



**TRANSFER OF WEALTH:
MOTIVATIONS AND IMPORTANT LESSONS FOR CANADA FROM
THE UNITED STATES**

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FROM THE UNITED STATES**

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PREFACE

The following background document was prepared through The Scan of Community Foundations project for the purpose of increasing the understanding of the transfer of wealth concept. The document reviews the concept as it has been applied in the United States, transfer of wealth estimates, and the need for a Canadian application of transfer of wealth. The document is by no means an exhaustive review of transfer of wealth studies in the United States; rather, a preliminary assessment. Suggestions for further reading and investigation are cited at the end of the document.

Meaning of Transfer of Wealth and its Significance in the United States

It appears that there exists no direct definition of transfer of wealth. However, simply put, transfer of wealth is basically another form of charitable giving as far as the field of philanthropy is concerned. Charitable giving, as an act of philanthropy, is said to manifest itself in two forms, (1) inter vivos giving, which is philanthropy while alive; and (2) charitable bequests, which is philanthropy after death (Havens et al, 2005: p.3). The writers further describe two transfer of wealth scenarios associated with charitable bequests in terms of marital status as (1) transfer of wealth after the householder dies in case of an unmarried householder, and (2) transfer of wealth when both householders are dead in the case of a married couple (p.2). Notably, current research and experiences in the United States have shown an increasing desire among people, particularly the ultra-rich, to dispose their household's wealth while they are still alive. In his interview with Currents, Paul Schervish (a director of the Center for Wealth and Philanthropy at Boston College and also an experienced researcher on philanthropy) dared to declare that:

“It put on the table the notion that the ultra-rich would not be passing the maximum amount of their estate to their heirs, that they would limit the amount given to heirs and pursue other, deeper purposes for the use of their wealth while they are alive” (Verma, M., 2007: p.3).

Apart from acknowledging Schervish's observation, studies on transfer of wealth undertaken in the states of Pennsylvania, Wisconsin, Illinois, Dakota and Nevada have shown America's middle class has substantial capacity to give back to their communities.

What is important to note here is that these findings in the United States would not have been possible without research. Notably too, transfer of wealth studies do not necessarily apply to other countries in a 'cut-and-paste fashion'. In essence, therefore, this paper attempts to show the importance of transfer of wealth as a concept of philanthropy with reference to the United States with the goal of stimulating research on the similar concept in Canada where the concept has received little study and where there seems to exist a great potential with an exemplary community spirit and determined community foundations.

Stimulants and Advantages of Transfer of Wealth in the United States

It was not until recently that the U.S. has become comfortable with its own transfer of wealth estimates after the 'most' relevant facts have been established. Under normal circumstances, the reasons for

research on transfer of wealth across the globe would obviously vary based on the underlying interests. However, in the case of the United States and for the welfare of its communities, such studies hold onto the realization of the potential role of transfer of wealth in offering opportunities for communities' development over the next 50 years in the face of increasing scarcity of resources on the side of government and non-profit finances; and a growing desire for community investment (Macke, D. et al, 2008). Thus, understanding the transfer of wealth concept as it relates to the development of communities may guide on the tapping and retaining of community's wealth for the benefit of the respective community and the country at large. Additionally, by creating state and community-specific transfer of wealth estimates, such studies evidently provide a guiding tool for both state and community leaders in their planning and decision-making over time. Again, these estimates are credited with the advantage of stimulating awareness of the potential of transfer of wealth for the development of communities among the citizens thus influencing the spirit of giving and the rise of new philanthropists. In other areas it was realized that transfer of wealth itself is responsible for "[creating] community foundations and endowments capable of supporting community improvement work over time" (RUPRI Center for Rural Entrepreneurship, 2007: p.31).

However, as also confirmed by Macke of the Nebraska Community Foundation, there is no a conventional methodology that allows for an estimation of transfer of wealth over time; and researchers should be informed that the further ahead the projection the more difficult the justification of the estimates (2005: p.4). Therefore, several studies undertaken have consequently led to various methodologies for such estimates. For example, studies undertaken by Havens and Schervish (1999) led to the development of the widely used Wealth Transfer Microsimulation Model for estimation of transfer of wealth in the United States. Contrary to the previous estimate of \$10 trillion for the period of 55 years by Robert Avery and Michael Rendall, the new transfer of wealth estimate over the same period of time ranging from 1998 to 2052 is \$41 trillion, "and may well reach double or triple the amount" (Havens et al, 1999: n.p.). However, it is important to note that the previously used transfer of wealth estimate was limited due to several factors. Verma M. (2007) learns from Paul Schervish of these limitations and they include (1) it originated from calculations of transfers only for households that were headed by people at 50 years and older with children over the 55-year period from 1990 to 2044, and (2) it did not match with the greater size of wealth of the country as observed in 1999 when the second study was undertaken (p. 31). Notably again, the \$41 trillion transfer of wealth estimate was tied to a 2% secular growth rate in order to address the problem of what Havens et al (1999) refer to as potential charges of "irrational exuberance" associated with periodic recessions, a world economic crisis, or depression (n.p.).

Estimates of transfer of wealth have recently been made for several states and their counties in the United States and are suitable for over varying periods of time. Table 1 provides an example of such estimates, which portrays their significance for planning and decision-making processes as far as the development of communities in the United States is concerned.

Table 1: Transfer of Wealth Estimates for Selected States of the U.S. over time:

State	Current Net Worth in 2005 \$	50-Year transfer of wealth Estimate \$	10 Year transfer of wealth Estimate \$
Pennsylvania	1.01 trillion (or 216,000 per household)	1.17 trillion*	193.38 billion (or 42,000 per household)
Illinois	1.14 trillion (or 199,000 per household)	1.36 trillion (235,000 per household)	182.3 billion (or 34,000 per household)
Wisconsin	543 billion (or 245,000 per household)	687 billion (302,000 per household)	105 billion (or 49,000 per household)
Nevada	273.99 billion (or 302,000 per household)	383.33 billion (or 423, 000 per household)	1,623.34 million*
Michigan	848.35 billion (or 198,000 per household)	972.24 billion (or 225,000 per household)	140.62 billion *

* No household data was provided in the literature referred to. However, the intention with reference to the states for which data is available is simply to show how the estimates can be useful for planning purposes.

SOURCE: Macke D. et al (2008); Macke D. (2005); RUPRI Center for Rural Entrepreneurship (2007); RUPRI Center for Rural Entrepreneurship et al (2008); and Council of Michigan Foundations (n.d.).

Other states whose analysis of Transfer of Wealth have been completed include Nebraska, Wyoming, South Dakota, Montana, Indiana, Michigan, Ohio, and Nevada; whereas regional analyses have also been concluded for North Dakota, Kansas, Louisiana, and New York (Macke, D. et al; 2008). This determination on the side of the United States to undertake studies on transfer of wealth indicates the significance of transfer of wealth in providing opportunities for the development of communities, in line with the existing potential for the respective donors.

Research on transfer of wealth in the United States has also been able to identify factors that significantly impact transfer of wealth scenarios and estimates at the levels of the state and counties. Table 2 highlights some of the key factors.

A Highlight of the Need for Research on Transfer of Wealth for Canada

By copying the United States experiences, it would become apparent that although Canada seems to be disadvantaged in terms of population size as far as its relationship with transfer of wealth is concerned, it however is potentially rich in the aspect of age. Research conducted by the TD Bank Financial Group (2006) revealed the average age in Canada now stands at about 39 years and is projected to reach 45 years in 2030 as opposed to the 1971 figure of 26 years. Moreover, the TD Bank Financial Group found Canadians 65 years of age and older are likely to comprise approximately a quarter of the total population in 2030 (n.p.).

In addition, as noted by Luloff A. E. (1987), the aging population requires not only clinical (curative) services but also the non-medical support networks such as transportation, housekeeping, food preparation and health education (1987: p. 54). At the same time, since the probability of death is higher among the older ages, the opportunity is even larger for Canada to offer them beyond health services and yet address the general needs of the communities. However, it should be remembered that this theory works only if one is to assume that Canada shares the same experience on its aged population as far as the findings for the United States are concerned.

Table 2: Wealth Drivers and their Significance on Transfer of Wealth Scenarios and Estimates in the United States

Wealth Drivers	Significance of the Wealth Driver on Transfer of Wealth Scenarios and Estimates	Examples of States that Conform to this Finding
Current Net Wealth	The larger the Current Net Wealth the stronger the starting point for future wealth creation.	Nevada, Illinois, Wisconsin, Pennsylvania
Demographics	Stronger population growth equals stronger economic growth (opportunity for wealth creation). This wealth driver is further influenced by higher education as opposed to low education, and age of households whereby the older we get the bigger our estate grows.	Nevada, Illinois, Wisconsin, Pennsylvania
Economic Performance	The better performing the economy the more and better are employment and business performance thus enabling wealth creation respectively.	Nevada, Illinois, Wisconsin, Pennsylvania
Business Ownership	The bigger the number of owners and size of business the larger the opportunity for wealth creation.	Nevada, Pennsylvania, Illinois
Behaviours and Customs	High income accompanied by low spending and high investment habits leads to wealth creation as opposed to the other way round.	Nevada, Illinois, Wisconsin, Pennsylvania
Form of Employment	Self-employment has a greater potential for wealth creation than wage and salary jobs	Pennsylvania

SOURCE: Macke D. et al (2008); Macke D. (2005); RUPRI Center for Rural Entrepreneurship (2007); and RUPRI Center for Rural Entrepreneurship et al (2008)

Unfortunately, studies on transfer of wealth such as those exemplified by the United States have not been conducted in Canada thus limiting the knowledge on the best way to transform the existing numerous potentials that are assumed to be available into opportunities for the development of communities by retaining and pulling wealth within and into the Canadian communities. Moreover, a research finding according to the TD Bank Financial Group that the aged are living longer and healthier lives creates another room for the community foundation to (1) attract volunteers from the retirees' population and (2) create loyalty among the aged Canadians for giving back to their communities through transfer of wealth. This potential is further strengthened by Canada's abolition of federal gift and estate taxes in 1972 as well as provincial wealth transfer taxes in the 1970s and 1980s (Duff, D., 2005).

Let it be noted that the example given above only serves to highlight the potential of transfer of wealth for Canada based on the United States findings. The specific factors/facts on transfer of wealth for Canada are beyond the scope of this paper. However, based on the briefly explained lessons from the United States and the absence of a research on transfer of wealth in Canada, one may conclude that there is a knowledge gap on transfer of wealth in Canada, which in turn decreases the abilities of foundations to contribute to their communities. Until research is launched in Canada on the subject matter, a national vision will remain a dream too important to not actualize for informed policy and decision-making with regard to its communities and community foundations.

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- Verma, M. (2007). Abundant Future: A conversation about the transfer of \$41 in wealth, and why you can't tell Donald Trump to give it up for good. <http://www.bc.edu/> (site accessed on 10th May 2009).

PROPOSED FURTHER READING

Give Back with Impact. Wealth Transfer in North Dakota: A Call to Action - Investing in our Future on <http://www.impactgiveback.org/pdf/wealthtransfer.pdf> (site visited on 15th May 2009).

Havens J. J. (January 2003). Why The \$41 Trillion Wealth Transfer Estimate Is Still Valid: A Review Of Challenges And Questions on <http://www.bc.edu/research/cwp/meta-elements/pdf/41trillionreview.pdf> (site visited on 15th May 2005).

Havens, J. J. et al (July 2006). Wealth Transfer Estimates: 2001 to 2055. Washington D.C. Metropolitan Area on <http://www.bc.edu/research/cwp/meta-elements/pdf/dcwealthtransfer.pdf> (site visited on 15th May 2009).

Wealth transfer in Nevada on http://wealthtransfernevada.com/pdf/tow_press_release.pdf and http://wealthtransfernevada.com/pdf/TOW_Brochure.pdf (sites visited on 15th May).

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