

NEWS AND ANALYSIS

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\$9 Trillion Will Transfer From Americans' Estates, New Analysis Says

By Heather Joslyn



SIMON WILLIAMS/THE NATURE CONSERVANCY

With trillions set to flow from Americans' estates in the coming years, charities like the Nature Conservancy are working hard to cultivate planned gifts. The environmental group invites supporters who have made bequest commitments on trips to areas where it works, such as Montana's Teton River.

If only 5 percent of the assets projected to pass from Americans' estates over the next decade were captured for philanthropy, it could create the equivalent of 10 Gates Foundations, according to a new analysis of household wealth data.

The \$9 trillion that will pass down to the next generation by 2027 suggests that now is the time for charities to gear up their efforts to secure bequests.

Five percent of that inheritance donated to charity could add up to \$441 billion and generate \$22 billion in grant making

annually.

The eye-popping figures were unveiled this month by Locus Impact Investing, in partnership with the Center for Rural Entrepreneurship. Locus helps foundations invest locally to create more prosperous communities.

The figures constitute one of four scenarios produced by the researchers to project what might happen to the \$75 trillion in household wealth Americans now hold.

The \$8.8 trillion figure — roughly equal to the combined gross domestic product of Germany, Iran, and Japan — would be the result of an average economic growth rate of 3 percent, which the researchers considered likely, given recent trends.

Assuming that 3 percent growth scenario, the researchers project that \$97 trillion, or about \$21 trillion more than the combined gross domestic product of all nations in the world, could pass from Americans' estates by 2067.

If 5 percent of that money were captured for philanthropy, nearly \$5 trillion could wind up in charities' coffers. If that much is

earmarked for charity, grant making over that period could total \$243 billion.

It adds up to unprecedented potential for bequests and other planned gifts, especially over the next three decades, according to Don Macke, the center's co-founder.

More than half of current American household wealth — 56 percent — is in the hands of baby boomers, the oldest of whom are turning 72 this year. If Generation X and millennials outpace their elders as wealth creators, "this may be a sustained trend of ever-increasing opportunity," Macke says.

3 More Scenarios

The other scenarios examined by the Center for Rural Entrepreneurship and Locus researchers:

- At an average growth rate of 2 percent, \$8.5 trillion would transfer from estates by 2027. Capturing 5 percent for charity would add up to \$424 billion, with \$21 billion available for grant making.
- At a 4 percent average growth rate, \$9.2 trillion would transfer from estates over the next decade. Capturing 5 percent of that for charity would mean \$459 billion in new endowments, with the potential of \$23 billion in annual grant making.
- A robust 5 percent average growth rate would mean \$9.5 trillion would transfer from estates by 2027. Charities would be looking at \$477 billion if 5 percent of that wealth were captured for philanthropy, meaning nearly \$24 billion in grant making.

\$9 TRILLION AND COUNTING: HOW CHARITIES CAN TAP INTO THE TRANSFER OF WEALTH



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Tweaking the Calculations

The new data analysis picks up the baton from previous studies on the transfer of wealth conducted by two Boston College researchers, John Havens and Paul Schervish.

Beginning in 1999, the men produced three scenarios that projected the amount of wealth likely to change hands in America over a 55-year period, with the most conservative estimate, \$41 trillion, gaining traction in the press.

The researchers also projected that 15 percent of that pie, a slice worth more than \$6 trillion, would wind up with charities.

"They broke a glass ceiling," Macke says. "They were the first ones to put hard numbers to this."

In 2014, a year before they retired and closed their research center at Boston College, Havens and Schervish updated their projections, predicting that \$58 trillion, including \$6.3 trillion in charitable bequests, would transfer from elder generations by the year 2061. Their figures were based on projections in which annual economic growth averaged 2 percent and charitable bequests grew by 5 percent a year.

But some experts were skeptical of the new projections, noting that the bequests predicted in the first study fell woefully short of expectations in the years after it was published.

'Here's the Opportunity'

The new analysis by the Center for Rural Entrepreneurship and Locus differs from the Boston College reports in that it does not project how much money will go to charity. Macke says such projections don't hold true for regions or communities without strong philanthropic institutions, where giving rates are usually lower than the national average.

With the center's study, he says, "we're saying, Here's the opportunity. Now it's up to you to go out and *capture* some of that."

Some planned-giving experts say fundraisers and nonprofit boards didn't fully understand the Boston College wealth-transfer research. Due to a "baby bust" from the late 1920s through the mid-'30s, medical advances that let people live longer, and more donors "giving while living," Americans' wealth wouldn't begin to transfer in earnest in 1999 or 2014, when Havens and Schervish's first and last studies were released. The busiest era for estates closing, they predicted, wouldn't begin until 2018.

"We've just about hit the bottom of the demographic trough," says Russell James, a professor of personal financial planning at Texas Tech University. "Everything from now on will be looking up."

Donor-Advised Fund Boom

Some charities are already working hard to capture planned gifts. At the American Heart Association, for instance, fundraisers are using data to guide their efforts; planned gifts make up 15 to 18 percent of the group's support each year.

"I don't think the wealth transfer is about to happen. I think it's happening," says John Hayes, the association's senior vice president for charitable estate planning.

He points to the explosive growth of donor-advised-fund providers like Fidelity Charitable, now the No. 1 charity in America by private support raised, as a sign that Americans have a lot of money ready to devote to philanthropy that's not being tapped.

"There's a statement there," Hayes says. "It's not whispering down the wind, it's screaming down the halls."

For more on the new transfer of wealth analysis and planned-gift fundraising, check out the Chronicle's new special report "\$9 Trillion and Counting."

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PLANNED GIVING BASICS

