

THE GOLDEN AGE *of* PHILANTHROPY:

A REPORT ON WEALTH TRANSFER IN THE
ST. LOUIS REGION

ABOUT GATEWAY TO GIVING

In 2001, the St. Louis Metropolitan Association for Philanthropy – the regional association for local corporations and foundations involved in grantmaking – brought together executives from the business, philanthropic and nonprofit sectors to work collaboratively to strengthen philanthropy in the region. Gateway To Giving was formed with a mission to encourage, educate and engage individuals and institutions in strategies to promote and expand philanthropy in the region. The coalition is not a grantmaking organization nor does it promote specific organizations. Rather, it serves as common ground for those with knowledge and expertise to work together to create an even stronger culture of giving in the St. Louis metropolitan area.

In 2001, the coalition applied for and received a three-year grant from New Ventures in Philanthropy, a national initiative of the Forum of Regional Associations of Grantmakers in Washington, D.C. New Ventures in Philanthropy serves as a nexus for understanding the rapidly changing philanthropic landscape and for developing innovative ways to encourage giving.

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This report is based on a study prepared for Gateway To Giving by John J. Havens and Paul G. Schervish of the Center on Wealth and Philanthropy.

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PAUL G. SCHERVISH is a professor of sociology and director of the Center on Wealth and Philanthropy at Boston College. He received a bachelor's degree in literature from the University of Detroit, a masters in sociology from Northwestern University, a masters of divinity from the Jesuit School of Theology at Berkeley and a doctorate in sociology from the University of Wisconsin.

INTRODUCTION

The \$41 Trillion Wealth Transfer

Over the past five decades, Americans have amassed fortunes through their work and investments. They also are the beneficiaries of the largest intergenerational transfer of wealth in history. Nationwide, by the year 2052, an estimated \$41 trillion will change hands as these Americans pass their accumulated assets from one generation to the next. Not all of the money will be transferred to heirs; a substantial amount — approximately \$6 trillion — will be given to charitable organizations.

This windfall was projected in “Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy,” a widely circulated 1999 report by John J. Havens and Paul G. Schervish, researchers at Boston College’s Center on Wealth and Philanthropy. Their research, which presented three growth scenarios based on the total value of estates, also contained estimates of the potential transfer of wealth to government (taxes) and various estate fees.

After reviewing their research model, the downturn in financial markets and challenges to the \$41 trillion estimate, the authors released “Why the \$41 Trillion Wealth Transfer is Still Valid: A Review of Challenges and Questions.” They reiterated that most of the forthcoming transfer would occur in the last 25 years of the 55-year period (1998-2052) and would be concentrated among households at the upper end of the wealth distribution scale.

St. Louis Metropolitan Area

In 2004, Havens and Schervish developed a methodology that allows them to produce wealth transfer estimates for states and large metropolitan areas and, at the invitation of Gateway To Giving, they selected St. Louis as the subject of their first local study. For purposes of the report, the St. Louis metropolitan area is defined as St. Louis City, six counties in Missouri (Franklin, Jefferson, Lincoln, St. Charles, St. Louis and Warren) and five counties in Illinois (Clinton, Jersey, Madison, Monroe and St. Clair).

This report provides two sets of estimates for households in the St. Louis area in 2001— a baseline of current wealth and the projected wealth transfer. The first set consists of the estimated distribution of household wealth and its distribution by age of head of household. The second set consists of the estimates of wealth transfer and the potential distribution of this transfer among government, heirs, charity and estate settlement costs. A conservative (2 percent) annual rate of growth is used throughout this report.

During the 55 years from 2001 through 2055, Havens and Schervish estimate that St. Louis households will transfer at least \$532 billion and will contribute a potential \$93 billion in charitable bequests, that is, gifts to charity designated in one’s will.

Highlights

- In 2001, the St. Louis metropolitan area contained 1.056 million households. These households constituted 0.99 percent of all households in the nation. However, their total net worth constituted slightly more than 1.09 percent of all household wealth in the nation.
- In 2001, the 1.056 million households in the St. Louis metropolitan area owned an aggregate amount of \$426 billion in wealth.
- Wealth is highly concentrated in the region. Approximately 5.5 percent of households with net worth of \$1 million or more owned 63 percent of the total wealth in St. Louis.
- Using a conservative estimate of growth, it is projected that during the 55 years from 2001 through 2055, St. Louis households will transfer \$532 billion from their estates to their heirs, charity, taxes and estate fees.
- Total St. Louis giving to charity between 2001 and 2055 will be \$181 billion. Of this amount, \$93 billion will be received as charitable bequests.
- The transfer of wealth in the St. Louis region, as in the nation, is concentrated among wealthy final estates. Most of the potential charitable bequests (70 percent) will be generated by the 0.6 percent of final estates valued at \$20 million or more.
- Householders in the St. Louis region with \$1 million or more in net worth are relatively young as compared with their counterparts nationally.
- Because wealth holders in St. Louis are younger on average than wealth holders in the nation, the bulk of the wealth transfer will occur in the St. Louis region later than in the nation as a whole.

Figure 1
Distribution of Household Wealth, 2001
St. Louis Metropolitan Area

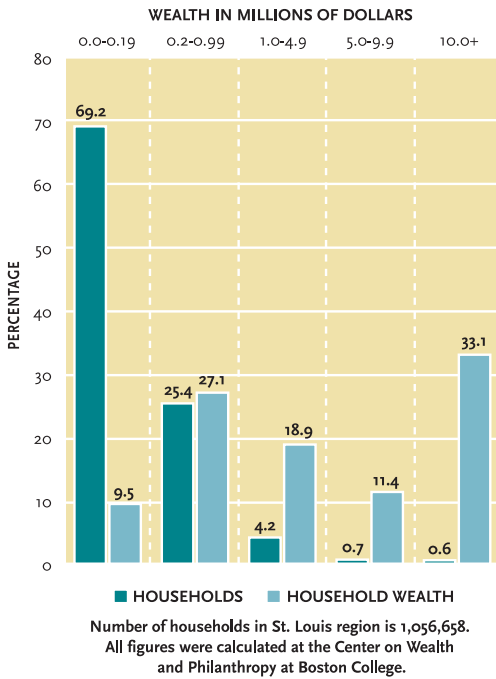
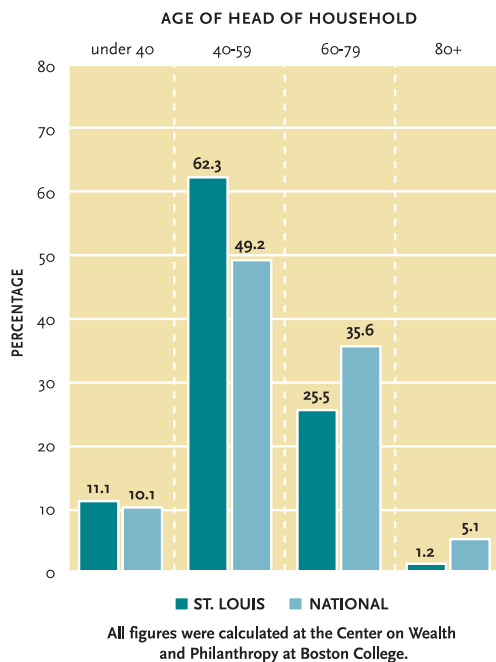


Figure 2
Household Net Worth by Age of Head of Household, 2001
St. Louis Metropolitan Area and Nation



WEALTH DISTRIBUTIONS

Throughout this document, household wealth is defined as household net worth, that is, the market value of all assets owned by members of the household minus the value of all debt owed by members of the household. All dollars are measured in 2003 constant (inflation adjusted) dollars, which means the values presented here represent 2003 buying power. For example, a transfer of \$200,000 to an heir in 2055 will have the same 2003 buying power as a transfer of \$200,000 in 2003, although by 2055 the \$200,000 will have a nominal value closer to \$1 million (assuming a 3 percent average annual inflation rate).

In 2001, the 1.056 million households in the St. Louis metropolitan area (0.99 percent of all households in the nation) owned an aggregate amount of \$426 billion in wealth (1.09 percent of all household wealth in the nation).

Distribution of Household Wealth

As is the case across the nation, there is a highly skewed distribution of wealth in the St. Louis region. Figure 1 shows the following:

- Sixty-nine (69) percent of all St. Louis households had household net worth less than \$200,000. In aggregate, these households accounted for only 9.5 percent of the total wealth in the region.
- On the other hand, 5.5 percent of households had household net worth of \$1 million or more. These households accounted for 63 percent of the region's total wealth.
- Even more dramatically, the 0.6 percent of households with wealth of \$10 million or more owned 33 percent of all household wealth in the St. Louis metropolitan area.

The distribution of wealth is important for two reasons. First, combined with rates of growth in household wealth, it determines the amount of wealth to be transferred at the death of the householders. Second, wealthy individuals tend to distribute a disproportionately large portion of their estates to charitable bequests. The St. Louis area distribution of wealth implies that very wealthy households will generate a potentially large value of charitable bequests during the period from 2001 through 2055.

Unlike the national average, wealth in the St. Louis region is concentrated among younger households. The net worth by age (Figure 2) contrasts local findings with the national distribution.

- In the St. Louis region, 62 percent of total wealth was owned by households whose head was aged 40 to 59, and 27 percent was owned by households whose head was 60 years or older.
- The corresponding national percentages were 49 percent of aggregate wealth owned by households whose head was aged 40 to 59, and another 41 percent owned by households whose head was 60 years or older.

The concentration of wealth at a younger age than the national distribution is consistent with a pattern of wealth generated by self-made entrepreneurs. One implication of the age distribution of wealth in the St. Louis region is that a larger fraction of the wealth transfer in this region will occur later in the 55-year period as compared to the entire nation.

WEALTH TRANSFER ESTIMATES

Final Estate Value and Distribution

The estimates of wealth transfer are derived by compiling the value of final estates. A final estate is an estate without a surviving spouse. After the number and value of final estates are estimated, the study uses historical patterns to distribute the estate's value to government (in the form of federal and state estate taxes), heirs, charitable bequests and estate fees (outstanding debt, burial costs and legal/probate fees) as shown in Figure 3.

In the St. Louis metropolitan area, Havens and Schervish estimate that 873 thousand final estates will occur during the 55-year period from 2001 through 2055.

- 549 thousand of the final decedents (deceased persons) will be women,
- 313 thousand will be men, and
- 11 thousand will involve two spouses who die in the same year.

These final estates will be valued at \$532 billion (2003 dollars) at the time of death if wealth grows in the St. Louis region at a conservative annual rate of 2 percent. If historical patterns hold, \$19 billion of this amount will be distributed to estate fees, \$134 billion to government in the form of estate taxes, \$93 billion to charity and \$287 billion to heirs.

Most of the potential charitable bequests (70 percent of the total \$93 billion) will be generated by the final estates valued at \$20 million or more (Figure 4).

This proportion is large for two reasons:

- Final estates valued at \$20 million or more account for one third of the \$532 billion in total wealth transfer in St. Louis; and
- On average, estates of \$20 million or more give the largest fraction (38 percent) of their value to charity as compared with estates of lesser value.

Timing of the Transfer

Less than 17 percent of wealth transfer in the St. Louis region will occur before 2020. During that time, only 222 thousand final estates will occur. They will account for just 25 percent of final estates generated during the entire 55-year period. The total value of these estates will be \$88 billion with potential charitable bequests of \$13 billion.

Figure 3
Distribution of Final Estates
\$532 billion in aggregate

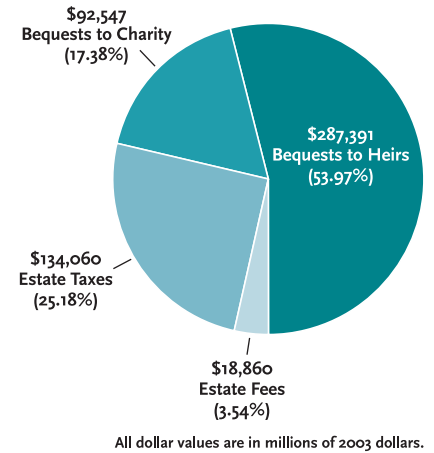
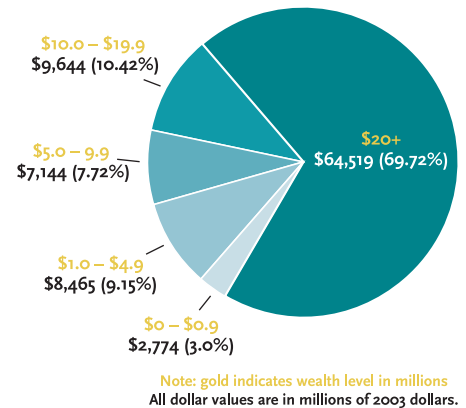


Figure 4
Bequests to Charities by Wealth Levels
\$93 billion



The prospects for a Golden Age of Philanthropy will arise not just because of the growth in wealth. It will emerge even more profoundly and abundantly to the extent there is a growth in a dedicated and fulfilling philanthropic identity among those for whom allocating financial resources for the care of others is a high priority.

The bulk of the wealth transfer will occur later than 2020. In 2001, there were 58 thousand households in the St. Louis region with at least \$1 million in net worth. During the full 55 years, another 25 thousand households will become millionaires, for a total of 83 thousand millionaire households. However, the wealth of 11 thousand of these households will decline before death as they draw down their assets through a combination of consumption, gifts and health care costs after age 60.

Of the 72 thousand households whose wealth remains above \$1 million before their final estates or before the year 2055, 70 thousand will have final estates of \$1 million or more and 2 thousand households will survive for 55 years and maintain their millionaire status in the year 2055.

CHARITABLE GIVING AND WEALTH TRANSFERS

Lifetime and Bequest Giving

In addition to charitable bequests, households make contributions to charity during their lifetimes.

The report projects that the 1.056 million households in the St. Louis region will contribute \$88 billion to charitable causes before their deaths as well as \$93 billion in charitable bequests during the 55-year period — a total of \$181 billion. It is clear that millionaire households as a group possess the greatest capacity for charitable giving and, based on historical patterns and projections, will contribute the greatest amount of charitable giving during the next 55 years. Higher rates of growth in wealth increase the potential for charitable giving for these millionaires faster than for less wealthy households.

In the period up to 2020, lifetime contributions exceed charitable bequests, but in the full 55-year period charitable bequests exceed lifetime giving.

CONCLUSION

The Golden Age of Philanthropy

Because the projected rates of growth in wealth, charitable bequests and contributions made by individuals during their lifetimes are conservative, it is reasonable to expect that total charitable giving during the next five decades will be equal to if not higher than the estimates contained in this report. But in addition to the conservative estimation strategy used by Havens and Schervish, there is a more important reason why charitable giving in the greater St. Louis region may turn out to be even more abundant.

The model used assumes that household wealth grows in accordance with historical patterns of charitable giving. Specifically, the wealth transfer estimates assume that the relationship between household wealth, charitable bequests and lifetime giving to persons and to charity do not change, on average, during the 55-year period.

This could all change as charities step up the quantity and, especially, the quality of their fundraising efforts, and as national and regional efforts to advance philanthropy encourage a giving culture through programs that better communicate the technical tools, effective consequences, spiritual meaning and personal satisfaction of charitable giving.

What Havens and Schervish have in the past referred to as the prospects for a Golden Age of Philanthropy will arise not just because of the growth in wealth. It will emerge even more profoundly and abundantly to the extent there is a growth in a dedicated and fulfilling philanthropic identity among those for whom allocating financial resources for the care of others is a high priority.

Preparing for the Intergenerational Transfer of Wealth

The enormous intergenerational transfer of wealth that will take place in the coming decades will benefit donors, charitable recipients and, of course, the greater St. Louis metropolitan area.

Although many wealth advisors believe that it is not their responsibility to advise their clients about charitable giving, Gateway To Giving believes philanthropy is a vital component of financial and estate planning.

Wealth advisors and charitable organizations may want to develop long-term relationships with high net worth clients who are under age 60. In 2001, heads of households aged 40 to 59 owned 62 percent of aggregate wealth in the St. Louis region, compared to 49 percent nationally. And they are already generous. As the first Gateway To Giving report, “Private Dollars for Public Good,” revealed, giving by St. Louis residents under age 65 already exceeds national averages by an impressive 39 percent.

Charitable organizations also should be mindful that wealth and megawealth are concentrated within a small percentage of the St. Louis region’s population. Seeking relationships with both those individuals and their financial advisors could yield tremendous — but not necessarily immediate — results.

There are steps nonprofits can take today to capitalize on this unique opportunity. They can educate donors about their options for leaving assets to their organization through wills or other long-term vehicles, such as charitable remainder trusts. They can also join community-wide efforts that promote philanthropy.

Finally, the reader will be pleased to know that the real annual growth in household wealth from 1950 through the first quarter of 2004 averaged 3.37 percent. Thus, by historical standards, the 2 percent annual growth rate used in this report is very conservative. During the 55-year period (2001-2055) the amount of wealth transfer in the St. Louis region could exceed \$2 trillion if the annual growth rate averages 4 percent.

Although many wealth advisors believe it is not their responsibility to advise clients about charitable giving, Gateway To Giving believes philanthropy is a vital component of financial and estate planning.

Local Resources

- Association of Fundraising Professionals
St. Louis Chapter
- Association of Lutheran Development
Executives, St. Louis Chapter
- Estate Planning Council St. Louis Chapter
- Saint Louis Planned Giving Council
- Southern Illinois Charitable Giving Council

To obtain a copy of the full report by Havens and Schervish, you may contact the Metropolitan Association for Philanthropy at (314) 621-6220.

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