

# Wealth with Responsibility

## Study/2000

## **Introduction**

The 2000 Study on Wealth with Responsibility (WWR) was conducted solely for Deutsche Bank Private Banking by researchers at the Boston College Social Welfare Research Institute and the University of Massachusetts Boston Center for Survey Research. It is a follow-up to our 1996 study, which explored aspects and attitudes regarding wealth among the upper echelon of wealthy Americans. The current report focuses on the ways in which wealth holders utilize their assets to shape their lives and those of their heirs, and to enhance the well-being of others.

This research is tied in with our long-standing Wealth with Responsibility program, which is designed to help our clients develop a personal framework for making financial and non-financial choices about the responsible use of their wealth. This encompasses not only the financial expertise of Deutsche Bank Private Banking's investment team, but access to our advisors in such areas as family governance, strategic philanthropy, social investing, and the intergenerational transfer of values.

The new WWR Study is unique in that it profiles the uppermost tiers of wealth in the U.S. — those Americans with a net worth of at least \$5 million. This is roughly 600,000 households out of a nationwide total of 105 million, 5–7 million of which are estimated to possess a net worth of at least \$1 million. Our sampling of 112 households includes 30 with a net worth upwards of \$50 million, which we refer to as the “ultra-high-net-worth,” or upper affluent, sub-segment of high-net-worth individuals to which the Private Bank caters.

As in the 1996 report, the 2000 report concentrates on the relationship between the material wealth and “moral” well-being of our representative sampling. Boston College researcher Paul Schervish, who coordinated the study, points out that the fundamental characteristic of wealth is the latitude it provides for options — i.e., that being a wealth holder broadens the depth and breadth of life choices that one can make. It is our hope that, armed with the knowledge and insights that this research provides, our readership (comprised of financial professionals, members of the media, the public and wealth holders themselves) will be better equipped to understand the kinds of educated decisions that we at Deutsche Bank Private Banking are in business to promote.

## **Summary of Findings**

The research is divided into six sub-topics, which collectively provide a profile of wealth holders, their attitudes and practices. They are as follows:

- Financial security
- Empowerment
- Educating children on wealth and responsibility
- Philanthropy
- Socially responsible investing
- Estate planning

### **Sources of wealth and financial security**

Among the respondents, the average level of wealth is \$38 million and the median level of wealth is \$35 million. The vast majority of individuals profiled (89%) have derived at least part of their wealth from entrepreneurial and professional activities — nearly 60% of individual wealth for the average respondent, with 21% coming from investment activity, 18% from inheritance/gifts and 2% from other sources.

Interestingly enough, only 36% of those surveyed felt completely financially secure. The greater the level of net worth, the greater the amount of wealth required to make these individuals feel that they are financially secure. The median amount needed for financial security is \$20 million (67% more than current wealth), while the average amount required is \$45 million (75% above current wealth).

### **Empowerment**

Respondents named several public policy issues that they would like to influence by means of their wealth, namely education, poverty and hunger, arts and culture, and family stability.

### **Educating children on wealth and responsibility**

Of those surveyed, 97% say they are actively teaching their family values to their offspring, while 60% report taking steps to educate their children specifically about their relative affluence — i.e., regarding philanthropy, the responsibilities/stewardship of wealth, and the power and privileges associated with wealth.

### **Philanthropy**

Nearly all (97%) respondents indicated that they contributed to charities, averaging \$1.2 million per family or 22% of family income. The commonality among donors is that all give to causes to which they are physically or emotionally attached. The majority of donations are in the form of trusts, gift funds and foundations.

Also high on the list among those surveyed is volunteering their time to charitable causes — a median of 10 hours and an average of 15 hours per month. About 85% volunteer at least one hour per month, nearly double the national average. Often this takes the form of a leadership role, e.g., serving on a board of directors, fundraising or helping to plan an event.

### **Socially responsible investing**

The respondents who seem to value the concept of so-called “socially responsible investing” tend to have higher income, contribute larger amounts to charitable and political causes, and derive a larger proportion of their wealth from inheritance.

### **Estate planning**

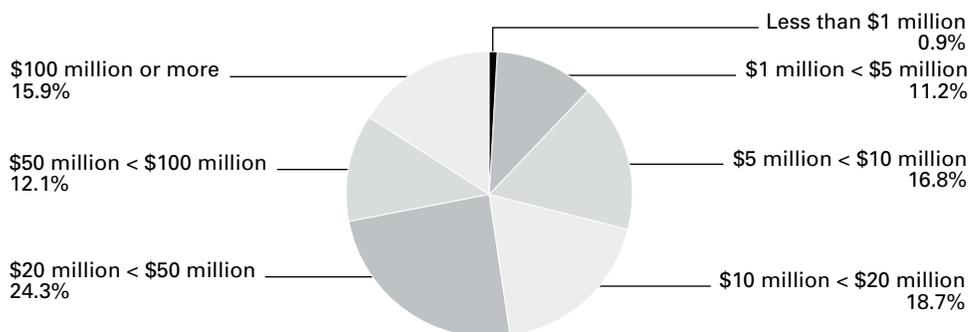
The great majority of those surveyed (89%) have a written estate plan. Most would reallocate the proportion of their wealth earmarked for heirs, charitable organizations and taxes. Respondents feel that being better informed about their options, tax benefits, etc. would make them more likely to revisit their estate planning.

## Characteristics of the Respondents

### Family Net Worth

This is a study of extremely wealthy people. Both the average and median level of wealth among those who responded is \$35 million, with all but 12% having a net worth of at least \$5 million. Nearly a third of the respondents (28%) were worth upwards of \$50 million — the ultra-high-net-worth segment of the population.

**Family net worth**



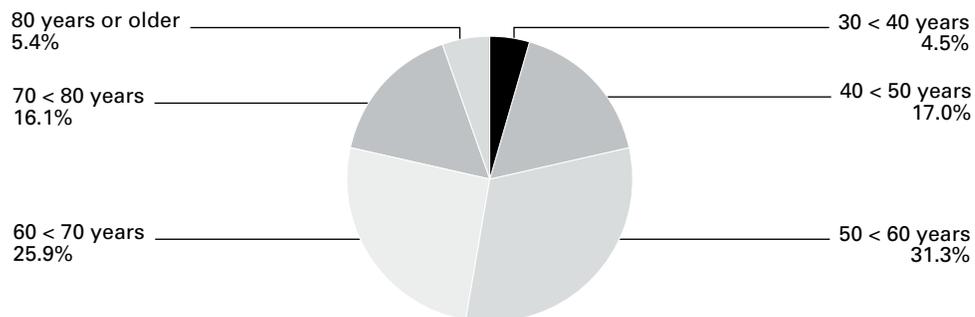
### Family Income

In this category, as in wealth, the vast majority of respondents fall into the uppermost tier. With median annual income of \$3 million and an average of \$4.4 million, 63% of the group is in the top one-tenth of 1% of income distribution nationwide.

### Age

The age distribution is wide, ranging from 30 to 84 years, with both the average and median age 59, or older than most American adults on average.

**Age**



**Gender/Marriage**

Nearly all those surveyed are married (88%). Most of the responses were made on behalf of the respondents' households and were done by men.

**Education**

Those who answered the survey are all very well educated. Nearly all (93%) graduated from a four-year college, with nearly half holding graduate or professional degrees.

**Employment**

More than 75% of the respondents continue to work, even though nearly half of them are over 60 years of age. Of those in the work force, nearly half (46%) are self-employed, 23% are employed by others, with 8% in a special category — i.e., neither working for pay nor retired.

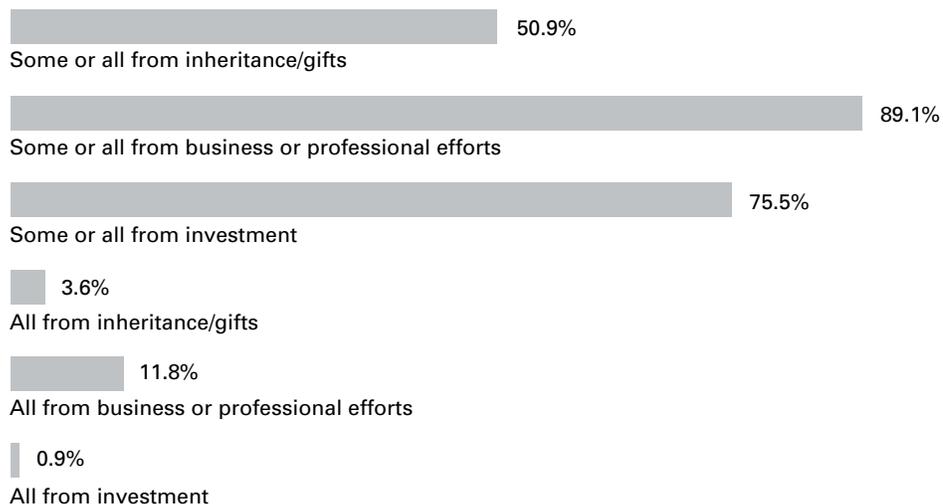
**Children and Grandchildren**

Almost all (90%) reported having children or stepchildren, ranging from six months to 65 years old, with a median number of two per family. Most of the children in question are 18 or older, while nearly half the respondents (46%) claim one or more child as dependents. Slightly less than half (44%) of those surveyed have grandchildren or step-grandchildren, from six months to 42 years of age, with a median number of five per family.

## Sources of Wealth

When asked about the origins of their wealth – i.e., professional/entrepreneurial ventures, investments, inheritance/gifts – most responded that they earned their wealth, either as business owners or employed professionals (60% of the wealth, on average, is earned). Interestingly enough, the higher the value of individuals’ current wealth, the greater the proportion of the wealth that is earned. In other words, most people we surveyed are self-made millionaires. Of the remainder, the segments were split about evenly, with about 20% deriving their wealth from investments and about the same percentage from inheritance.

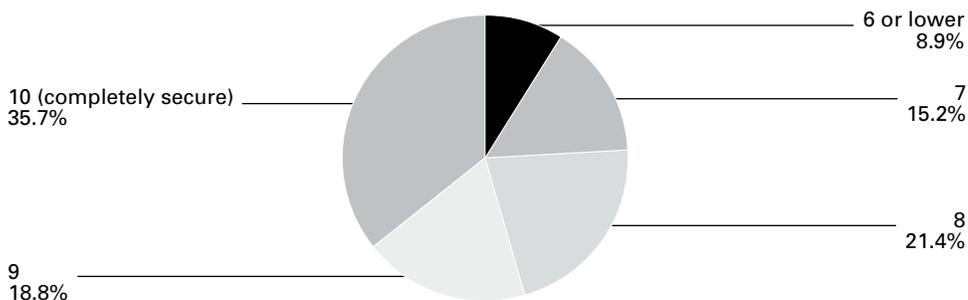
### Respondents by source of wealth



## Financial Security

An interesting finding of this research is the relatively low percentage of respondents who, despite their significant wealth, feel completely financially secure — a little more than a third (36%).

### Degree of financial security



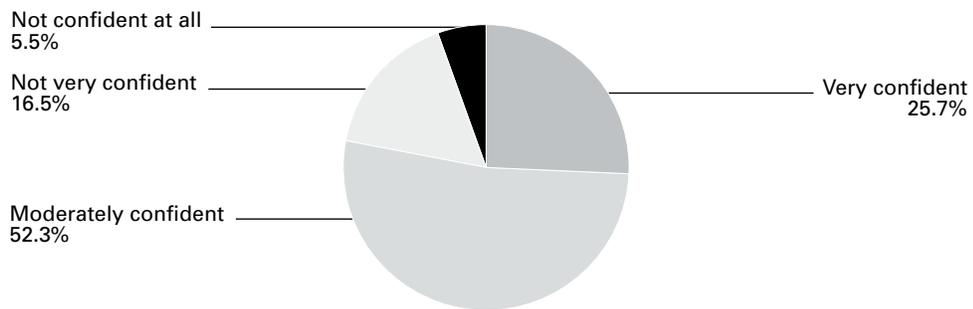
Those surveyed provided a wide range of values needed for them to attain complete financial security, from \$10,000 up to \$500 million. The median amount indicated is \$20 million, or 67% more than current wealth, while the average amount required is \$44 million, or 76% above current wealth.

On the whole, nearly all of those who responded (98%) felt more financially secure than insecure. However, only at very high levels of income (\$10 million or more) and wealth (\$50 million or more) did respondents indicate, on average, that they would feel completely financially secure with less than their current level of wealth. What is more, only roughly one quarter (26%) of those surveyed fully believe that the next generation will be as financially secure as the current one.

**Requirements for full financial security by net worth**

<i>Family net worth</i>	<i>Average minimum net worth for full financial security (\$ million)</i>	<i>Average % of current net worth needed for full financial security</i>
Less than \$5 million	\$16.45	479%
\$5 million < \$20 million	\$16.26	47%
\$20 million < \$50 million	\$42.87	22%
\$50 million or more	\$98.32	0.89%
Total	\$44.32	76%

**Confidence in financial security of next generation**



Some of this concern among the very wealthy may stem from their own or their parents' Depression-era anxieties and inspire insecurity about what the future may hold. Of those surveyed, roughly one-fifth (22%) did not feel confident about their heirs' financial security. Despite their wealth and the long-running bull market in the U.S., this group overall is dedicated to preaching financial prudence to their children.

## Material Freedom and Moral Aspiration

To focus a little more clearly on the profile of our target market, the wealth holders surveyed were questioned about four categories of activity in which they might be engaged:

- Business
- Politics
- Foundations
- Personal development

The responses were divided as follows:

- 65% involved in a business — start-up or running it
- 59% involved in politics — financial support of political parties, candidates or causes
- 51% involved in a foundation — family philanthropic or charitable
- 60% involved in personal development — spiritual, religious or other

### ***Areas of engagement and the freedoms of wealth***

	<i>% of respondents engaged in activity</i>	<i>% of respondents for whom wealth assists engagement in at least a moderate way</i>
Starting or running a business	64.8%	56.5%
Financial support of political parties, candidates, or causes	59.2%	42.7%
Managing a family or other private foundation	51.4%	47.7%
Spiritual, religious, or personal development	60.4%	45.3%
Freedom and time to pursue personal interests in general		19.6%
Ability to afford specific activities and purchasing goods and services one desires		25.9%
Providing for financial needs of self and family, including education		16.1%
Access to social, business, and political contacts, and to leadership roles in community		16.1%
Contributing time and money to help others		19.6%

Of the above, the vast majority (more than 70%) recognize the importance of wealth, at least to some extent, in facilitating their involvement in these activities. A sizable number indicated other ways in which having wealth freed them up to broaden their lives, including pursuing individual desires; purchasing what they wanted; providing for family needs; gaining access to contacts and “leadership roles;” and contributing time and money to help others.

**Policy Issues**

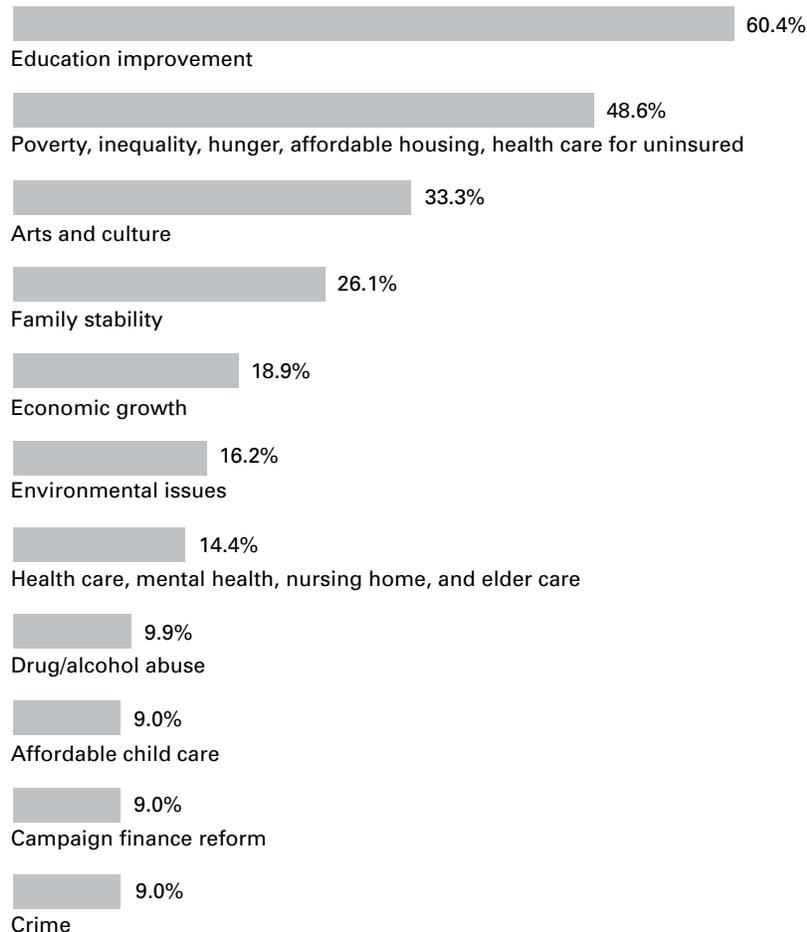
The respondents were asked which policy issues they would most like to influence by contributing their time or money. These were, in priority order:

- Education (60%)
- Reduction of poverty, hunger, inequality and other social ills (49%)
- Arts and culture (33%)
- Family stability (26%)

Following at somewhat lower percentages were economic growth; the environment; health care; and numerous other issues.

***Policy issues wealth holders would like to influence***

*Percentage of respondents mentioning*



## Voluntary Assistance

Almost all respondents (92%) have volunteered their time to charitable or political causes during the past three years. A slightly lower percentage (86%) volunteer in these activities at least one hour in an average month. Broken down further, 71% serve on a board of directors for a charitable or philanthropic organization, 75% give time to fundraising, and 52% help out in charitable or philanthropic event planning. Wealth holders appear to be motivated in their volunteer activities by feeling satisfied and rewarded for their efforts and that their contributions are worthwhile.

### *Patterns of volunteering*

Volunteered in past 3 years	92.0%
Currently volunteers	86.3%
Median hours per month	10.0 hours
Average hours per month	15.4 hours

Although charitable volunteering was far more popular among the respondents than political volunteering (only about one-quarter of those surveyed), the level of participation among political volunteers was relatively high – direct advisor, elected official, delegate, etc. – and often involves some type of fundraising.

### *Perceived helpfulness and satisfaction as a volunteer*

	<i>Perceived helpfulness</i>	<i>Perceived satisfaction</i>
10-point scale		
Low (<5)	10.5%	3.4%
Medium (5 to 7)	27.9%	36.8%
High (8 to 10)	61.6%	59.8%
Average	7.8	7.3

## Charitable Contributions

According to a Federal Reserve survey of very wealthy respondents, 90% of every household with a net worth of \$5 million or more contributes to charity, and in a substantial way. Of our Wealth with Responsibility survey respondents, nearly all contributed to charitable organizations and 65% gave to political causes. A slightly higher percentage (70%) gave to religious institutions, with even more wealth holders contributing even higher amounts to trusts, gift funds or foundations (see table for breakdown), averaging more than \$750,000.

### *Participation in charitable giving*

All types of organizations	100.0%
Charitable organizations	97.3%
Specific non-religious	90.0%
Combined charities	77.5%
Religious organizations	70.9%
Trusts, gift funds, foundations	67.0%
Other organizations	53.2%
Political organizations or causes	65.2%

In 1997, contributions to charitable and political causes by the respondents averaged 22% of their family income, or \$1.2 million per family. However, the amounts contributed varied widely, from \$1,700 to \$36.1 million. Both the amount and the percentage of income contributed to charity increased along with the level of wealth.

### *Wealth and charitable contributions*

<i>Family net worth</i>	<i>Average contribution</i>	<i>% of income contributed</i>
Less than \$1 million	\$2,475	2.5%
\$1 million < \$5 million	\$13,113	3.5%
\$5 million < \$10 million	\$65,780	10.6%
\$10 million < \$20 million	\$211,700	11.6%
\$20 million < \$50 million	\$488,247	16.5%
\$50 million < \$100 million	\$1,544,889	34.5%
\$100 million or more	\$5,498,091	56.7%
All	\$1,108,707	20.4%

The overall average differs slightly from that reported above because of different patterns of missing data.

## Association

Donors to charitable causes have been shown over time to give to causes with which they associate or are somehow attached, emotionally or physically. In line with that, the closer the connection donors feel to charitable causes, the higher the amounts they tend to give.

On average, respondent families gave 57% of their donations to charitable groups with which they or members of their families are involved — as members, participants, volunteers, board members or committee members.

## Dedication

Those surveyed indicate that 72% of their family contributions are given to causes about which they feel passionate. Those families that make more than half their contributions to such causes make average contributions of \$1.3 million, or 23% of their income, versus an average of \$317,000, or 12% of income, made by those who give less than half of their donations to causes in which they fervently believe.

### *Distribution of giving by kinds of involvement*

<i>Kinds of involvement</i>	<i>% of respondents</i>	<i>Average contributed \$</i>	<i>Average % of income contributed</i>
<b>Level of Engagement?</b>			
Associated (<50% of gifts)	61.5%	\$1,197,346	24.2%
Not Associated (50%+ of gifts)	38.5%	\$994,534	13.7%
<b>Intensity of Concern?</b>			
Feel passionate (<50% of gifts)	76.0%	\$1,346,668	11.9%
Not passionate (50%+ of gifts)	24.0%	\$317,150	23.4%
<b>How Inaugurated?</b>			
Self-initiated (<50% of gifts)	58.7%	\$1,003,960	14.2%
By request (50%+ of gifts)	41.4%	\$1,275,456	28.4%

## Initiation

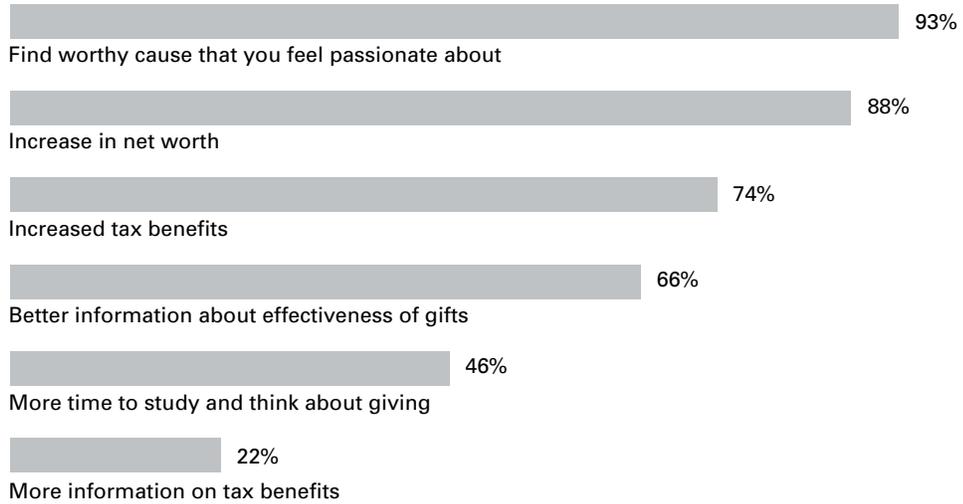
Wealth holders were nearly split down the middle regarding self-initiative in giving to charitable causes — 52% of the contributions are made in response to requests, while 48% are initiated by donors unsolicited. Those who give are more likely to initiate gifts to causes about which they feel strongly or with which they are associated.

## Satisfaction Level

Although more satisfied than not with the effectiveness of their donations and social contributions, the respondents overall indicated that there is room for improvement in their charitable giving (only 8.3% rated total satisfaction). Factors that were most likely to elevate their giving are finding a new cause about which donors could feel passionate; increased personal net worth; increased tax incentives; and knowledge that their contributions are making a real difference.

**General factors likely to increase charitable giving**

*Likely or very likely to increase giving*

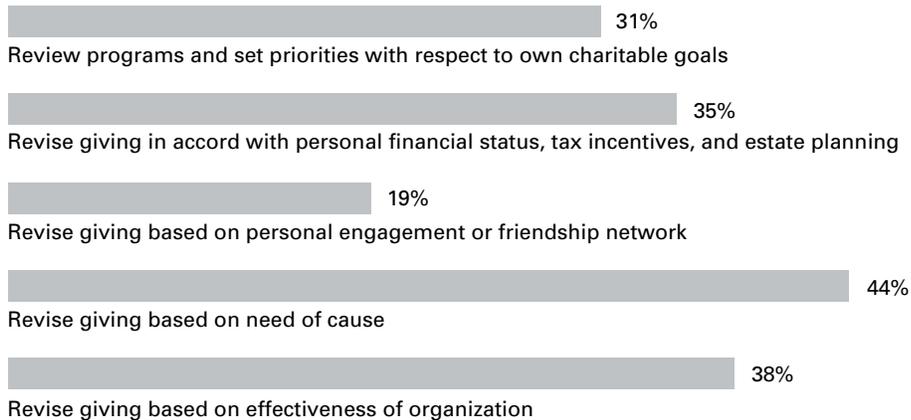


When asked what they would change in regard to their giving, those surveyed talked about:

- changing the focus of their funding
- earmarking greater priority to fewer causes
- being more proactive in initiating gifts
- leveraging their gifts to attract support from others
- re-evaluating the needs they want their gifts to address and the organizations they choose to support

**Specific factors considered when adjusting charitable giving**

*Percentage of respondents identifying factor*



## Educating Children about the Responsibilities of Wealth

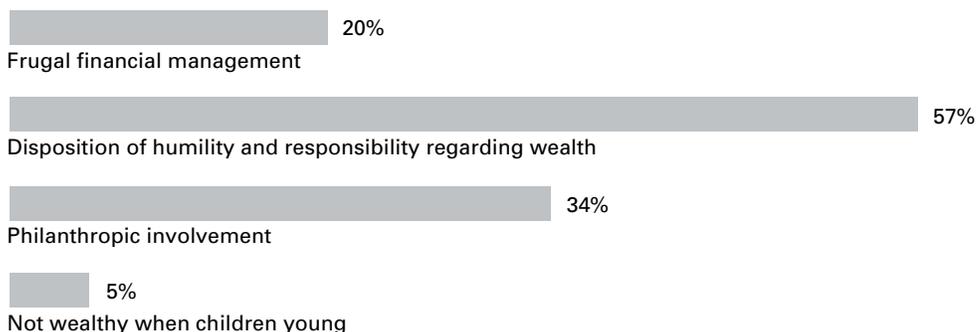
Of primary importance among wealth holders is transferring not only their financial wealth but also their values surrounding their wealth, to subsequent generations. Nearly all of the respondents (97%) indicated concern with teaching their children about the responsibilities of having wealth and imparting their “family values” to them. A majority of those surveyed (60%) began the process during their children’s formative years, anywhere from birth through 17 years of age. Another 20% indicated that they start teaching their children about the responsibilities of wealth between the ages of 18 and 21.

Those who began the education process during their children’s formative years seemed to place emphasis in three overall categories:

- frugal financial management — i.e., earning their own spending money and avoiding materialism
- humility and responsibility — i.e., recognizing that wealth is the result of good fortune and carries special responsibilities along with it
- philanthropy — i.e., encouraging participation in philanthropic and volunteer activities

### ***Examples of what parents do to educate children concerning family's relative affluence***

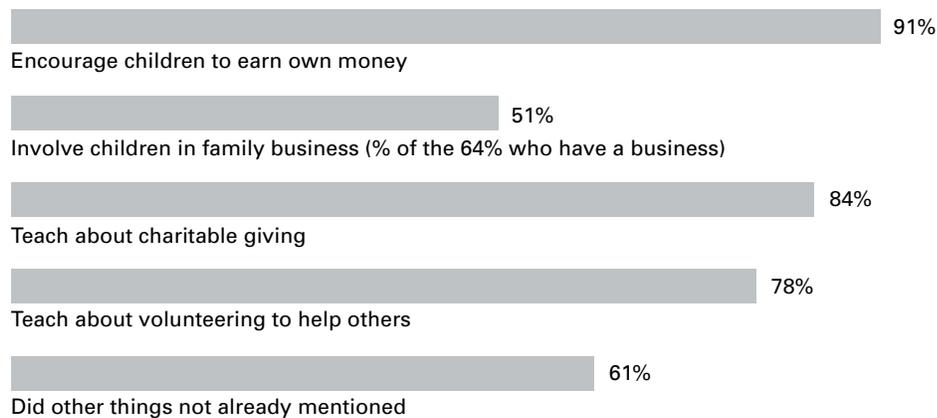
*Percentage of 61 respondents mentioning area*



Nearly all of the parents interviewed encourage their children to earn their own money, and more than three-quarters of them teach them about philanthropy, charitable giving and volunteering. About 50% of the respondents who have family businesses involve their children in the business. More than three-fourths of the respondents encouraged their children to be philanthropic. There seemed to be an overwhelming desire on the part of wealth holders to instill humanistic values in their children.

### ***Specific activities to teach financial virtue***

#### *Percentage doing so*



## **Socially Responsible Investing**

Wealth holders were overall more interested in philanthropy in general than in so-called “socially responsible investing.” Collectively, they hold about 4% of their assets invested in socially responsible investments. About one-third (32%) find the concept of socially responsible investing attractive and/or have done it, and about half the respondents have considered it a criterion for investing. Those surveyed cited three factors that could conceivably increase their participation in socially responsible investing:

- competitive rate of return
- evidence that such investing is doing some good
- recommendation by someone they trust

### ***Socially responsible investing: attractiveness and participation***

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Have ever considered SRI (% of total sample)	51.0%
And have ever personally done so (63% of 51%)	32.0%
And find it attractive (63% of 32%)	20.2%

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Find concept of SRI attractive (% of total sample)	32.1%
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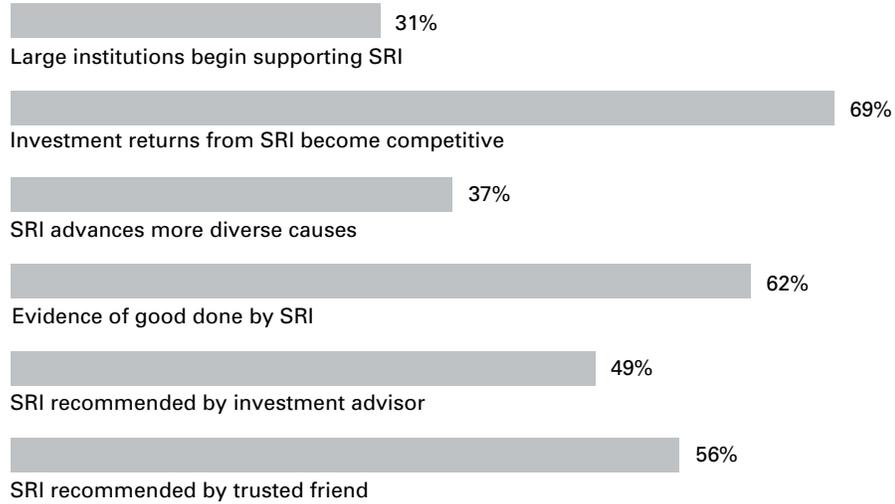
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Self or family currently invest in SRI (% of total sample)	44.2%
And find it attractive	26.3%

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**Factors likely to increase socially responsible investing (SRI)**

*Likely or very likely to increase giving*



**Estate Planning**

Not surprisingly, nearly all (89%) of the respondents have a written estate plan. They by-and-large expect their assets to pass on to their heirs and to go for taxes, with a smaller portion going to charity. If they had their way, most would allocate more money to charity and less to taxes, though not all the wealth holders were in favor of eliminating estate taxes altogether.

***Expected and desired distribution of estates***

	<i>Expected Distribution</i>	<i>Desired Distribution</i>
Children and grandchildren	42%	58%
Other heirs	5%	6%
Taxes	37%	9%
Charity	16%	26%
Other	0%	1%

## Conclusion

This study yielded many interesting findings concerning the high-net-worth population. Among these:

- The great majority of wealth holders are self-made millionaires.
- Only a relatively small minority of the population feels completely financially secure. It seems that the more wealth is amassed, the more is required for financial security.
- These are socially conscious, philanthropic individuals who by-and-large would like to use their resources to make the world a better place. However, most are not interested in socially responsible investing.
- Wealth holders are overall intent on raising socially and fiscally responsible children, whom they fear will be less financially secure than their parents.
- Not surprisingly, almost all members of our sample population participate in estate planning. Most of them would reallocate more of their funds to heirs and charity than to taxes, but surprisingly few are in favor of eliminating estate taxes altogether.

To a great extent, these findings are in keeping with the principles behind Deutsche Bank Private Banking's Wealth with Responsibility program and the services it provides to our high-net-worth clients.

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