Primer on the Transfer of Wealth

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A Primer on the Transfer of Wealth

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What is the Transfer of Wealth

The trends of globalization and mechanization have created major shifts in the alignments of national and local economies, and this has led to disruption in social and cultural trends as well. In particular, widespread and ongoing urbanization has relocated individuals and families from small towns and rural areas into larger cities, as well as shifting individuals among different cities. The increasing movement of persons means that wealth is now much less rooted in place, even though much wealth is originally created through the use of lands and resources in specific places.

In response to this, some researchers have focused on the phenomenon of the intergenerational Transfer of Wealth (ToW). This concept is based on the movement of wealth between generations, primarily at the end of an individual's life when wealth is passed to descendants and other beneficiaries. By estimating the level of wealth possessed by a population and the rate at which a population may pass away, one can create an estimate of the amount of wealth that is due to be transferred at a population level over a set period of time.

The estimates generated in ToW reports have historically been far larger than anticipated by residents of the regions under investigation. ToW work has highlighted previously-unknown assets in communities and the shrinking time-frames in which these opportunities must be pursued. Such work has spurred conversations about how this wealth might be managed, invested, or captured, and has had a particularly large impact in cases where much of the projected wealth is expected to leave a region in the short- to medium-term.

Key Concepts

There may be multiple ways to estimate future wealth transfers in a given region, but the general approach taken to this concept is simple. Much of the work done so far uses a form of mathematical modelling relying on past and projected demographic and economic data. Generally speaking, this process estimates the amount of wealth held by persons in an area, and then estimates the timing of transference of wealth by estimating the number of deaths that will occur in an area over a given period (Macke, 2005). To estimate the wealth in an area, most studies available rely on the results of an early study done at the national level by Havens & Schervish (2002) and apply the social trends found in them to the demographics of a chosen area (Binerer, Butler, & Macke, 2013; Center for Rural Entrepreneurship, n.d.). However, the exact method may be modified to better suit the information that is available to practitioners, and other methods have been devised (as mentioned below). These projections stretch into the future and can be done over any time period, although it appears more commonly done between 10 years into the future and 50 years into the future (Macke, Binerer, Markley, Gardner, & Hitt, 2012).

Once a state or region has an estimate of the wealth that will be transferred, it is helpful to create an approximation of the financial possibilities for the area. This is often based on two general rules/assumptions: first, one assumes that, based on the total amount of wealth that will be transferred, capturing 5% of this in charitable donations is a significant, attainable goal which can also be used as a motivator for garnering donations (Joslyn, 2016; Edelman & Burke, 2007). Second, one assumes that the amount captured through charitable donations can be invested with an average yearly return of around 5% (Macke, 2005; Macke et al., 2012). Such an endowment model can provide an ongoing source of support for an area that can keep wealth more directly tied to a specific location (Edelman & Burke, 2007). This estimate can then advance discussions around this topic and spur interest among those involved.

History of Concept

Studying future transfers of wealth can be traced back to at least the early 1990s, when Avery and Rendall attempted to estimate the size and distribution of inheritances among baby boomers, whose parents were then in the 50+ age group. This study looked at the national transfer of wealth within the United States by using the 1989 Survey of Consumer Finances, a national survey of consumer habits, to derive estimated trends between various demographic factors and wealth. The authors then created a deterministic population model (for which the algorithm is included in the report's appendix) to estimate the transfer of wealth. Avery & Rendall estimated that between 1989 and 2044, approximately $10.365 trillion (in 1989 dollars) would be bequeathed to the next generation (Avery & Rendall, 1993).

The main purpose of this study was to examine consumer behaviour and how individuals and couples determined their savings and bequests. Therefore, this work relies on certain simplifying assumptions tuned to this purpose which may distort the final estimated dollar value of wealth transfers. For example, within the model used in this study, remarriage and the death of beneficiaries were assumed to not occur, childless couples were ignored, and the field of agents under study only included those over 50 years old in 1989 who, if married, also had spouses under the age of 50 (Avery & Rendall, 1993). Nevertheless, this study laid groundwork for future studies and spurred conversation on the intergenerational transfer of wealth. (Note that older works on this topic may exist, but the study from Avery & Rendall remains the earliest that could be found for the purposes of this primer.)

While Avery & Rendall sparked this conversation, the intergenerational transfer of wealth became a topic of great interest after a report titled "Millionaires and the Millennium" was published by Boston College in 1999. Although this report's methodology was not thoroughly explained, the authors, Havens & Schervish, used three scenarios (termed the low-, middle-, and high-level scenarios) to estimate the transfer of wealth from 1998 to 2052 within the United States at a national level. This study was done specifically to examine the intergenerational transfer of wealth and therefore attempted to include conditions which were more accurate for this purpose, in comparison to Avery & Rendall's study. The report concluded that, even with conservative calculations and a low-level scenario, the wealth transfer would likely be around $41 trillion over this period, roughly four times as much as previous estimated, with approximately $6 trillion being donated to charitable causes. Under ideal conditions, the authors estimated that it could reach as high as $136 trillion, with nearly $25 trillion donated to charitable causes (Havens & Schervish, 1999).

Havens & Schervish also noted a developing trend of increased donations to charitable causes due to increasing prosperity, recognition of financial security, and emotional incentives for estate planning. They thus heralded a forthcoming "Golden Age of Philanthropy" (Havens & Schervish, 1999, p. 13) with enormous opportunities for charitable causes to benefit from these developing financial trends. Based on these claims and the report's large projection of available wealth, significant focus developed around how this potential transfer of wealth might be better captured and directed by charitable groups.

While the overarching idea of measuring the intergenerational transfer of wealth has not been questioned, the way in which it has been conducted has been questioned and critiqued as it has developed. For instance, the Boston College report notes that the previous study from Avery & Rendall was restricted to particular groups and made assumptions which distorted the final estimate (Havens & Schervish, 1999). As well, following economic disruption in the early 2000s, Havens & Schervish published a second report responding to criticisms of their methodology, such as that their assumptions around economic growth, spending habits, and personal wealth were overly idealistic. The authors offer comparisons to real-world statistics, arguing that their assumptions are valid, and perhaps even on the conservative side, concluding that their estimates remain reliable for the future. They also note that other organizations, such as the Council of Economic Advisors, the Bureau for Labor Statistics, and the Congressional Budget Office, have independently verified their original ToW study and have found its conclusions to be reasonable (Havens & Schervish, 2003).

Users of this Concept

In particular, some community foundations throughout the United States became deeply interested in ToW work after the release of Havens & Schervish's report (Macke, Radenslaben, Binerer, & Gardner, 2006). These institutions are geographically based within a given catchment area and collect donations for a community fund intended for their region. Generally, a community foundation's fund is not spent, but is instead invested, with the interest accrued being spent each year within the region on community projects.

In the United States, a group originally known as the Center for Rural Entrepreneurship (CRE) – now named e2 Entrepreneurial Ecosystems (e2EE) – has been a driving force behind this work. This group has conducted studies with over 40 community foundations, covering 17 states, counties in an additional 12 states (and other states which have been studied as a whole), and the United States as a nation. This work often involves working alongside a local advisory group who can aid in developing findings and interpreting results. These studies largely follow the same methodology but are tailored to each state or area's economic and social past and projections (e2EE, 2018). These can sometimes require consideration of the economic, demographic, and social circumstances in different regions of a single state (Binerer, Butler, & Macke, 2013).

In addition, Edelman & Burke (2007) at Iowa State University created an independent projection for the transfer of wealth within the state of Iowa. This relied on local decedent probate data for 1998-2002, referring to fees paid upon a person's death which strongly correlate with estate value. This therefore uses previous wealth transfer data as an input for predicting transfer levels over the 2000-2049 period. This study finds that areas with older populations experience larger wealth transfers early in the projection period. As well, this work states that areas which saw over 30% of their expected wealth transfer in the first 20 years tended to be relatively rural areas.

This group also conducted a follow-up study with a similar methodology in 2016 (Burke & Edelman, 2016). This used data from 2008-2012 to estimate the transfer of wealth in Iowa's counties over the 2010-2059 period. Given that this is the only ToW study done for Iowa, it is difficult to assess how effective this study's estimation method is in comparison to other methods.

As well, some private groups have conducted other research related to the Transfer of Wealth. In light of wealth transfer projections, the Royal Bank of Canada (RBC) and the Scorpio Partnership performed a survey and a series of follow-up interviews with those planning to pass on wealth and those planning to inherit wealth. This aimed to study whether these groups were prepared for transfers of wealth and how families planned to educate inheritors about wealth management. The study found that only a small number of inheritors (22%) had a wealth transfer plan in place, and many (35%) had not yet done anything to prepare for a transfer of wealth. This work also determined that respondents tended to learn about financial management starting around age 27, but that earlier education and learning about the topic from outside sources tended to make inheritors more confident in their financial skills and knowledge. In light of this, the authors call for a more proactive approach to educating the next generation, with earlier discussions and a variety of educational resources (RBC & Scorpio Partnership, 2017).

Limitations and Concerns

The concept of the Transfer of Wealth in itself is a fairly stable idea and is rarely criticized in theory. However, the methodology and the interpretation of this work can raise concerns. In particular, the accuracy of this work decreases as projections stretch further out into the future. They often become unreliable beyond 50 years, and some authors claim that 10 to 20 years is the ideal window for analysis, particularly for philanthropic/charitable planning (Macke et al., 2012).

More generally, ToW work tends to be most effective when used more as a guide and a generator of further discussion. Highlighting the potential transfer of wealth that may occur can spur interest in planning for ways to capitalize on the phenomenon and tap into wealth transfers as resource streams to support existing programs. However, due to the uncertainties present in these studies, they are not always appropriate for planning that heavily relies on accurate financial figures (CRE, n.d.).

It should also be noted that ToW studies do not claim to be the only future for rural development, and it is possible to use them in parallel fashion with other work. For instance, Edelman & Charvat Burke (2007) also discuss the use of gambling initiatives to fund a county endowment fund in Iowa. A region can pursue many other avenues for development, population retention, and resource management at the same time as it considers its future transfer of wealth as a funding source for initiatives.

Future Work

There do not appear to have been any public studies of the ToW phenomenon in Canada. In particular, rural Canada appears poised to see a significant wealth transfers to cities in the future due to a trend of youth out-migration to urban areas spurred by changes economic forces (among other reasons). As mentioned above, multiple ToW studies in the states have found that rural areas tend to have shorter windows to capitalize on wealth transference, and their wealth is often concentrated among few individuals (Macke, Binerer, Markley, & Hitt, 2011; Edelman & Burke, 2007).

Thus, it appears that rural areas in Canada form a prime area for the application of this work in the future. This will require an assessment of the datasets that are available in Canada to model and predict the amounts of wealth and the projected rates of death within the Canadian context. These metrics may be substantially different than those found in the United States at the federal and state levels. Such work in Canada could conceivably occur at the federal, provincial, or municipal level, and could be conducted at multiple levels or in multiple jurisdictions, depending on its perceived utility in different locations. This work could likely be modeled after previous studies done in different locations in the United States, particularly those done by e2EE, who have noted an openness to discussing their approach to this work with others who are interested (Macke, 2005).

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Place-Based Endowments in the Canadian Periphery

Place-Based Endowments in the Canadian Periphery research initiatives is a multi-year research initiative examining wealth, place-based development, and investing in rural Canada. Peripheral communities are sites of wealth, fuelling the Canadian economy through natural resource industries since confederation. Although the periphery is a source of wealth, over the past thirty years this wealth has largely been redirected out of rural regions to larger urban centres. These domestic issues are exacerbated by processes of globalization, which facilitate the hyper-mobility of finance. Finance is no longer tied to place. Finance has become ‘disembedded’ with increasing interconnections and advancements in Internet technologies, leading to emerging patterns of uneven development across the Canadian periphery.

A counterbalance to these trends is the emergence of philanthropic organizations in Canada that have been exploring and implementing place-based collective endowments as a response to re-embedding finance in local areas. Under the federal *Charities Act*, philanthropic organizations (such as community foundations and trusts) can collect money to invest in place-based collective endowments. The funds collected are under the guidance of local actors, who also prioritize how to spend interest generated from the endowment. These philanthropic organizations organize around place and people’s connection to place. These organizations are starting to understand their potential impact on the local development. Yet little research has been conducted on philanthropy in rural Canada.

In light of the ‘retreat from the periphery’ and the hyper-mobility of money, this research will examine place-based collective endowments as a mechanism to facilitate revitalization in peripheral regions from theoretical, public policy, and local development perspectives.

This research initiative involves researchers at Grenfell Campus, Memorial University, Simon Fraser University, and the University of Guelph. Further information on this research initiative can be obtained at www.ruraldev.ca/place-based-endowments-in-the-periphery/. The project has been financially supported by the Social Sciences and Humanities Research Council of Canada.

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