

Wealth in South Wood County Wisconsin

Final Report

WEALTH IN SOUTH WOOD COUNTY WISCONSIN

Abstract

*This report – **Wealth in South Wood County Wisconsin** – provides initial estimates of the inter-generational wealth transfer occurring in the communities of South Wood County Wisconsin between 2000 and 2050. This is a final report submitted to the Community Foundation of South Wood County for review.*

Executive Summary

Based on our analysis of the communities of South Wood County, we have reached the following insights regarding the inter-generational wealth transfer trend for the service area of the Community Foundation of the South Wood County. This report is submitted to the Community Foundation of South Wood County for its review and use.

- According to Boston College in their landmark study – ***Millionaires and the Millennium*** - the United States is in the midst of the largest inter-generational wealth transfer in American history. The Boston College researchers conservatively estimate that during the first half of the 21st Century (2000-2050) \$41 trillion of wealth will pass from the current generation to the next.
- On average, per household wealth to be transferred in the United States is \$389,000 (in current dollars). Because the United States is growing demographically and is likely to continue creating new wealth faster than old wealth is transferred, the trend line for U.S. wealth transfer is projected to expand over time.

Inter-Generational Wealth?

Inter-generational wealth transfer is not a common concept discussed nightly at our dinner tables. So what do we mean by this term? Simply put, we are referring to primarily household estate wealth that is transferring from the current generation to the next. Typically, a death is the trigger that puts into motion this transfer.

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- South Wood County is part of this trend. We estimate that during the next 50 years (2000-2050) South Wood County will experience between \$6.5 and \$7.5 billion in inter-generational wealth transfer. This is a remarkable legacy and reflects on the hard work, prudence and enterprise of the current generation over their lifetimes. *We will use the mid-point estimate of \$7.0 billion throughout the balance of this report.*
- On average, each year during this five decade long period, South Wood County will see \$140 million transferring from the current generation to the next. The actual inter-generational transfer levels will vary by year driven by the timing of current wealth holders transferring their estates.

Where?

Generations come and go – it is a fact of nature. Wealth created in South Wood County over the current generation and stored in the estates of families will transition over the next 50 years. The question is where will this wealth transfer? Typically the wealth is gifted to heirs, churches and other causes close to the hearts of the people who earned this wealth. Because of low financial planning rates – too much of this wealth may be unnecessarily lost to taxes. Communities in South Wood County have the opportunity to ask donors to give back to the communities that have supported them.

- It is difficult for the average person to grasp the implications of such large numbers. What does \$7 billion over 50 years or \$140 million per year mean for South Wood County and its residents? It is also hard to anticipate what South Wood County will look like in 2050.

So if we focus on the next ten years what does this trend mean for South Wood County? We estimate that in the coming decade 22% or \$1.54 billion will be transferred. This trend represents a significant opportunity for South Wood County and its ability to build a brighter future for itself.

- If just five percent of the wealth being transferred over the next 10 years were pledged to community-based endowments, a cumulative endowment of \$77 million could be created. These endowments could mean new resources essential to building stronger communities throughout South Wood County.

Note – Throughout this report we benchmark estimates to per household values where the TOW estimate is divided by the number of households in Wisconsin for example. This provides a valuable comparison point.

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- Typically a conservative payout rate is five percent of the endowment value. At this rate, the endowment will continue to grow and remain inflation proof. Under such a scenario the endowments built in South Wood County would be able to support community betterment throughout time. At this rate, South Wood County's communities would have approximately \$3.85 million annually for betterment projects. This is a remarkable opportunity for strengthening communities, economies and families in South Wood County year in and year out.

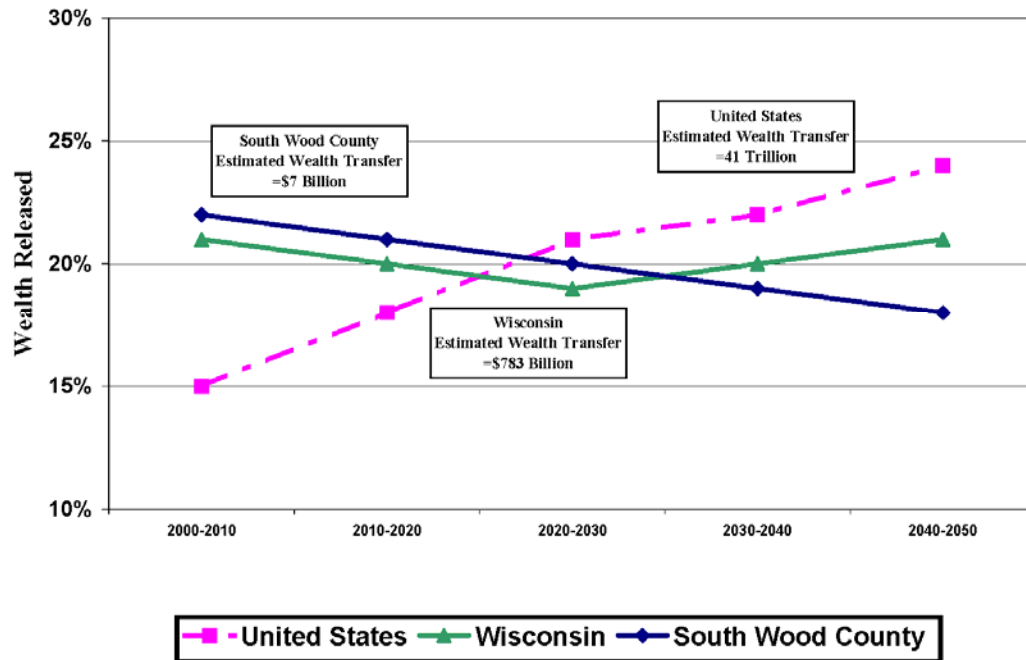
\$3.85 Million Per Year Forever!

Think of what \$3.85 million per year of new resources could mean for South Wood County's communities. Within a decade it could mean new libraries, athletic fields, programs to help entrepreneurs, upgraded swimming pools, needed health care facilities and so much more.

- The level of inter-generational wealth transfer in South Wood County is projected to be somewhat lower when compared to the U.S. and Wisconsin averages. For example, the per household South Wood County wealth transfer average is \$336,000 compared with the U.S. average at \$389,000 (86% of the U.S. level) or the Wisconsin average of \$381,000 (98% of the U.S. level). This is due to many factors. Most importantly the lack of population growth historically and projected accounts for the difference.
- Given the demographics of South Wood County (e.g., migration, age, growth & death rates) compared to the U.S., we expect that the transfer of wealth will occur sooner in South Wood county with peak wealth transfer occurring in this decade.
- Figure 1 on the next page provides a visualization of the estimated timing of the transfer of wealth or TOW for the United States, Wisconsin and South Wood County. The chart is created by taking the total estimated TOW for the next 50 years and breaking it into the decade period in which the transfer is estimated to occur. The sum of values is 100 percent reflecting the total transfer occurring over the 50 year period.
- The U.S. values start lower and rise throughout the period reflecting a more youthful population that is growing in both numbers and wealth. The Wisconsin trend line declined for two decades then begins to rise again. Finally, give the relatively low growth rates in South Wood County, its trend line declines throughout the period.

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Figure 1 – South Wood County's Wealth Transfer
A Likely Scenario



Analysis

With high degrees of certainty we can learn what the population, age demographics, income, poverty, housing and economy of a community look like. Unfortunately, there is not a published research report or data set we can review that gives us an idea of what the intergenerational wealth transfer amounts will be over the coming decades. Fortunately, researchers at Boston College in their study *Millionaires and the Millennium* give us reasonable estimates at a national level. We have taken the work of Boston College and developed a methodology for estimating inter-generational wealth transfer at the state, county and even community level. This section of the report provides insight into the analytic process we have employed to generate wealth estimates for South Wood County Wisconsin from 2000 through 2050.

This Analysis Section is organized into the following parts:

- Client.
- Geography of Analysis.
- Timeframe of Analysis.
- Forms of Wealth.
- Indicators of Inter-Generational Wealth.
- Considerations.
- Methodology.

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Client

This analysis and report have been prepared under contract for the Community Foundation of South Wood County. We would like to thank Kelly Lucas, President and CEO of the Foundation, for her leadership in enabling this work to be undertaken. A special thank you is extended to Cheryl Posner, Grant Resource Specialist with the Foundation, for her active support and leadership for this project.

Geography of Analysis

The Foundation, for purposes of this analysis, defined its service area (or the geography) of analysis including the communities within the following four school districts:

- Wisconsin Rapids.
- Port Edwards.
- Pittsville.
- Nekoosa.

In 2000, this community includes 52,750 residents and 20,860 households. Demographic data for this analysis was provided to us by the Demographic Services Center within the Wisconsin Department of Administration.

Timeframe of Analysis

The original Boston College study selected the timeframe of 2000 through 2050. We have elected this same timeframe for our analysis. We realize that we are already four years into the first of these five decades. But our ability to employ 2000 Census data is critically important to our analysis and drove our decision to stay with this timeframe.

Forms of Wealth

We have not attempted to precisely define all the forms of inter-generational wealth. Our analysis has focused on the three primary forms of wealth holding:

- Property.
- Investments.
- Insurance.

Property. For most Americans, the primary form of wealth holding is in the form of property. Property can include one's residence, farm, timber stands, minerals holdings, businesses and some forms of personal property.

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Property Wealth

Thanks to the Wisconsin Department of Revenue, we are able to estimate that nearly half (i.e., \$3.1 billion) of all inter-generational wealth in South Wood County is related to real and personal property. Per household property wealth in South Wood County is \$147,000. This is a conservative estimate due to reduced valuation of farmland, timber, wetlands and equipment.

Investments. Americans in general, secure investments throughout life. These investments can include checking accounts, savings accounts, money market funds, stocks, bonds, retirement accounts and other investment vehicles that can be liquidated into cash.

Insurance. Finally, insurance has become widely accepted and life insurance is often a primary asset at the end of one's life.

Other forms of wealth such as rare coins, art or jewels are clearly part of wealth holdings. However, we do not attempt to make any adjustments or estimates of these types of wealth. Determinations of market value for purposes of gifting are challenging at best and generally circumstantial.

Figure 2 – U.S. Asset Ownership Rates for Households, 2000.

Asset type	2000		
	Percent of households that own asset type	Median value of asset for asset owners (dollars)	Percent distribution of net worth ¹
All assets.....	(X)	55,000	100.0
Interest-earning assets at financial institutions.....	65.0	4,000	8.9
Other interest-earning assets.....	3.3	29,013	1.7
Regular checking accounts.....	37.5	600	0.3
Stocks and mutual fund shares.....	27.1	19,268	15.6
Own home.....	67.2	59,000	32.3
Rental property.....	4.9	70,000	3.7
Other real estate.....	6.6	40,000	3.6
Vehicles.....	85.8	5,875	3.7
Business or profession.....	10.8	10,000	7.7
U.S. savings bonds.....	14.7	1,000	0.5
IRA or Keogh accounts.....	23.1	24,000	8.6
401K and thrift savings plans.....	29.9	20,000	9.7
Other financial investments ²	3.9	22,000	1.6
Unsecured liabilities ³	52.7	4,000	-3.0

X Not applicable.

Source: U.S. Census Bureau, "Household Economic Studies," May 2003.
 Reprinted from page 5 of "Net Worth and Asset Ownership of Households: 1998 and 2000" as published by the U.S. Census Bureau (P70-88).

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Indicators of Inter-Generational Wealth

We did not replicate the Boston College study for South Wood County. We accepted the College's low range estimate of \$41 trillion (2000-2050) for the Nation as a starting point. We then considered the following indicators to estimate the likely level of inter-generational wealth to be transferred in South Wood County between 2000 and 2050:

- Population.
- Income.
- Age Demographics.
- Growth.

Population. As simple as it might seem, the United States is more uniform from one corner to the next than not. Our first indicator is population. Simply put, we assume that South Wood County has a proportional share of inter-generational wealth based on its population. Using this simple indicator to estimate wealth we realize the following results:

Figure 3 – Wealth Based on Population

<i>Geography</i>	<i>Total Wealth</i>	<i>Per Household Wealth</i>	<i>Percent of U.S.</i>
<i>United States</i>	<i>\$41 trillion</i>	<i>\$389,000</i>	<i>100%</i>
<i>Wisconsin</i>	<i>\$783 billion</i>	<i>\$375,000</i>	<i>96%</i>
<i>South Wood County</i>	<i>\$7.7 billion</i>	<i>\$369,000</i>	<i>95%</i>

Population gives us a starting point and benchmark. But we can create a more accurate estimate by considering other factors. *Note – These values are simply calculated by taking the estimated TOW for the period (2000-2050) and dividing this value by the number of households in 2000 to illustrate comparisons.*

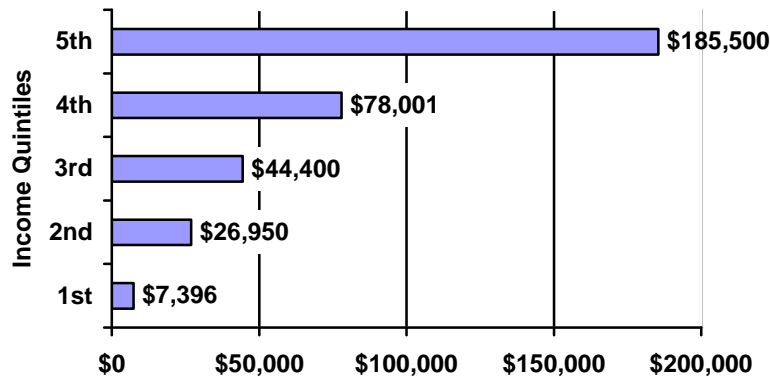
Income. There is a strong correlation between income and wealth formation. While there are many stories where households with high incomes have few assets (but high spending & debt) and families with lower incomes with significant assets (modest spending & prudent investing) – the fact remains that with more income, assets and net worth rise. Figure 4 provides information nationally on the relationship between household income and net worth.

The pattern from the data in Figure 4 is clear. As income rises, so does net worth or wealth assets. The fifth quintile or the 20% highest income households in the United States have net worth values 25 times higher than the first quintile or the 20% of American households with the least income. These are national

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numbers, but we believe it is fair to assume that this same relationship is generally true for the families and residents of South Wood County Wisconsin.

Figure 4 – U.S. Net Worth & Income Link, 2000.



Source: U.S. Census Bureau, "Household Economic Studies." May 2003.

Overall, South Wood County has a lower percentage of its households in the top two income groups when compared to both the U.S. and Wisconsin. It has somewhat higher share of its households in the bottom two income groups when compared to Wisconsin, but does a bit better when compared to the U.S. numbers. South Wood County has a much larger share of its households in the middle income group. When we adjust for income levels, the overall wealth estimate drops by about 10 percent.

Figure 5 illustrates the reflective number of households based on the most recent Census that fall into one of five income groups. As the data indicates there are marked, but modest differences in the income demographics for the U.S., Wisconsin and South Wood County.

Figure 5 – Income Group Demographics.

Group	Average Income	U.S.	Wisconsin	SWC
1	\$7,400	15.8%	12.9%	13.2%
2	\$27,000	25.6%	25.9%	26.2%
3	\$44,400	36.0%	40.8%	43.7%
4	\$78,000	17.9%	17.3%	14.9%
5	\$185,500	4.6%	3.0%	1.8%

Presented in percent of total values.

Income = Medium Household Income for the group.

SWC = South Wood County

Source: 2000 U.S. Census Data.

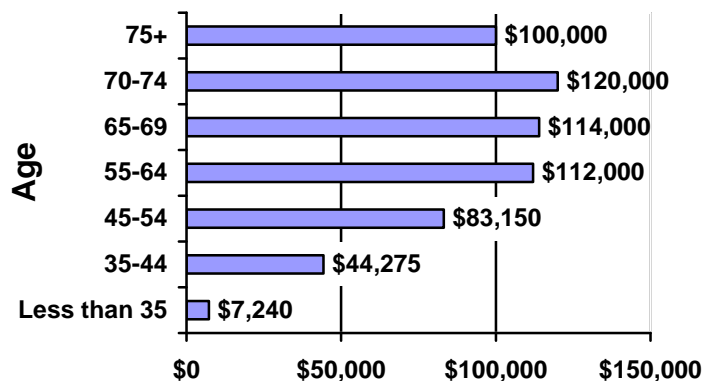
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Age. National research also clearly shows a powerful relationship between wealth holdings and the age of the household. Figure 6 summarizes this relationship. Simply stated, as the age of households increases, so does their net worth or wealth standings. There is a decline in wealth holdings in the 75 years of age and older group.

So what does this potentially mean for South Wood County? First, like with income, we assume that South Wood County is more like the U.S. than not. Second, when we apply this research to the demographics or age structure of South Wood County, our inter-generational wealth estimate increases by about 13%. Overall, the residents of South Wood County are older than when compared to both the U.S. and Wisconsin numbers. To illustrate this point, South Wood County has 25% more households in the age groups of 65 years of age and older when compared to the U.S. (i.e., 15.5% vs. 12.4%).

Given the relatively flat growth history in South Wood County, coupled with emergent second and retirement home development, it is reasonable to assume that (relative to both the U.S. & Wisconsin) South Wood County will continue to age demographically triggering inter-generational wealth transfer sooner than would be the case in either Wisconsin or the U.S.

Figure 6 – U.S. Net Worth & Age Link, 2000.



Source: U.S. Census Bureau, "Household Economic Studies," May 2003.

For South Wood County, the net effect is largely neutralizing. This area is somewhat poorer than the nation, but older. But there is a local factor that must be accounted for in our analysis – Consolidated Paper Company sale.

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Figure 7 – Age Group Demographics.

<i>Group</i>	<i>Average Income</i>	<i>U.S.</i>	<i>Wisconsin</i>	<i>SWC</i>
<i>0-19</i>	<i>\$0</i>	<i>28.6%</i>	<i>28.6%</i>	<i>27.8%</i>
<i>20-34</i>	<i>\$7,240</i>	<i>20.9%</i>	<i>19.9%</i>	<i>16.7%</i>
<i>35-44</i>	<i>\$44,275</i>	<i>16.0%</i>	<i>16.3%</i>	<i>16.2%</i>
<i>45-54</i>	<i>\$83,150</i>	<i>13.4%</i>	<i>13.7%</i>	<i>14.4%</i>
<i>55-64</i>	<i>\$112,048</i>	<i>8.6%</i>	<i>8.5%</i>	<i>9.5%</i>
<i>65-69</i>	<i>\$114,050</i>	<i>6.5%</i>	<i>6.6%</i>	<i>7.4%</i>
<i>70-74</i>	<i>\$120,000</i>	<i>4.4%</i>	<i>4.7%</i>	<i>5.8%</i>
<i>75+</i>	<i>\$100,100</i>	<i>1.5%</i>	<i>1.8%</i>	<i>2.3%</i>

Presented in percent of total values.

Income = Medium Household Income for the group.

SWC = South Wood County

Source: 2000 U.S. Census Data.

The Income & Age Link

When income and age are combined, the national research shows a powerful connection as both income and age re-enforce the wealth holding link. For example, a household in the lowest income group that is 35 years of age or younger has (on average) only \$104 of net worth compared to a household in the highest income group and that is 75 years of age or older with \$548,000 of net worth. There is a 5,269 times difference over this range!

Consolidated Paper Company. The U.S. Bureau of Economic Analysis tracks forms of income annually by county (we can not break this information out for South Wood County – only Wood County). According to this reliable source, Wood County has “dividend, interest & rent” (DIR) income that is significantly higher than both the U.S. and Wisconsin. For example, in 2001 (latest year for data), DIR per capita income in Wood County was \$8,128 compared with \$5,826 for the U.S. and \$5,918 for Wisconsin. Wood County's DIR income is nearly 40% higher when compared to the U.S.! This finding is significant. We can explain part of the difference due to Wood County's older population, but there is more going on here. The sale of Consolidated Paper Company (CPC) to Stora Enso may explain the higher DIR numbers. In 2000 with the sale of CPC to Stora Enso, \$4.4 billion was exchanged. \$2.2 billion was transferred in cash and \$2.2 billion was transferred in Stora Enso stock. No one really knows how much of the sale value remained local or flowed to interest with local ties. Some estimates suggest that possibly one-third of the sale value remained local or \$1.5 billion. This unique event could explain the higher DIR numbers. As a result of

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this analysis, we increased our estimate of inter-generational wealth for South Wood County.

Growth. Fifty years is a long time. It is very difficult for any of us to anticipate what our world will look like in 2050. Estimating inter-generational wealth over such a long time frame in a dynamic world is challenging. What we do know is that wealth is being created every second of every day. Wealth is being consumed and saved as well. There is a strong potential connection between a growing community and its potential to create new wealth. An example might be helpful to illustrate this point.

As a family gets established, typically its earning power grows. As earning power grows it is creating more wealth for the family. Depending upon the management preferences of that family, wealth can be accumulated in assets that are longer-term and can be passed on to the next generation or community. Investments into stocks, bonds, insurance, property and other fixed assets create net worth and wealth holdings. At a much larger scale, the same is true for communities.

Retirement & Second Home Development

The vast majority of Americans now live and work in large metropolitan areas. But increasingly, Americans are establishing second and retirement homes in more rural areas of America. After urbanization, this is the most powerful trend transforming rural America today. South Wood County is experiencing both second and retirement home development. This development can impact our estimates and the potential for legacy giving. As outsiders develop second/retirement homes in the area, they link their wealth to the area as well. New wealth is created through these properties.

Between 1950 and 2000, the population in the United States grew from 150 million to 281 million persons or by 87 percent. In Wisconsin over this same period, its population grew from 3.43 million to 5.36 million or by 56 percent. However, population growth for South Wood County was more modest changing from 50,500 residents in 1950 to 52,750 in 2000 or increasing by only 4.5 percent!

All indications would suggest that South Wood County will see little or no growth into the future. However, times change and this assumption could change with changing times.

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The implications for South Wood County of this assumption (assuming that over the coming five decades there will be little or no growth) significantly reduces our estimate of inter-generational wealth transfer by nearly 30 percent.

Cautions

We have done our best to craft a thoughtful and factually based analysis. Our estimates of inter-generational wealth transfer for South Wood County are reasonable. But, it is important to realize that these are only estimates based on acceptable assumptions. We do not conclude that the inter-generational wealth transfer for South Wood County over the next 50 years is or will be precisely \$7 billion. Changing circumstance, unique realities or other factors could increase or decrease our estimate. The bottom line is that there is significant inter-generational wealth present and transferring in South Wood County. There is a huge opportunity to create endowments and provide legacy giving long-term. Whether the final value is \$8, \$6 or \$7 billion can not be determined. The opportunity is massive.

Thanks

This analysis and report would not have been possible without the help of many individuals and organizations. Hopefully, we have succeeded in this section of recognizing all those who have helped.

- The leadership of the Community Foundation of South Wood County for deciding to commission this work and the financial support of the Barker-Mead Fund.
- A special thanks to Kelly Lucas, CEO and President of the Community Foundation of South Wood County for her vision and leadership in moving this project forward. We also recognize the outstanding work of Cheryl Posner, Grant Resource Specialist with the Foundation for her active support throughout the project.
- Foundation's Financial Advisors Board.
- We appreciate the help from members of the Project Advisory Committee (list with titles) who assisted us in finding specific information and grounding our analysis:
 - Peter Manley, Wood County Extension Office, University of Wisconsin.
 - Connie Loden, Heart of Wisconsin
 - Gary Itzkowitz, Professor of Sociology & Director of the Community Research Center, University of Wisconsin Stevens Point

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- Todd Berry, Wisconsin Taxpayers Alliance.
- We really appreciate the help of Mr. Albert Romportl with the Wisconsin Department of Revenue.
- We continue to appreciate support from Kathy Miller with the Rural Policy Research Institute for her help with digging deeper into data sources. We also appreciate the on going help of Dr. Tom Harris, Director of the Center for Economic Development at the University of Nevada Reno for his research support.
- The State of Wisconsin's Department of Administration and their very useful WisStat service.

Special Thanks...

This work would not be possible without the groundbreaking research of two efforts. First, there is the work of Boston College and their study *Millionaires and the Millennium*. Second, there is the work of the Nebraska Community Foundation that underwrote the development of the methodology enabling the South Wood County wealth analysis.

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Methodology

Our basic methodology employed in this work is outlined in the Analysis Section of the Report. For seeking to review the foundational work of Boston College and their landmark research *Millionaires and the Millennium* we encourage you to visit the web site for the Center on Wealth and Philanthropy within Boston College at www.bc.edu/research/swri/. We would be happy to personally explore our approach with other interested parties on a request basis.

The following components constitute the methodology we employed in conducting this analysis:

- ❖ Our work has been greatly informed by the landmark research and study *Millionaires and the Millennium* (October 1991) prepared by Boston College. For more information about this study and other relevant work contact the Center on Wealth and Philanthropy at Boston College (www.bc.edu/research/swri/).
- ❖ Our starting point for this analysis is “current net worth” (CNW) estimates for the United States and for each of the 50 states. The U.S. Census Bureau estimates current net worth based on a sampling of U.S. households. Net worth includes typical assets like houses and stock portfolios less debt. To localize CNW we employ four sets of asset indicators:

- Dividends, Interest & Rent Income.
- Asset Holdings by Household Age.
- Asset Holdings by Income Level.
- Real Property Asset Holdings.

Dividends, interest and rent income is estimated by the U.S. Bureau of Economic Analysis for each state and county. This indicator provides an estimate of certain kinds of asset holding including stocks, bonds, cash accounts and rental property.

CNW typically increases dramatically by age. As households get older they generally have higher CNW levels than younger households. We employ national data for wealth holding by age group coupled with specific age information for the state or county.

CNW typically increases with income levels. As income levels rise so do CNW levels. We employ national data for wealth holding by income level coupled with specific household income levels by state or county.

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Finally, we employ state and county specific information on real property to support our fourth indicator.

These indicators are used to adjust state CNW to a point estimate for the county.

- ❖ Once CNW values are estimated we explore historical population, income and economic trends. When possible we consider a 50 years history for each locality with particular reflection on the most recent 20-year period. This information is employed to create assumptions about future growth in population, income and wealth holdings.
- ❖ An advisory group of state and regional experts are engaged through the sponsoring organization to help us test and refine our assumptions regarding future growth. Our baseline growth assumptions are stronger for the first 25 years of the period and become more conservative in the out years.
- ❖ The final step in our methodology is to estimate the timing of the transfer of inter-generational wealth over the 2000 to 2050 timeframe. These estimates are based on our model estimating the number deaths (therefore estates) triggered during each five-year period throughout the analysis timeframe.

Questions & Additional Information

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