

# Understand Transfer of Wealth™

## 2017 National Analysis

### What is Transfer of Wealth™ Analysis?

**Transfer of wealth (TOW)** is the total household wealth that will transfer from one generation to the next. Transfer of Wealth™ analysis provides a reasonable estimate of the wealth from which charitable giving and philanthropic investing could be realized. While past research has found that most of this wealth will be passed on to heirs, there is growing evidence of individuals and families giving back to their communities, keeping some of that wealth in the places they call (or called) home. The U.S. is amid the greatest wealth transfer in history. If ever there was a time to organize and capture some of this wealth in communities, it is now.

### Why TOW Matters

Healthy and vibrant places take investment – investment in schools, affordable housing, main street businesses, hospitals, food markets and more. Business, government and *philanthropic organizations* need the capital and the skills to make these investments. The transfer of wealth opportunity represents one of the most underdeveloped resources for investing in community solutions, especially as traditional resources such as government funding are stagnant or declining. As communities search for investment dollars, their TOW opportunity represents a significant potential answer.

### By the Numbers

Given our research and analysis of data over the past 50 years and more recent emerging trends, we believe the most likely TOW scenario is based on an **average** real rate of growth in household wealth of 3%. We recognize that economic, social and political challenges and policy responses impact how rapidly income and wealth grow over time. To that end, we provide TOW scenarios for a **low** growth rate of 2% and a **high** growth rate of 4%.

	In 10 years	In 50 years
<b>Assets Transferring Between Generations</b>		
Low Growth (2%)	\$8.479 Trillion	\$89.704 Trillion
<b>Average Growth (3%)</b>	<b>\$8.818 Trillion</b>	<b>\$97.171 Trillion</b>
High Growth (4%)	\$9.172 Trillion	\$120.21 Trillion
<b>Community Giveback of Just 5%</b>		
Low Growth (2%)	\$424 billion	\$4.49 Trillion
<b>Average Growth (3%)</b>	<b>\$441 Billion</b>	<b>\$4.859 Trillion</b>
High Growth (4%)	\$459 Billion	\$6.01 Trillion

### Learn More

Our 2017 national TOW analysis was shared with *The Chronicle of Philanthropy* and is included in a special report, “\$9 Trillion and Counting.” This report highlights the philanthropic potential behind these numbers and shares stories of foundation action and commitment to capture some of this transfer for community strategic grantmaking and

investment. To order a copy of the Chronicle report, go to <https://store.philanthropy.com/products/9-trillion-and-counting-how-charities-can-tap-into-the-transfer-of-wealth>.

## Behind the Numbers

Projecting philanthropic opportunity over time is challenging. However, we can model and anticipate with some predictability how future demographics and, to a lesser extent, the economy will change. Using this information, TOW scenarios give us a way to anticipate future philanthropic potential and set realistic goals for capturing some of that wealth in our communities. By setting philanthropic goals, we position ourselves to create strategies and take action that can help us achieve those goals, making the future we imagine possible.

Our TOW methodology evolved from the pioneering Boston College study, *Millionaires in the Millennium*.<sup>1</sup> A strength of that study was the use of a range of estimates for the growth of household wealth based on different expectations about U.S economic performance. Using a range of potential growth rates and sound age cohort population forecasts, the study produced reliable and generally accepted wealth transfer forecasts.

In our methodology, we base growth of household wealth on predicted growth in real per capita personal income. Household mean net worth (measure of wealth) is positively correlated with changes in real personal income. Typically, household wealth grows faster than real income due to the accumulation and compounding of assets over time. Using historical data as a guide, we use three estimates of income growth, ranging from 2% to 4%, to generate TOW scenarios.

## Beyond the Numbers

When our first TOW study in Nebraska was completed in 2002, the [Nebraska Community Foundation](#) used the numbers as a call to action, encouraging community residents to giveback “just 5%” to endowments benefiting their home communities. The success of this concerted, consistent and strategic effort is demonstrated in their [2017 annual report](#).

In philanthropy, we often focus on the grantmaking potential associated with endowed assets. For example, in the likely average growth scenario above, the 10-year giveback of \$441 billion would generate \$22 billion in perpetual grantmaking. But, as times change, our thinking must change as well. What if we could put more of those \$441 billion in asset to work in our communities? What if foundations used more of their assets to support strategic grantmaking and even direct investing in their communities? What communities needs and opportunities could be address together?

The real power of TOW lies behind the numbers in actions that foundations and their partners take to identify critical issues and invest a fuller range of philanthropic assets in their communities to build greater prosperity and vibrancy.

## About Us

**LOCUS Impact Investing** is a national social enterprise launched by [Virginia Community Capital](#) (VCC) in 2017, following acquisition of the nationally recognized nonprofit, [Center for Rural Entrepreneurship](#). For almost two decades, the Center has provided research and analysis related to community development philanthropy, including Transfer of Wealth™ Analysis. LOCUS brings together the expertise of the regulated, certified CDFI (VCC) and its 12-year legacy of successfully deploying capital in underserved communities, with the Center’s field-tested expertise and resources to help place-focused foundations identify and implement strategies that create a more prosperous community. LOCUS provides a continuum of solutions – from research and analysis to local investing services – to empower place-focused institutions to invest their capital locally to build prosperous, vibrant communities. You will find more information about TOW, including sample studies, and other **LOCUS Philanthropy Tools for Local Impact Investing** on our website at [www.locusimpactinvesting.org](http://www.locusimpactinvesting.org). For more information, please contact Sydney England at [sydney@locusimpactinvesting.org](mailto:sydney@locusimpactinvesting.org) or at (804) 484-4341.

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<sup>1</sup> John J. Havens and Paul G. Schervish. *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for the Golden Age of Philanthropy*. Social Welfare Research Institute. Boston College. Boston, MA. October 19, 1999.