

*Final Report*  
**TRANSFER OF WEALTH ANALYSIS**  
**Selected Parishes in Louisiana**

**Background & Introduction**

This draft final report – *Transfer of Wealth Analysis for Selected Parishes in Louisiana* – provides initial scenario estimates for the State of Louisiana and 13 targeted Parishes. This analysis has been prepared under agreement with the Greater New Orleans Foundation. This report has been prepared to enable a final review to be undertaken by the Foundation, its stakeholders and partner communities. Once final reaction and input has been received, a final published report will be prepared and submitted to the Foundation.

***Scenario Estimates***

*Our analysis work for the Greater New Orleans Foundation focuses on creating reasonable scenario estimates. Scenarios are estimates into the future based on historical and current assumptions regarding population change, wealth creation and estate transfer probabilities. These estimates are not projections and will change with modifications to our key assumptions.*

**Report Organization**

This Report is organized into the following sections:

- ❖ Findings.
- ❖ Analysis.
- ❖ Methodology.
- ❖ Transfer Timing Graphs.

It has been our pleasure and honor to be afforded this opportunity to prepare this analysis for the Greater New Orleans Foundation. It is our hope that this information enables this region of Southeastern Louisiana to more aggressively mobilize inter-generational wealth transfer for endowment building and community reinvestment.

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## **Findings**

Based on our preliminary analysis of Louisiana and the 13 Parishes within Southeastern Louisiana, we have reached the following insights regarding the inter-generational wealth transfer trend for this corner of the United States. This report is submitted to the Greater New Orleans Foundation for review and comment.

- ❖ 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 21<sup>st</sup> Century (2000 through 2050) \$41 trillion of wealth will pass from the current generation to the next.

### ***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.*

- ❖ On average, per household wealth to be transferred in the United States is \$390,000 (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.
- ❖ Louisiana is part of this trend. We estimate that during the next 50 years Louisiana will experience nearly \$170 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.
- ❖ On average, each year during this five decade-long period, Louisiana will see \$3.4 billion 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.

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- ❖ It is difficult for the average person to grasp the implications of such large numbers. What does \$170 billion over 50 years or \$3.4 billion per year mean for Louisiana and its citizens? It is also hard to anticipate what Louisiana will look like in 2050. So if we focus on the next ten years what does this trend mean for Louisiana? We estimate that in the coming decade \$18.8 billion will be transferred. This trend represents a significant opportunity for Louisiana 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 \$941 million could be created. These endowments could mean new resources essential to building stronger communities throughout Louisiana.

### ***Transferred to Whom?***

*Generations come and go – it is a fact of nature. Wealth created in Louisiana 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 transition? 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 Louisiana have the opportunity to ask donors to give back to the communities that have supported them.*

- ❖ Typically a conservative payout rate is five percent of the endowment value. At this rate, the endowment will continue to grow and remain inflation resistant. Under such a scenario the endowments built in Louisiana would be able to support community betterment throughout time. At this rate, Louisiana's communities would have nearly \$47 million annually (based on the first ten years of gifting) for betterment projects. This is a remarkable opportunity for strengthening communities, economies and families in Louisiana year-in and year-out.
- ❖ The level of inter-generational wealth transfer in Louisiana is projected to be significantly lower when compared to the U.S. averages. For example, the per household Louisiana wealth transfer average is \$102,000 compared with the U.S. average at \$390,000 (26% of the U.S. level). This lower value is due to two major factors. First, current net worth in Louisiana is 59% of the U.S. average. Due to challenges addressed in the Analysis Section, Louisiana is not expected to experience comparable growth rates with that of the U.S.

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- ❖ The Southeastern Region has stronger overall numbers when compared to the State, but lower when compared to the U.S. Per household TOW for the period is \$145,000 (37% of U.S. value). Current net worth (CNW) is relatively close to the State average (\$62,090 versus \$66,480 or 93%). Over time this region is expected to grow faster in both population and wealth creating potential.
- ❖ Within the region there is great variability. The high-low ranges and averages for key indicators are as follows:

<b><i>Indicator</i></b>	<b><i>High</i></b>	<b><i>Low</i></b>	<b><i>Average</i></b>
<i>Per Households CNW</i>	<i>\$84,212</i>	<i>\$39,033</i>	<i>\$62,090</i>
<i>Per Household TOW</i>	<i>\$338,671</i>	<i>\$63,458</i>	<i>\$144,865</i>
<i>CNW as a % of TOW</i>	<i>86%</i>	<i>24%</i>	<i>51%</i>

### ***\$30 Million Per Year Forever!***

*Think of what \$47 million per year of new resources could mean for Louisiana's communities. Within a decade it could mean hundreds of new libraries, athletic fields, programs to help entrepreneurs, upgraded swimming pools, needed health care facilities and so much more.*

- ❖ We were very conservative in our scenarios due to the following constraints on future growth:
  - Crime.
  - Weak K-12 Education System.
  - Dependence on Declining Industries.

Compared to the U.S., this region is somewhat poorer (in terms of assets) and is likely to realize below average growth. Our expert panel was in general agreement that challenges with crime; a weak K-12 education system, and a high dependence upon declining industries will combine to constrain growth. Of course, any fundamental change in one or more of these factors will result in a changing scenario.

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The following table summarizes our analysis for the U.S., Louisiana and the 13 Parishes of Southeastern Louisiana.

### **PRELIMINARY FINDINGS**

#### **Louisiana Transfer of Wealth Analysis**

1/28/2005

<b>Place Units = Millions</b>	<b>HHs Actual</b>	<b>CNW</b>	<b>50 Year TOW</b>	<b>10 Year TOW</b>	<b>5% Capture</b>	<b>5% Payout</b>
Louisiana	1,656,053	\$110,094	\$169,501	\$18,814	\$941	\$47.04
Assumption	8,239	\$564	\$1,201	\$91	\$5	\$0.23
Jefferson	176,234	\$13,224	\$15,375	\$2,496	\$125	\$6.24
Lafourche	32,057	\$2,000	\$8,415	\$272	\$14	\$0.68
Orleans	188,251	\$10,545	\$11,946	\$1,986	\$99	\$4.97
Plaquemines	9,021	\$660	\$1,192	\$109	\$5	\$0.27
St. John/Baptist	14,283	\$665	\$1,619	\$117	\$6	\$0.29
St. Bernard	25,123	\$981	\$2,291	\$189	\$9	\$0.47
St. Charles	16,422	\$1,078	\$3,239	\$166	\$8	\$0.42
St. James	6,992	\$425	\$685	\$79	\$4	\$0.20
St. Tammany	69,253	\$5,832	\$23,454	\$1,054	\$53	\$2.64
Tangipahoa	36,558	\$2,309	\$6,241	\$361	\$18	\$0.90
Terrebonne	35,997	\$2,366	\$3,934	\$363	\$18	\$0.91
Washington	16,467	\$774	\$1,214	\$144	\$7	\$0.36
Regional Total	634,897	\$41,423	\$80,806	\$7,427	\$371	\$19

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## **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 Louisiana and the 13 Parishes of Southeastern Louisiana 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.

### **Client**

This analysis and report have been prepared under contract with the Greater New Orleans Community Foundation. We would like to thank Ben Johnson, President and CEO of the Foundation, for his leadership in enabling this work to be undertaken.

### **Geography of Analysis**

The Foundation, for purposes of this analysis, defined its service area (or the geography) of analysis including the following Parishes:

<i>Assumption</i>	<i>Jefferson</i>	<i>Lafourche</i>
<i>Orleans</i>	<i>Plaquemines</i>	<i>St. John the Baptist</i>
<i>St. Bernard</i>	<i>St. Charles</i>	<i>St. James</i>
<i>St Tammany</i>	<i>Tangipahoa</i>	<i>Terrebonne</i>
<i>Washington</i>		

In 2000, according to the U.S. Census Bureau, this region included nearly 635,000 households or 38 percent of the state's households.

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### **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.

#### ***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 <sup>1</sup>
<b>All assets.....</b>	<b>(X)</b>	<b>55,000</b>	<b>100.0</b>
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 <sup>2</sup> .....	3.9	22,000	1.6
Unsecured liabilities <sup>3</sup> .....	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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**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.

### **Indicators of Inter-Generational Wealth**

We did not replicate the Boston College study for Southeastern Louisiana. We accepted the College's low range estimate of \$41 trillion 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 for this area between 2000 and 2050:

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

These indicators or drivers are addressed in greater detail in the Methodology Section of this Report.

**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 Louisiana has a proportional share of inter-generational wealth based on its population. Using this simple indicator to estimate wealth we realize the following results:

#### **Wealth Based on Population**

<b><i>Geography</i></b>	<b><i>Total Wealth</i></b>	<b><i>Estimate</i></b>
<i>United States</i>	<i>\$41 trillion</i>	<i>\$41 Trillion</i>
<i>Louisiana</i>	<i>\$646 billion</i>	<i>\$170 Billion</i>
<i>Region</i>	<i>\$247 billion</i>	<i>\$81 Billion</i>

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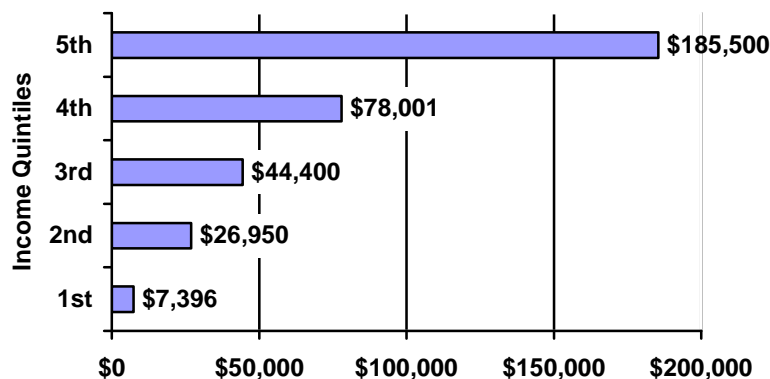
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Population gives us a starting point and benchmark. But we can create a more accurate estimate by considering other factors.

**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. The following Figure provides information nationally on the relationship between household income and net worth.

The pattern from the data in this Figure 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 numbers, but we believe it is fair to assume that this same relationship is generally true for the families and residents of Louisiana.

### ***U.S. Net Worth & Income Link, 2000.***



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

Overall, Louisiana has a lower percentage of its households in the upper income groups when compared to both the U.S. It has a higher share of its households in the bottom income groups when compared to Nation. Within Southeastern Louisiana there is great variations ranging from the growing and increasingly affluent suburban Parishes to the declining and struggling core city to the more remote and challenged rural Parishes.

**Age.** National research also clearly shows a powerful relationship between wealth holdings and the age of the household. The following Figure below summarizes this relationship. Simply stated, as the age of households increases,

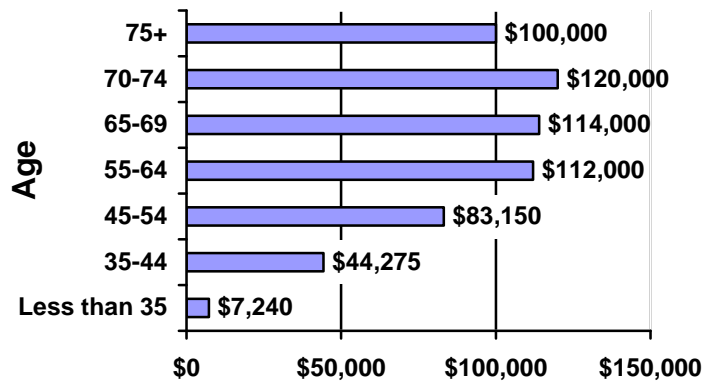
### ***Louisiana Transfer of Wealth Study***

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so does their net worth or wealth standings. There is a decline in wealth holdings in the 75 years of age and older group.

### ***U.S. Net Worth & Age Link, 2000.***



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

Overall, this region is younger and has the potential for population growth. However, out migration rates are relatively high as well. Crime, poor educational systems and lack of economic opportunities are combining to push many young residents to other places with stronger civic and economic assets.

### ***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!*

**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.

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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.

Between 1950 and 2000, the population in the United States grew from 150 million to 281 million persons or by 87 percent. In Louisiana over this same period, its population grew from 2.684 million to 4.469 million or by near 67 percent. However, strong growth (coupled with the energy boom & industrial development) gave way to very weak growth the past 20 years. Income growth also lagged the U.S. and is likely to decline further (relative to the U.S.) into the near future.

All indications would suggest that this Region overall will see limited growth into the future. However, times change and this assumption could change with changing times.

### **Cautions**

We have done our best to craft a thoughtful and factually based analysis. Our estimates of inter-generational wealth transfer for this Region 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 Southeastern Louisiana over the next 50 years is or will be precisely \$81 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 this part of Louisiana. There is a huge opportunity to create endowments and provide legacy giving long-term. Whether the final value is somewhat more or less. The opportunity is massive.

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## **Methodology**

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](http://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 (or Parish). 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 (parish).

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 (parish).

Finally, we employ state and county (parish) 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 (parish).

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- ❖ 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.

### ***Caution...***

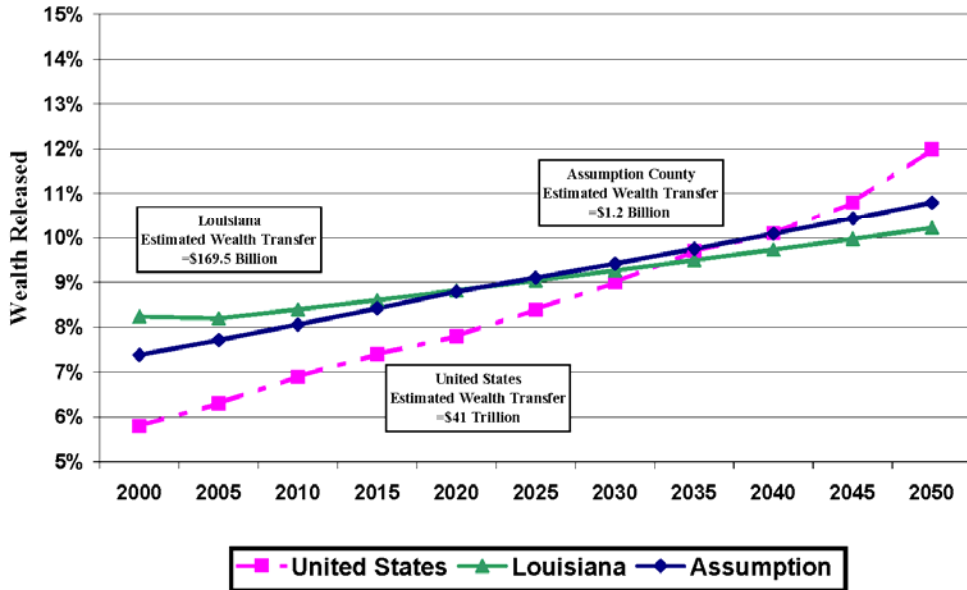
*This analysis generates estimates we believe are factually based and reasonable. However, they are still just estimates. Only further community level work can more precisely document the actual wealth transfer opportunity.*

*Additionally, 50 years is a long time and great change is likely to occur during this period. Changing conditions in Louisiana will likely alter the accuracy of these estimates over time.*

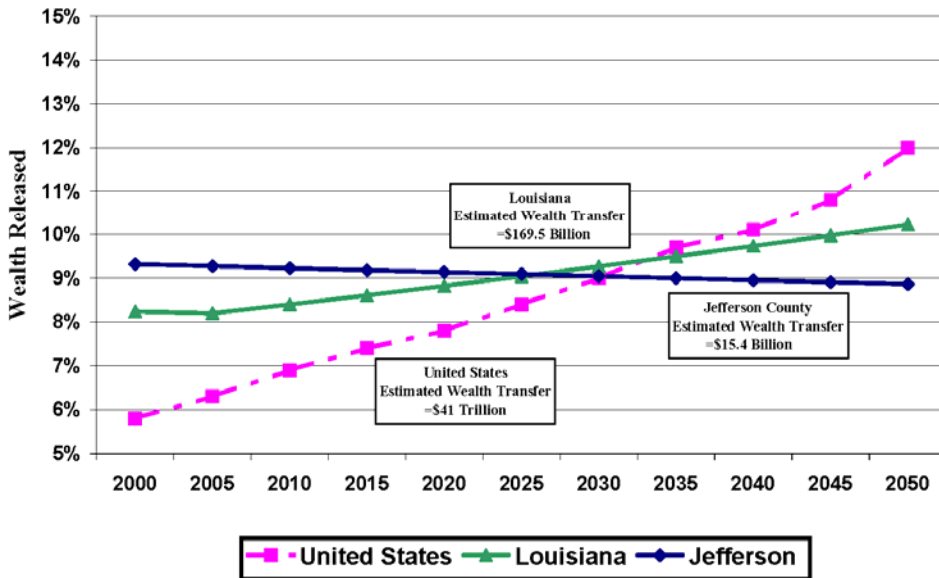
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## Transfer of Wealth Graphs

### America's Wealth Transfer: *A Likely Scenario*

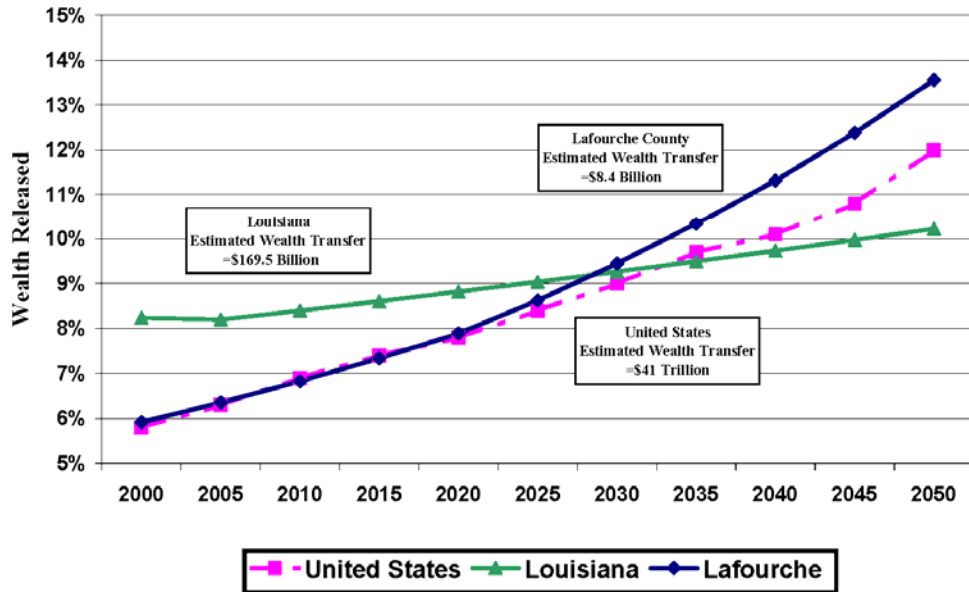


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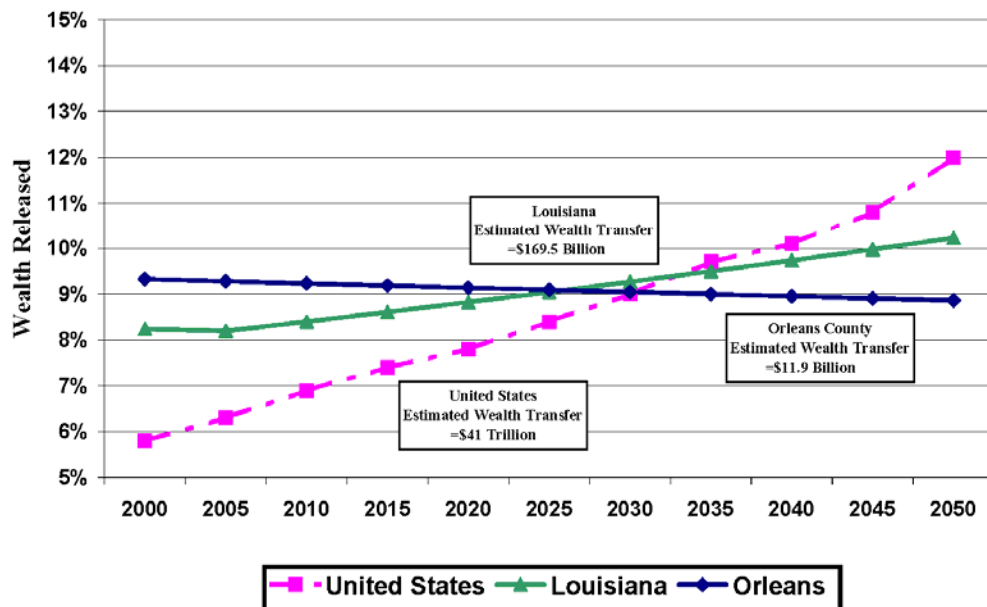


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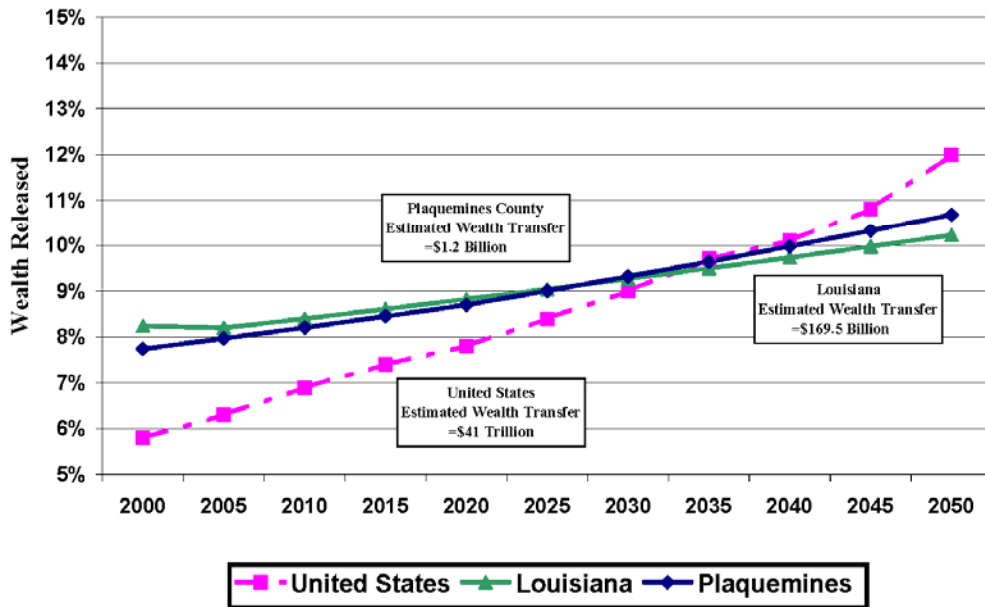


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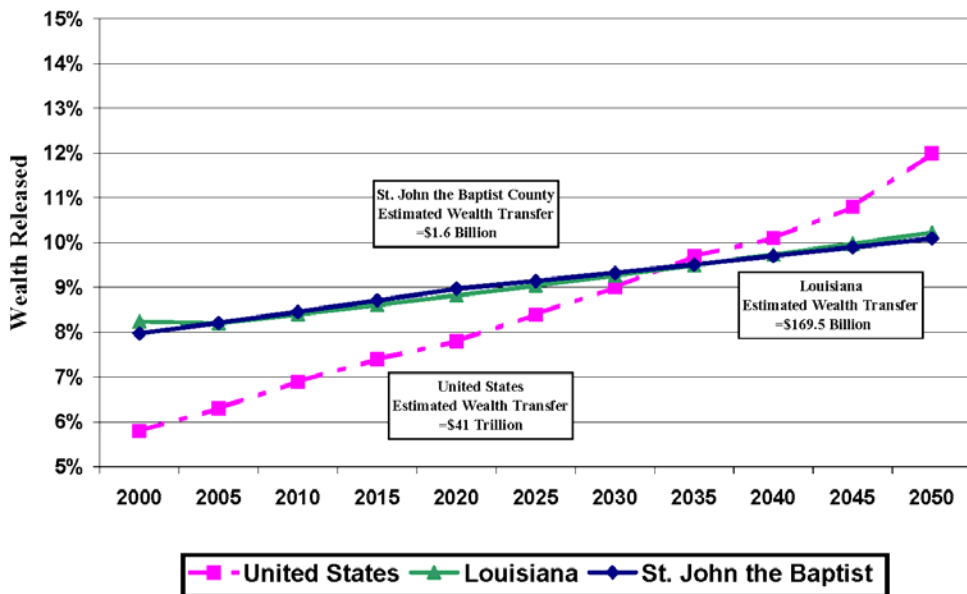


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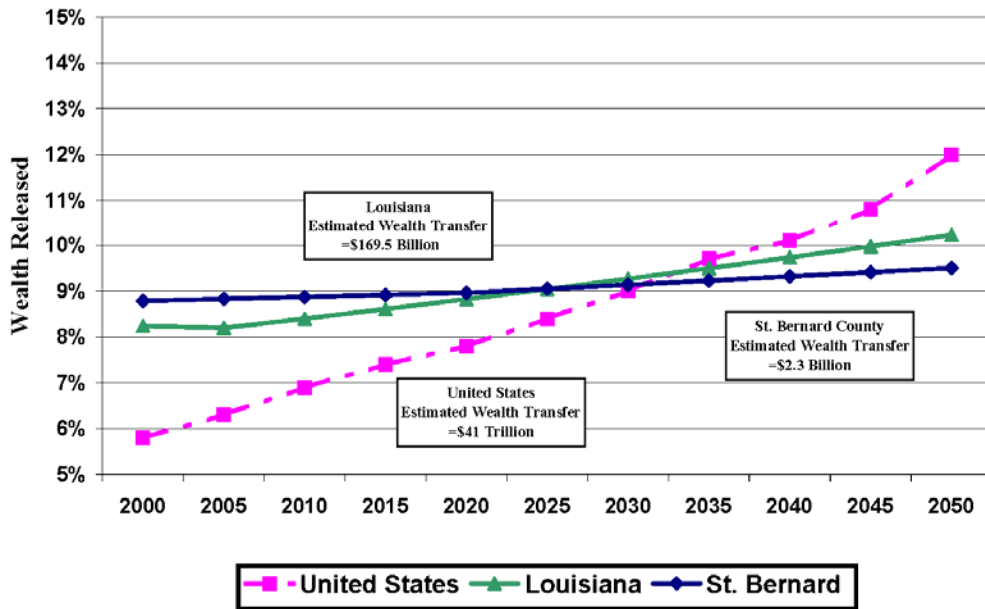
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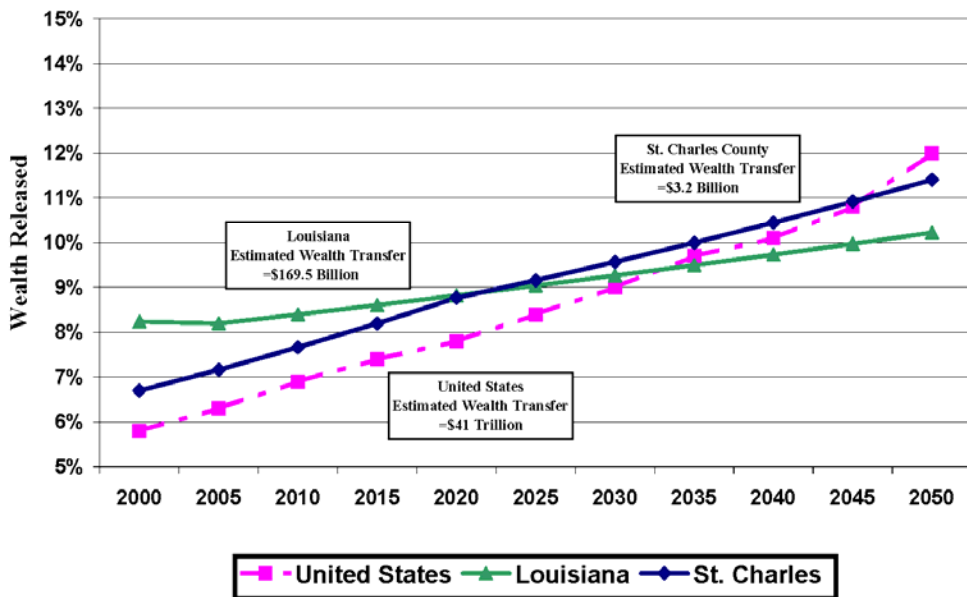


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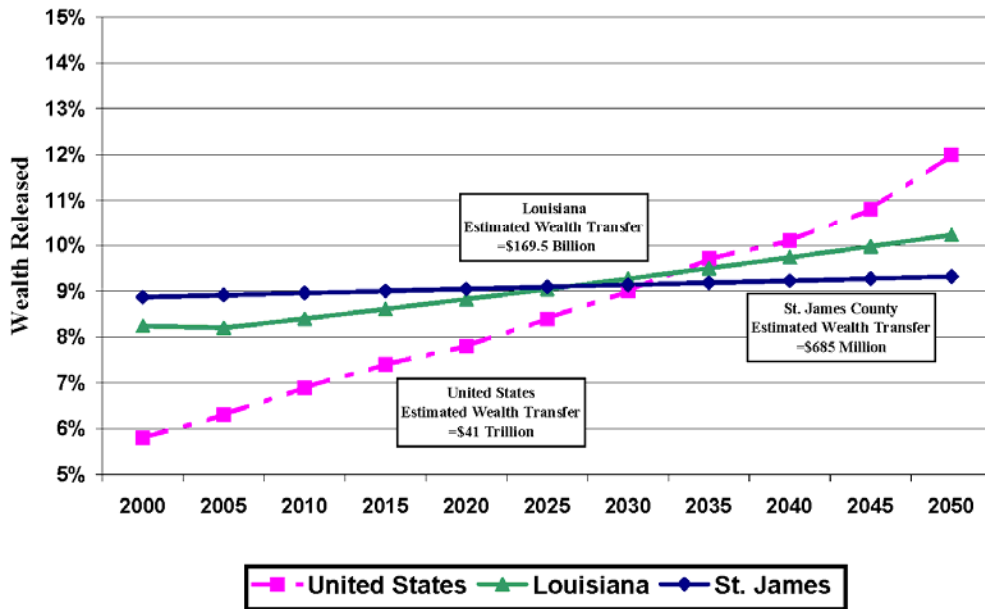


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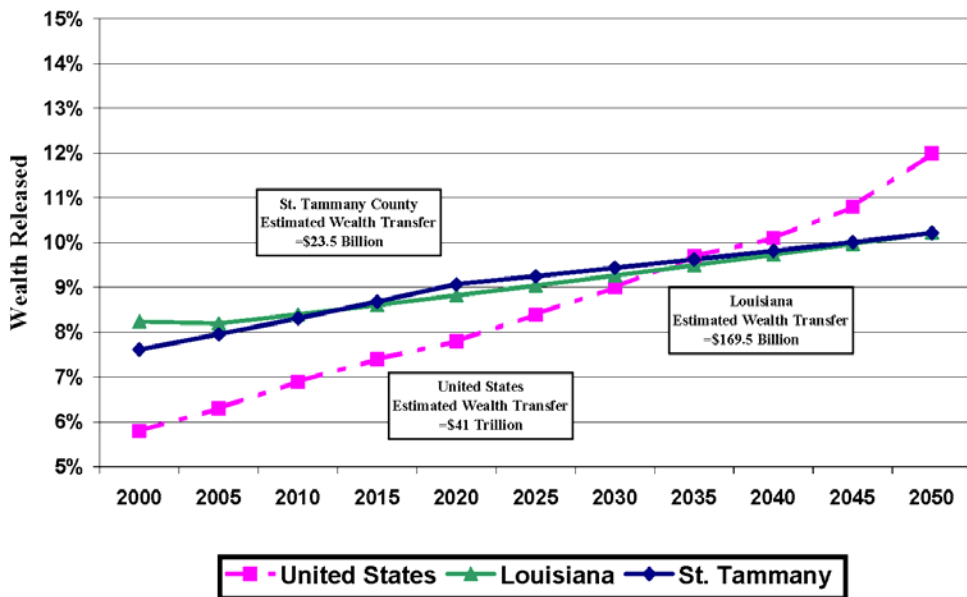


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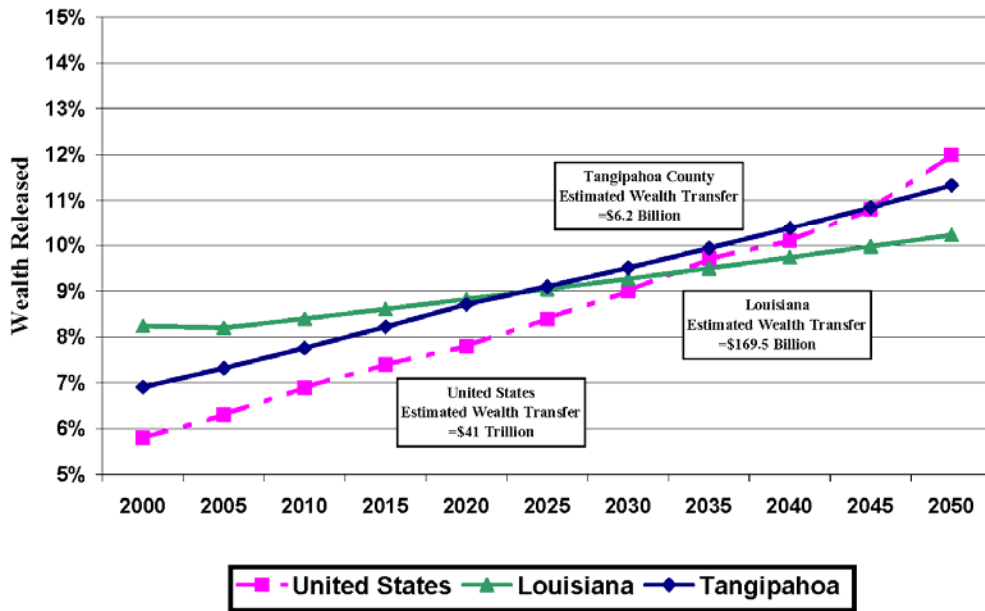


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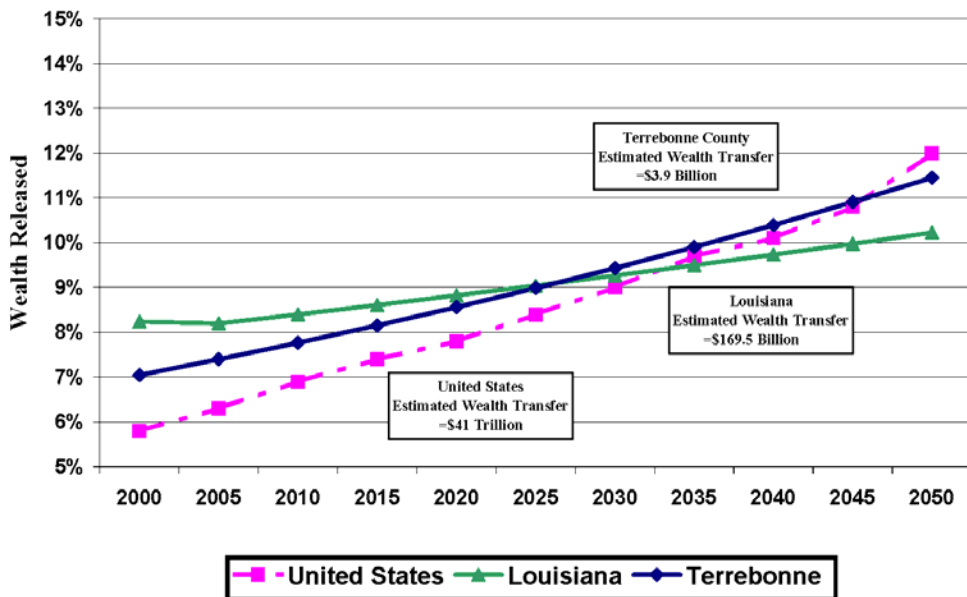


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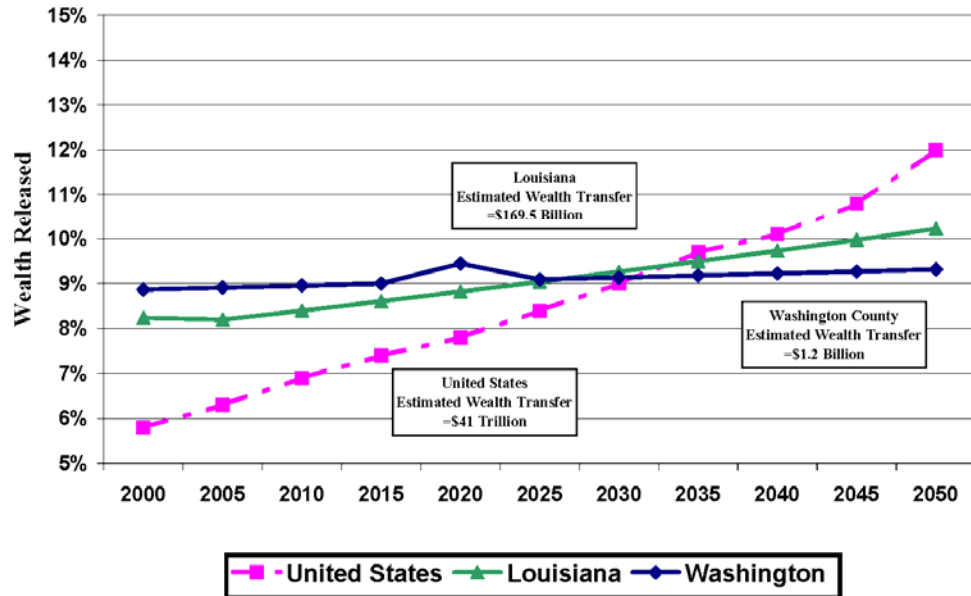


### America's Wealth Transfer: *A Likely Scenario*



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### America's Wealth Transfer: *A Likely Scenario*



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### ***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 landmark study *Millionaires and the Millennium*. Second, there is the work of the Nebraska Community Foundation that underwrote the development of the methodology which enables the wealth in Louisiana analysis.

### **Questions and Additional Information**

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