particular, unearned income—income from interest, dividends, rent, leases, and so forth—is only about 2 percent lower than at the beginning of the recession in the first quarter of 2007. Of all the income components, unearned income is the most highly correlated with charitable giving because it is the largest source of income among people with wealth. So this aspect of capacity is pretty much still in place right now.

**IWM:** Despite the stability of unearned income, to what extent has capacity been affected by decreases in earned income? Has the large number of people who have lost high-paying jobs—for example, those in the investment banking industry—caused problems with fund-raising?



**Paul Schervish:** Yes, but the problems are segmented geographically. Uncertainty has affected certain donors, especially in areas where there was organized giving by groups of financial managers, investment counselors, and stock brokers. But fundraising for 20–40 percent of U.S. charities went up in 2008. Also, after 2001, even though there was a recession, the net worth of the wealthiest individuals actually increased because of the real-estate boom. John has a charitable giving model indicating that individual giving may drop 6–9 percent in 2009. Among the wealthy, the decline will be about 9 percent. The question is how long this uncertainty will continue.

**IWM:** Does a financial crisis as large as the one we've just been through alter your original wealth transfer projections—\$41 trillion from 1998 through 2052?

**John Havens:** Not really. We built some extremely conservative assumptions into this model. First, we assumed only 2-percent growth in wealth. The scenario we developed was based on a wealth level of \$38 trillion at the time, which turned out to be a little low. We put in savings rates that were low and consumption rates that were relatively high. We assumed no marriage and no business creation, either of which would add to the assets, and we used mortality rates projected by the Centers for Disease Control and Prevention.

Current inheritance data indicate we're running ahead of what the model projected, certainly up through last year. The latest Federal Reserve survey shows that between 1998 and 2007 inheritors received \$2.2 trillion through inheritance and gifts, and rate of transfer is increasing. Moreover, the major decline of wealth is slowing. In the first quarter of 2009, according to our calculations based on data from the Federal Reserve, household wealth declined at an annualized rate of 3–4 percent in real terms. In the fourth quarter of 2008, it declined at an annualized rate of about 22 percent. So the current decline in

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wealth is almost flat compared with what happened last year.

We think the growth in wealth ultimately will return to the 3.3-percent rate that has existed since 1950, despite 10 recessions in the interim. We'll likely return to that growth rate within three to four years unless some other major disruption occurs. Household wealth is still well above the base level we used in our analysis.

**IWM:** Are income tax deductions a driving force behind charitable giving?

**Paul Schervish:** An income tax deduction is like a discount—it enables you to accomplish something worthwhile without costing the full amount. For example, if you buy a sweater that's discounted, you have more money left in your pocket than if you had bought one at full price, so the discount can be a motivating factor. But someone who doesn't buy any sweater has even more money left. An income tax deduction can motivate charitable giving to the extent that it is a discount, but someone who doesn't give anything to charity and pays more money in taxes still keeps more money. So at a certain point, the discount isn't enough. You won't fill your closet with sweaters just because of that discount.

However, if you're buying sweaters to give to a shelter for homeless families, you might buy 100 because you can accomplish so much good with that money. If you buy a dollar's worth of sweaters with a store's 40-percent discount and you get a 40-percent additional discount in the form of a tax

deduction, you're essentially buying the sweaters for 20 cents each. But you won't buy 100 sweaters unless you have a purpose, unless you identify with the plight of others and want to express that by caring for them in the way you would care for a family member. If you can buy sweaters at 20 cents on the dollar, you might even buy another 100 for a different group. The discount could prompt you to expand the charitable act. But if you don't have a reason for buying the sweaters, you'll keep the money, and you'll be richer by not doing the good deed.

**IWM:** What other factors motivate people to support charitable causes?

**Paul Schervish:** Large income events can be motivating factors. People who want to avoid giving money to Uncle Sam often establish foundations. But, again, if they didn't start a foundation, they would pay the required tax and have more discretionary income. But if you're rich, you're likely to prefer doing something good—even if the reason is ego.

Looking at the logic of the donor is important. Many financial advisors understand this. Advisors often recommend charitable giving to keep money from going to Uncle Sam. They may even recommend certain kinds of trusts, particularly if the value of the remainder trust is increasing through the charity's investments faster than the outlay the Internal Revenue Service (IRS) requires for the annuity. This mechanism permits the remainder to be passed on to the heirs without incurring a tax.



Financial advisors who don't study the souls of their donors may think the donors are making charitable contributions for tax purposes. But people's reasons for giving have to do with intent—values, aspirations, identification, gratitude, spiritual goals. Some people consider a certain amount of capacity necessary for their happiness or their lifestyle, but charitable giving by the very wealthy doesn't even touch lifestyle.

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**IWM:** Do most people get involved in philanthropy because of something that has changed their lives?

**Paul Schervish:** That's identification. A donor may say, "This hospital saved my wife, and I want to help it save other people's lives." People want to give back because they're grateful, and they're grateful because they've received a gift—for themselves or a loved one. Identification and gratitude are key mobilizing factors for philanthropy.

There are two more significant mobilizing factors. One is hyperagency. The very wealthy are world-builders, business-builders, institution-builders, creators of innovative research projects, new wings in hospitals, programs to increase gas mileage or save the whales. Those of us who are not wealthy pool our charitable gifts with those of others, and many of our gifts are anonymous. But wealth-holders, instead of simply being participants in a charitable effort, can create new charitable organizations or operating foundations on their own. What takes a social movement for ordinary people to accomplish, wealth-holders can do relatively single-

handedly. They don't just find worthy charitable causes; they found them.

Another mobilizing factor is a feeling of satisfaction. The more donors feel they have made a difference and have met the true needs of others, the more their gratitude and identification expand and the more they are further mobilized.

**IWM:** Is legacy wealth being used to fund social purposes?

**Paul Schervish:** Baby boomers

who read our study may think wealth transfers will be the source of their retirement funds, but our analysis didn't say that. Our analysis indicated that baby boomers will be less receivers of this transfer of wealth than givers of it. Almost two thirds of the wealth transfer will go to 7 percent of households. At present, we do not have a way to track statistically the amount of legacy wealth that serves societal needs.

**IWM:** Does your research show that at some threshold of net worth people leave larger amounts of money to charity instead of leaving it all to their heirs?

**John Havens:** Yes. The break seems to occur between estates worth \$10 million and those worth \$20 million. I've used data from the IRS to examine wealth transfers through estates. Most charitable giving occurs through the final estate, the estate for which there is no surviving spouse. This means we need to analyze what happens with the final estate, but this information isn't available from the Feds. So we look at the total value of estates, exclude any distributions designated for a spouse, and consider the remainder a proxy

for final estates. Within this amount, we distinguish what goes to taxes, to heirs, to charity, and to settlement costs. Reports from the IRS indicate that charitable giving increases at every level from the lowest-level estate to the highest level. But there's a big break between estates worth \$10 million and those worth \$20 million or more. When an estate's value exceeds \$20 million, the percentage given to charity virtually doubles, and the percentage given to heirs goes down. Smaller estates give the largest percentage to heirs—sometimes more than 90 percent—but the percentage can drop to 30 or 35 percent with the largest estates.

**Paul Schervish:** There are instances in which large portions of the funds transferred to charity don't show up in an estate because of insurance or the creation of a foundation during the estate-holder's lifetime. Even if all of the estate goes to the heirs, the heirs may use the money for charitable giving. Some studies have indicated that the next generation is not giving as much as their parents gave, but this conclusion is being discredited because the data in these studies didn't include the top 3–5 percent of donors, who contribute 40 percent of the charitable dollars. People who inherit a business or a vast amount of money may build that business or start a foundation of their own. In this way, the family legacy of philanthropy continues through their final estates. 

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### Endnote

<sup>1</sup> John J. Havens and Paul G. Schervish, 1999. Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy, Social Welfare Research Institute, Boston College, available at [http://www.bc.edu/research/cwp/meta-elements/pdf/m\\_m.pdf](http://www.bc.edu/research/cwp/meta-elements/pdf/m_m.pdf).