Western Kentucky's Future of Giving: Wealth Transfer Study

Final Report

Prepared for Western Kentucky Stewardship Council

April 2009

-Executive Summary-

Transfer of Wealth (TOW) in Western Kentucky was prepared by the RUPRI Center for Rural Entrepreneurship. Our TOW Team is pleased to provide our final TOW findings.

	Current Net Worth		50-Year Transfer of Wealth		10-Year Transfer of Wealth		5% Capture	5% Payout
County	**(Billions)**	**PHH**	**(Billions)**	**PHH**	**(Millions)**	**PHH**	**(Millions)**	**(Millions)**
Ballard	$0.56	$169,000	$0.81	$246,000	$113.5	$34,000	$5.68	$0.28
Caldwell	$0.86	$165,000	$1.17	$225,000	$177.04	$34,000	$8.85	$0.44
Calloway	$2.36	$175,000	$4.34	$321,000	$515.15	$38,000	$25.76	$1.29
Carlisle	$0.30	$141,000	$0.43	$202,000	$62.77	$29,000	$3.14	$0.16
Christian	$2.34	$94,000	$4.40	$177,000	$451.53	$18,000	$22.58	$1.13
Crittenden	$0.49	$137,000	$0.71	$196,000	$99.8	$28,000	$4.99	$0.25
Fulton	$0.41	$143,000	$0.50	$174,000	$81.89	$29,000	$4.09	$0.20
Graves	$2.19	$153,000	$3.41	$238,000	$446.70	$31,000	$22.33	$1.12
Henderson	$3.01	$169,000	$4.64	$261,000	$564.22	$32,000	$28.21	$1.41
Hickman	$0.35	$176,000	$0.45	$224,000	$70.65	$35,000	$3.53	$0.18
Hopkins	$2.95	$161,000	$4.41	$241,000	$581.04	$32,000	$29.05	$1.45
Livingston	$0.60	$155,000	$1.07	$276,000	$124.59	$32,000	$6.23	$0.31
Lyon	$0.49	$207,000	$0.82	$346,000	$105.59	$44,000	$5.28	$0.26
McCracken	$7.43	$279,000	$10.89	$409,000	$1,435.74	$54,000	$71.79	$3.59
Marshall	$2.48	$201,000	$4.74	$384,000	$566.76	$46,000	$28.34	$1.42
Trigg	$0.85	$159,000	$1.63	$304,000	$184.80	$35,000	$9.24	$0.46
Union	$1.04	$196,000	$1.37	$259,000	$190.69	$36,000	$9.53	$0.48
Webster	$0.68	$128,000	$1.02	$193,000	$131.45	$25,000	$6.57	$0.33
Western Kentucky	**$29.40**	**$174,000**	**$46.82**	**$277,000**	**$5,903.92**	**$35,000**	**$295.20**	**$14.76**

Note: PHH (per household) represents average values benchmarked to households

Information on methodology used in this analysis can be found on pages 23-25 of this report. The RUPRI Center has completed 31 TOW analyses including the following locations: Nebraska, Minnesota, Wisconsin, Wyoming, South Dakota, Louisiana, Montana, Indiana, North Dakota, Ohio, Illinois, Michigan, Nevada, New York, Pennsylvania, Vermont, California and Colorado. We have advised studies in Iowa, Arizona and Kansas.

Scenarios

Experienced researchers would say that projecting anything out 50 years is heroic at best, and fool heartedly at worst. Yet this is what must be done in order to portray the magnitude of the TOW opportunity. We want to be clear that the TOW figures presented in this study are not predictions around which one can statistically describe a confidence interval. Nor are they explicit projections, such as a city's population ten years in the future or an economic forecast.

Instead, this study strives to portray plausible scenarios of the future. These are stories about a likely tomorrow based on a conservative set of assumptions reviewed by resident experts and adjusted to reflect their knowledge of local conditions. These scenarios are a way to frame the future to make better decisions today. As Arie de Geus said in The Living Company, "Scenarios are stories. They are works of art, rather than scientific analyses. The reliability of actual numbers is less important than the types of conversations and decisions they spark." We hope this study sparks conversations about the magnitude of the assets present in Western Kentucky and the opportunities to invest a small portion of those assets toward community betterment projects.

Expatriates and Former Residents

America has always been a mobile society with massive waves of in and out migration. Rural areas and inner-cities have long exported their children to other communities. Our analysis does not attempt to estimate the TOW potential associated with expatriates. For some larger and more urban communities where 70% to 80% of all children eventually settle in the area, this may not be a major consideration. However, for communities in rural areas or inner-city neighborhoods, the pool of potential expatriate donors may be very large relative to these communities' resident populations. Give back strategies should explore how to connect with these donors.

2008-2009 Recession

It is now clear we are in one of America's most severe financial crisis and economic recessions since the Great Depression. The combined effects of the melt-down in the housing market and financial sector are now creating an economic downturn in most sectors of the economy. In fact, this economic event may be the most severe since the 1973 recession and even the Great Depression. Time will tell the depth and severity of this economic downturn.

Our TOW scenarios (covering the period of 2005 through 2055) assume economic downturns and growth periods consistent with our most recent 50 years of history. But, given the size of this event, we have reworked our national model to account for the 2008-2009 recession reflecting a less than 5% drop in TOW over the short-term (2005 through 2015). Longer-term we have not further adjusted our estimates. It is also important to note that our TOW scenarios are already very conservative and represent a floor estimate highlighting our belief that wealth creation in the next 50 years will be lower than was the case in the last 50 years.

BACKGROUND ON WEALTH IN AMERICA

-Background-

We have prepared this **Background on Wealth in America** to provide readers of this study a context for viewing and interpreting the Western Kentucky TOW results.

Review and Verification Process

We have undertaken a careful review and verification process to ensure our TOW scenarios reflect Western Kentucky's unique circumstances and realities.

Wealth in America

Forget the numbers for a moment and think about our history over the past 100 years. Not that long ago, America departed prosperity and good times in the 1920s and entered into two of our greatest challenges -- the Great Depression and World War II. Hard times, tragedy and eventually victory characterize this page in American history. What followed World War II was remarkable. Of all the world economic powers following World War II, the United States exited the war the strongest. The post World War II period ushered in the "baby boom generation," rapid economic progress and unrivaled prosperity right into the 1970s. The middle class in America boomed, incomes soared and wealth accumulated throughout the country.

Economic times began to fundamentally change in the 1970s, and the broadly held progress among American households lessened in more recent decades, although a legacy of wealth nevertheless has been created. Where economies continue to grow, new wealth is being created as well. Our study - **Western Kentucky's Future of Giving: Wealth Transfer Study** - creates reasonable scenarios of wealth holding in these communities and the likely transfer of wealth over the period of 2005 through 2055.

Two Great Traditions

America, like other nations around the world, is rich in traditions. As we consider wealth in America, there are two great American traditions worth noting.

1. America's economic system has demonstrated its capacity to create new wealth for a broad segment of American households over time. Our traditions of personal property rights, intellectual property protection and entrepreneurship have all combined to create remarkable affluence. While this affluence is not universal and unacceptable levels of poverty exist in America. Household wealth holding nevertheless represents a key development asset for our communities.

2. America has a deep and strong culture of giving. Public policy encourages charitable giving, through powerful and long-standing incentives incorporated into our estate and tax laws. The vast majority of Americans share a strong value of giving, beginning with their family members, extending to their churches and schools and often including local charities.

Wealth holding, or the capacity for give back, and our culture of giving combine to set the stage for a golden age of community philanthropy in America. This section of our report provides an overview and reference point for Western Kentucky's Transfer of Wealth analysis.

Wealth Drivers

The following factors have a significant impact on our TOW scenarios and our projections. Here is a sampling of the more important drivers:

•CNW or Current Net Worth is very important. The wealth that has been created over time is represented in Current Net Worth. States with larger CNWs have a stronger starting point for future wealth creation.

•Demographics play a central role in a number of ways. Places with strong population growth tend to have stronger economic performance, which creates the opportunity for wealth formation.

> •A key demographic factor is education. On average, a person with a college degree has an estate six times larger than a person with no high school degree.
>
> •Another key demographic factor is age of households. On average, as we get older our estate grows. For example, someone in the 55-64 age group typically has an estate six times larger than someone in the 35 and under age group.

•Economic performance is critically important. Above average and particularly strong performing economies create more and better employment, generate greater business performance and enable wealth to be created.

•Business ownership is a strong indicator of wealth status. Additionally, we would expect that someone who is not working will have lower net worth than a gainfully employed person.

•Behavior and customs also play a critical role. We all know the story of the high income family with corresponding high spending habits. They have very low net worth and limited wealth. On the other hand, a couple who does well spends little and invests well. This couple has significant wealth.

BACKGROUND ON WEALTH IN AMERICA

Boston College's Study
Let us begin our exploration of American wealth as it relates to community philanthropy with Boston College's 1999 study Millionaires and the Millennium. There had been earlier research and considerable writing on American wealth prior to this study authored by John J. Havens and Paul G. Schervish, but it is fair to say this study sparked a remarkable dialogue throughout America as no other research had done.

The Boston College study estimated America's Transfer of Wealth (TOW) over a 55 year period from 1998 through 2052. Havens and Schervish produced three scenarios of TOW for this 55 year period of time -- a high, medium and low estimate:

High Estimate	$136 trillion
Medium Estimate	$73 trillion
Low Estimate	$41 trillion

At first, these estimates were viewed with wonder and question. These were remarkable numbers in their size and scope. However, over time, the low estimate of $41 trillion took on credibility and became widely used within philanthropic circles.

By the early part of this decade, America had changed. There were three key events that fundamentally altered America's wealth course:

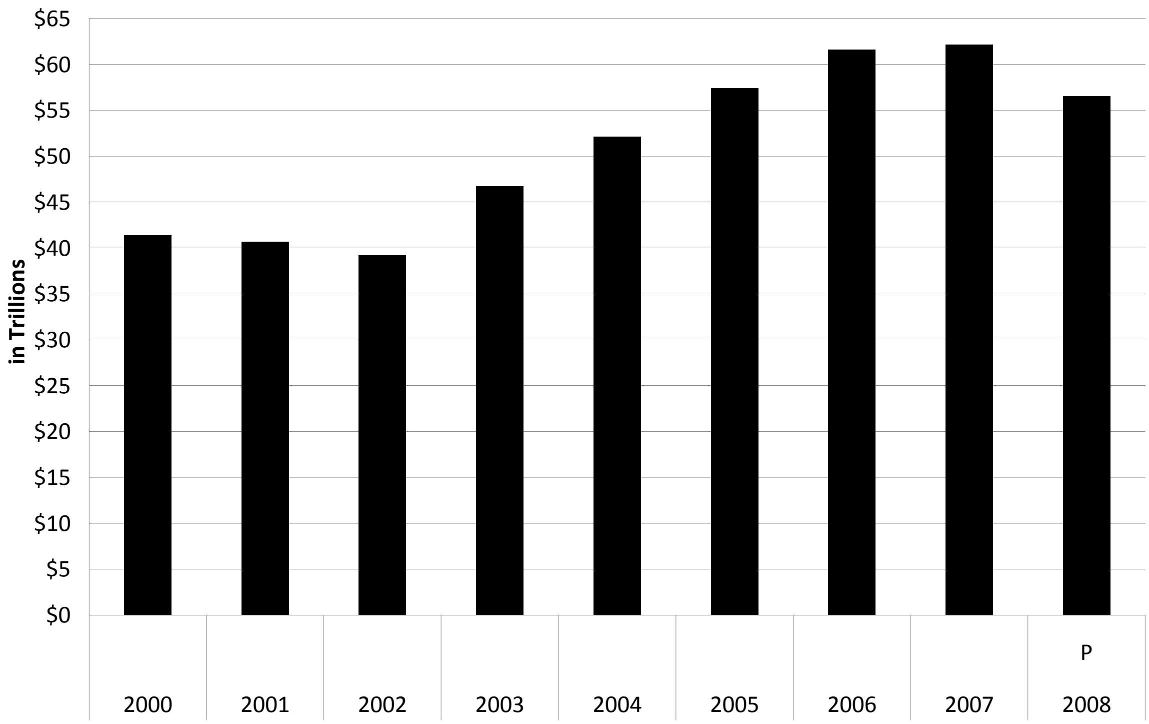
- •The bursting dot.com bubble in the stock market and the vast wealth write-offs.
- •9/11 and the Age of Terrorism and War.
- •A mild recession.

Questions were raised about the accuracy of the $41 trillion estimate and the Boston College authors reviewed their research and concluded that the $41 trillion estimate was reasonable and remains a solid projection of likely TOW in the coming years. Our research would agree and supports these findings.

The Boston College projection of $41 trillion is now nearly 10 years old and a lot has happened in America over the past decade. Later in this section of the report we provide our current scenario estimate of future transfer of wealth which remains in the Boston College ballpark estimate of $41 trillion.

Federal Reserve
America's Federal Reserve is a primary source of information on wealth in America. The Federal Reserve tracks on a quarterly basis Current Net Worth (CNW) for American households. Figure 1 on page 7 illustrates the current trend line with respect to CNW for the period of 2000 through 2008. Aggregate CNW for the United States declined with the 2001 recession bottoming out in 2002 and has since increased through 2007.

Figure 1 - U.S. Household Current Net Worth
(Source: U.S. Federal Reserve, 2008)



P = Preliminary Values

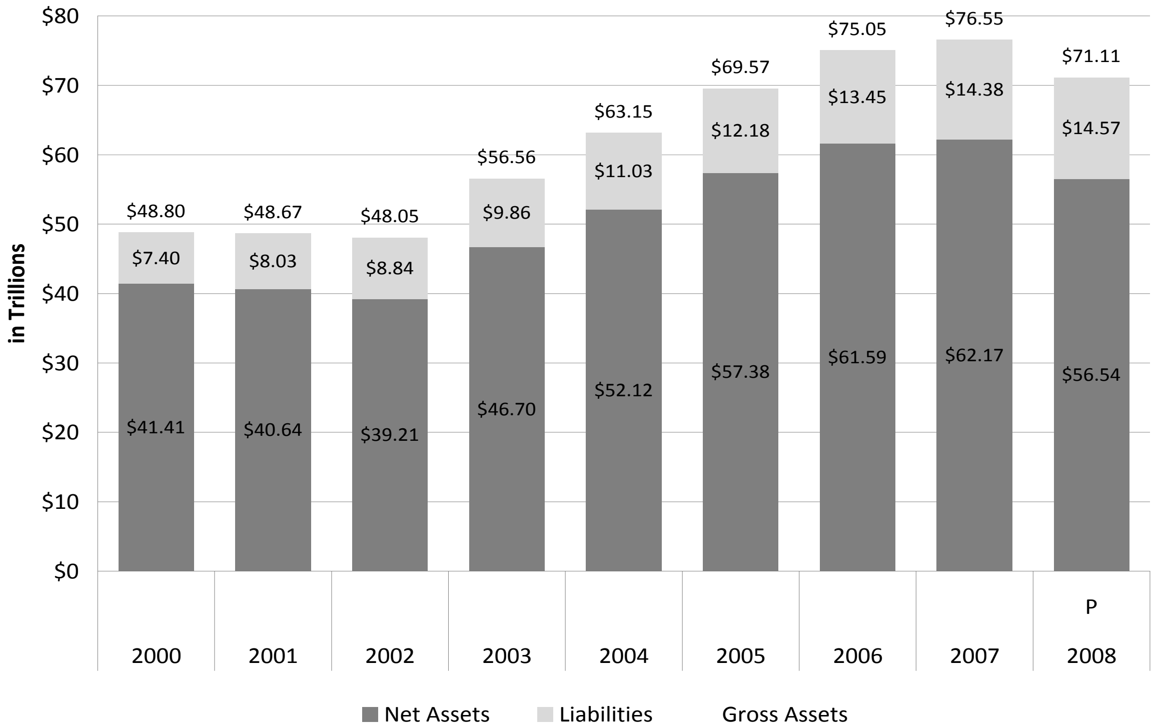
The current housing, inflation and stock market challenges are resulting in a drop in CNW in 2008 and possibly 2009. However, the longer term trend line is positive, reflecting the underlying economic strength of America's dynamic economy.

Figure 2 on page 8 provides a somewhat different perspective for the same Federal Reserve research. It provides the trend line for gross assets, liabilities and net assets (or current net worth) following the 2001 recession. Overall, household liabilities are growing faster than gross assets, eroding the growth in net assets. The current economic recession will likely deepen this pattern for the next few years. If long term trends return, the following economic recovery and expansion will result in gross assets increasing faster than liabilities, resulting in expanding Current Net Worth.

Figure 3 on page 8 provides quarterly trend data from 2006 and 2008 for gross assets, liabilities and net assets. This information begins to confirm the decline in Current Net Worth associated with the present economic challenges. Net assets drop after the third quarter of 2007 because of weaker gross asset expansion and rising liabilities.

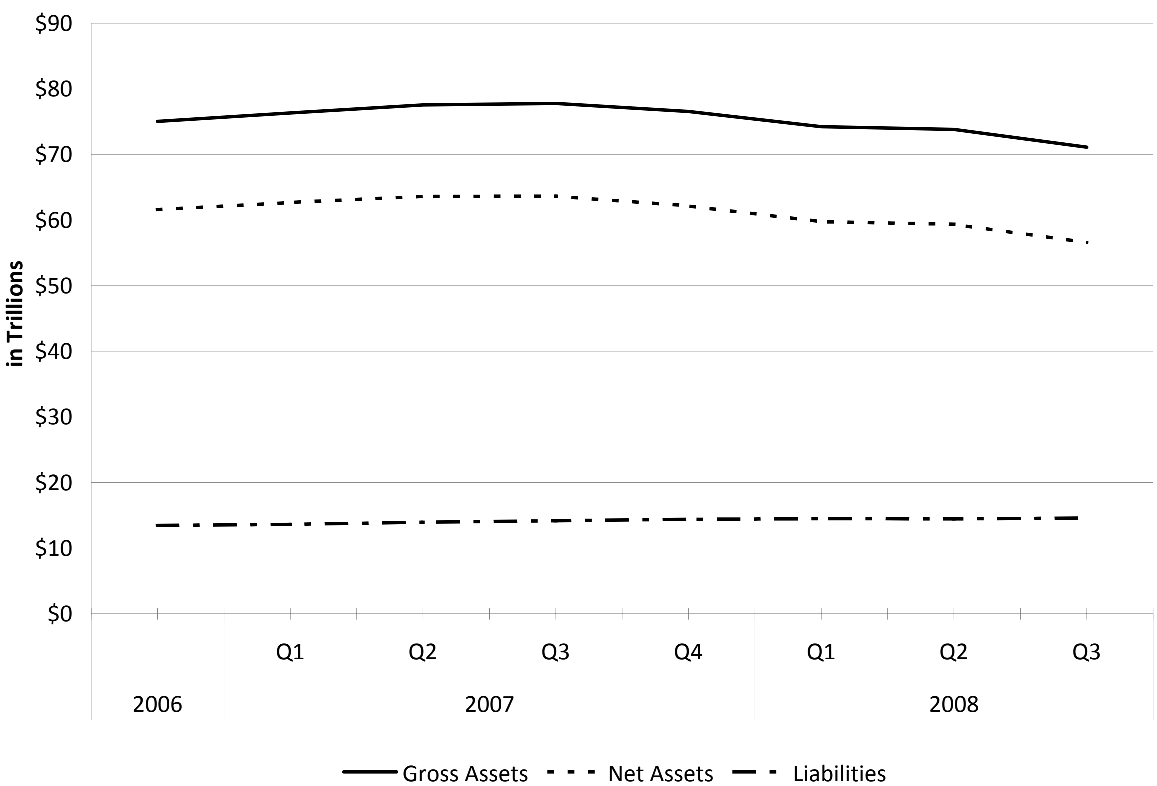
We have recently revised our national estimates of household current net worth (CNW) and Transfer of Wealth (TOW). Figure 4 illustrates our current base case scenario of U.S. household current net worth that is available for give back to heirs, charities and communities. If you compare CNW for 2005 from Figure 2 and Figure 4 you will note a significant difference. CNW data for 2005 in Figure 2 is taken from the U.S. Federal Reserve which calculates

Figure 2 - U.S. Household Current Net Worth
(Source: U.S. Federal Reserve, 2008)



P = Preliminary Values

Figure 3 - U.S. Household Current Net Worth
(Source: U.S. Federal Reserve, 2008)



household and non-profit CNW at $51.95 trillion. Our estimate of "available" CNW in 2005 is $31.1 trillion. The difference is due to the following two factors. First, we exclude CNW associated with non-profits and consider only household net worth. Second, we discount household CNW to exclude assets that are hard to value (art for example), assets that depreciate rapidly (motor vehicles for example) and closely held business related assets (such as family businesses). Combined, we begin with a significantly smaller household CNW value. We believe this approach provides a more likely base from which the potential for wealth give back is calculated.

Figure 4 displays the rise (adjusted for inflation) in estimated real change in available household CNW from 2005 to 2055. Using our very conservative approach, CNW rises from just over $31 trillion in 2005 to over $114 trillion in 2055. We have factored in the likely impact of the current economic recession and the devaluation in wealth associated with real estate and stock portfolios. Our future forecasts are conservative and assume a wealth creation rate that is roughly half that of the historical rate.

Figure 5 illustrates our most likely scenario of the U.S. Transfer of Wealth (TOW) opportunity for the period 2005 through 2055. We estimate that the national TOW opportunity rises from $548 billion in 2005 to $1.7 trillion in 2055. Please note that these are inflation adjusted real dollars. By real dollars we mean that a dollar in 2055 has the same purchasing power as a dollar in 2005. Over the first ten years of this period (2005 to 2015) the cumulative TOW opportunity is just under $6.1 trillion and rises to just under $53 trillion in 2055.

Figure 4 - America's Current Net Worth

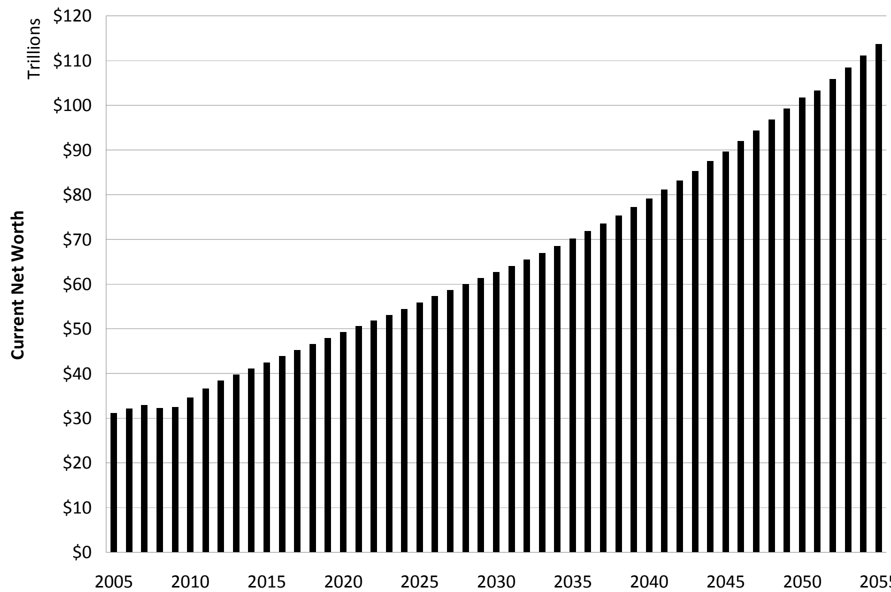


Figure 5 - America's Transfer of Wealth

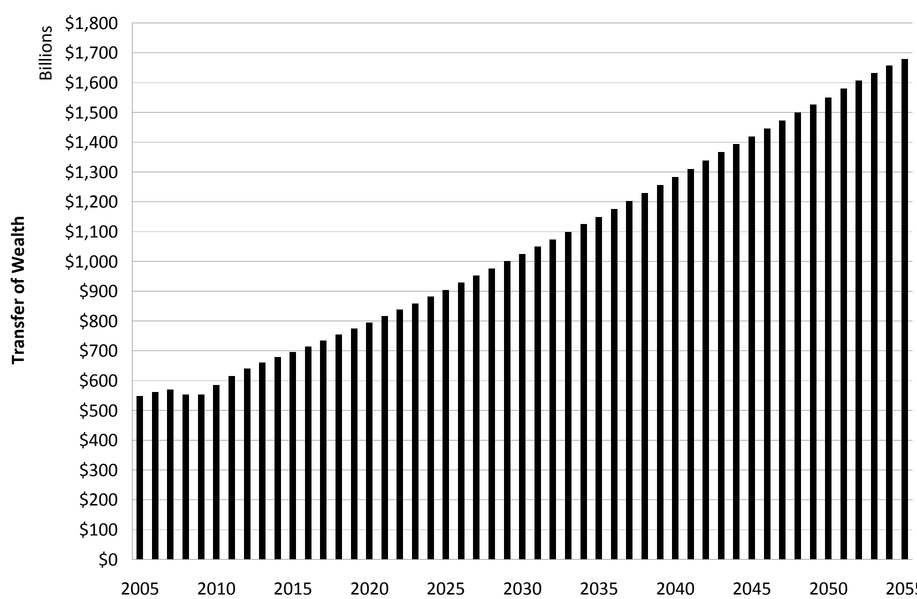
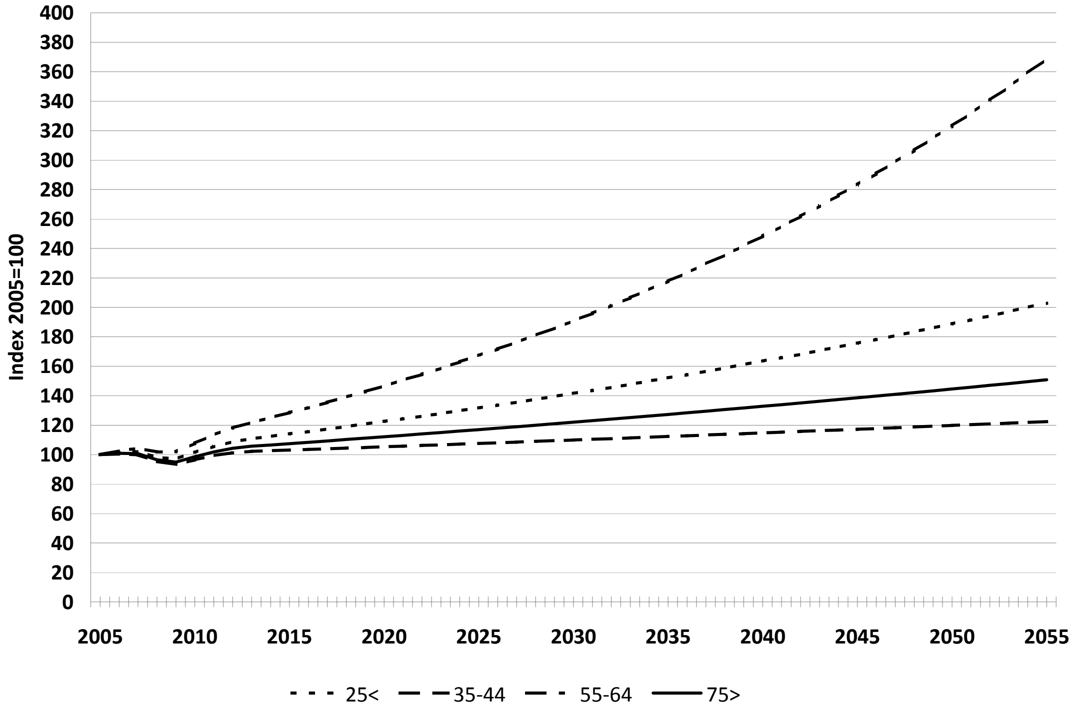


Figure 6 - Mean Net Worth Growth for Selected Age Groups



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America has a strong history of wealth creation rooted in our ability to re-invent ourselves economically. Despite our current economic woes, there is real room for optimism that the next 50 years of American history will look more like the last 50. The changing demographics in America will alter this pattern as we move from a younger society (past 50 years) to an older society (next 50 years). There is a powerful connection between age and wealth creation.

Figure 6 displays the mean net household wealth growth rates for four demographic segments in the United States over the next 50 years:

- Young Adults - Under 25 Years of Age
- Maturing Families - 35 to 44 Years of Age
- Peak Income Years - 55 to 64 Years of Age
- Retirees - 75 and older

A young adult right out of college is on the door step of their career and earning power. Typically, they have few assets and very low CNW. But they have knowledge and a hunger to get ahead. As education levels rise in the U.S. over time, the "under 25" trend line shows modest growth in CNW. The next group - 35 to 44 year olds - are typically at that stage in their lives when career is taking root, incomes are rising, homes are being purchased and retirement funds are growing. But demands on spending are also rising to meet car and mortgage payments, the pay-off of student loans and costs associated with raising kids. The power of compounding interest and equity in homes has not yet really kicked in and wealth growth rates are very modest for this age group. The peak earning and wealth creating years in American society continue to be in the 55 to 64 year old group. The power of time and compounding grows equity in homes, businesses, retirement funds and investments. It is at this stage that optimal wealth growth occurs. As one might expect, the growth rate in wealth formation then declines as we age. As wealth is not renewed (due to reduced incomes given away and spent down) the trend line for the 75 plus age group is actually lower than for the young adults group.

Next we want to explore the Federal Reserve's Survey of Consumer Finances research.

The U.S. Federal Reserve conducts it Survey of Consumer Finances every three years. The most recent survey contains data for 2004. We have summarized some of the key findings in this report. Let us a take a closer look at the relationships that determine (on average) wealth in America.

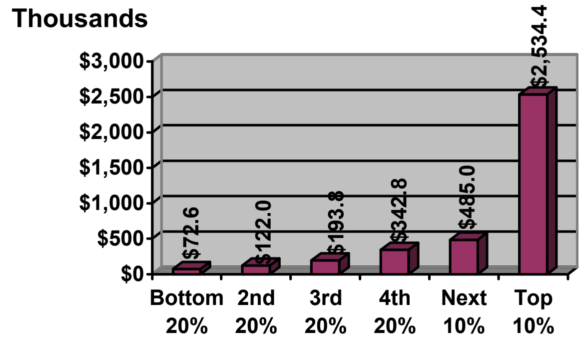
Figure 7 provides "net worth" or "current net wealth" by income group for 2004. Group 1 includes the bottom 20% of families by income. Groups 2, 3 and 4 include the next 20% to 80% of all families by income. Groups 5 and 6 include subsequent increments of 10% of families. The differences are striking. The bottom 20% of families by income have an average net worth of just under $75,000. This compares with the top 10% of families by income, which have an average net worth of over $2.5 million or a difference of 33 times! Income does matter and it is a powerful predictor of asset holdings. As Figure 7 clearly shows, there is a dramatic increase in net worth between Groups 5 and 6, illustrating the power of high incomes translating to larger estates.

Age also matters. Clearly there are many elders in America barely getting by and living on fixed incomes with very small estates. But on average, Americans' net worth rises and then falls with age. Figure 8 illustrates this pattern for all families in the United States. Net worth rises from a modest $74,000 for families 35 and younger (age of the household head) to over $800,000 as families reach their mid-50s into their early 60s. Then net worth begins to erode or decline as earning power drops and assets are used in retirement and for health care.

Education has always been a strong predictor of both income and wealth. Figure 9 provides a vivid picture of this relationship. On average in America, someone with a college degree compared with someone without a high school diploma will have 6.2 times more net worth. Education pays and it contributes to spending, saving and investment habits that grow estate value. In our new global knowledge economy, education is becoming even more important. Research clearly shows that as we move into the future, advanced and specialized education will become very important to earning power and the opportunity to build estate wealth. A college degree will not be enough, but specialized education that translates to unique knowledge needed in our economy and society will be essential. Conversely, outsourcing of low skill to even high skill jobs will erode the ability of less educated Americans to earn adequate incomes for them to save and build assets.

Figure 7

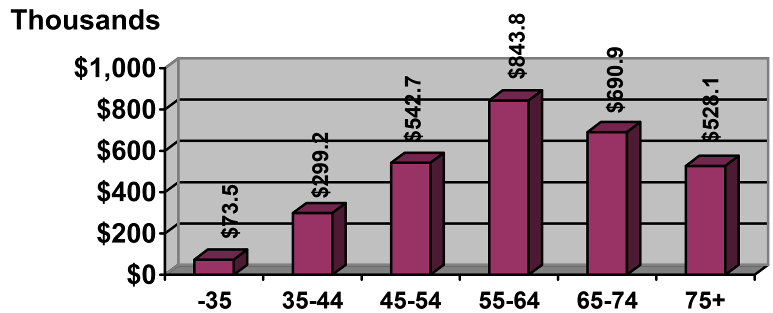
U.S. Average Net Worth by Income Group



Source: U.S. Federal Reserve, 2004

Figure 8

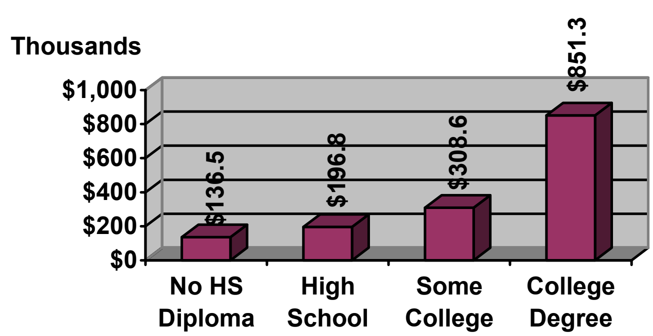
U.S. Average Net Worth by Age of Household



Source: U.S. Federal Reserve, 2004

Figure 9

U.S. Average Net Worth by Education, 2004



Source: U.S. Federal Reserve, 2004

BACKGROUND ON WEALTH IN AMERICA

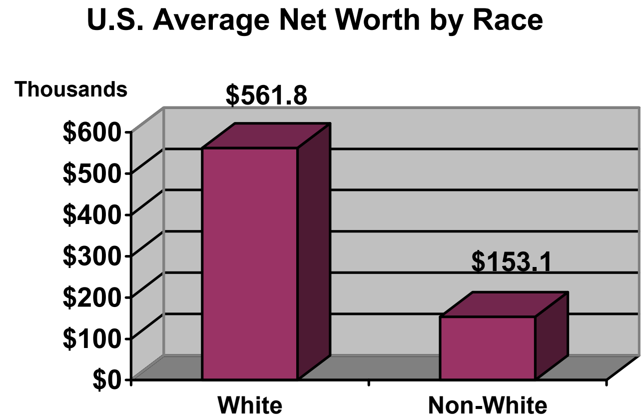
Tragically, race still matters in the United States. Figure 10 illustrates the tremendous divide of wealth held by race. A simple comparison of "white" families compared to all "non-white" families results in a 3.7 times difference. People of color continue to have weaker educations, lower earning power and less capacity to accumulate assets and wealth.

America is the land of opportunity where owning a business has always been a pathway for some to economic opportunity and greater financial security. In today's economy where the "best" jobs are downsized by major corporate and government employers, self employment is becoming even more important. Figure 11 provides a striking picture of the important connection between business ownership and wealth holding. We know from the research that business ownership or self-employment offers no guarantee to success and wealth. Many struggle and fail at business. Yet on average in 2004, a self-employed person in America held 5.3 times more net worth than a wage and salary worker. While the difference is not as dramatic, self-employed persons hold more wealth than even retirees who are at the peak of their personal wealth accumulation process.

Erosion of good wage and salary jobs in America (greatly tied to globalization and outsourcing trends) is stimulating movement of both poorly educated and very well educated persons towards self-employment. We anticipate that as the roads to prosperity narrow in the American economy over the next 20 to 30 years, self-employment and business ownership will become even more important routes to economic opportunity and security.

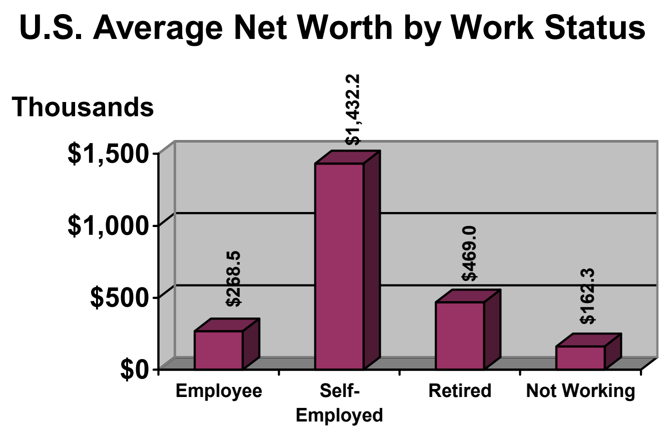
Home ownership has always been important in America. Figure 12 highlights this on-going relationship between home ownership and wealth formation. On average for all American families, a family that owns a home versus being a renter has nearly 12 times more net worth!

Figure 10



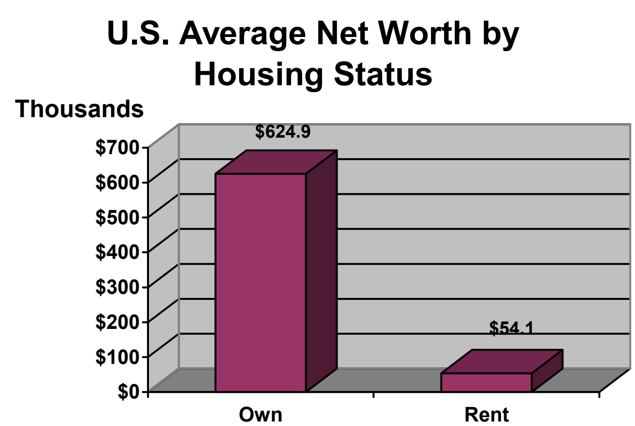
Source: U.S. Federal Reserve, 2004

Figure 11



Source: U.S. Federal Reserve, 2004

Figure 12



Source: U.S. Federal Reserve, 2004

United States Estimates

Research about the wealth holdings in the U.S. on current and projected transfers of wealth is more detailed and reliable than the state and county research. There continues to be a debate regarding the size and the nature of both current net worth in the United States and the TOW opportunity. We employ three benchmarks of U.S. current net worth ranging from a low of $31.1 trillion to a mid-range estimate of $45 trillion and a high estimate of $55 trillion. As the most recent research on current net worth holding in the United States has come from the U.S. Federal Reserve, we are now benchmarking our studies to the low-range current net worth estimate of $31.1 trillion. We continue to employ a conservative and low scenario of transfer of wealth over the 50 year period due to slowing economic growth rates, stagnating wealth formation rates (particularly among middle class and income households) and the rapid growth among the middle to rich class that is highly mobile.

Inflation Adjusted Dollars

All of our analysis is done in "inflation adjusted dollars." In other words, these are real dollars for which inflation has been adjusted out. So a dollar in 2055 is worth the same as a dollar in 2005.

America's Ultra-Rich

Evolving research on wealth holding in the United States continues to document that wealth is concentrating within America's most wealthy households. Generally speaking, the top quarter of one percent of American families (roughly 250,000 families) now control about 25% of all American wealth. When we consider the top 1% and even the top 10% of Americans (based on wealth holdings), over 50% of all American wealth is concentrated in the top 10%. However, the opportunity for give back does not rest solely with high net worth families. America's middle class (particularly its upper middle class) has significant capacity to give. This segment of society (a majority of American families in most communities) contains roughly 35% of all American wealth.

Factors Contributing to American Wealth

At an individual or family level, wealth formation is a function of numerous inter-acting factors. Among the more important wealth formation factors are the following:

1. The ability of a household to generate income over a life time that provides the foundation for possible wealth formation.

2. Income generation in and of itself is not sufficient to generate wealth (or assets such as property, investments and the like). Behaviors regarding spending, saving and investments are equally important to wealth formation as is income generation.

3. Clearly, a household with higher lifetime earnings has a greater potential to create surplus earnings when compared to working poor families, for example. Social norms and practices around spending, savings and investment are critically important. Additionally, our tax codes provide numerous incentives and tools supportive of wealth formation ranging from access to higher education (generally translates to higher earnings) to retirement savings to real estate ownership. Households who understand and fully use tax code advantages are more likely to generate richer estates than those Americans who do not use these tools.

4. Finally, the times in which we are earning income, saving and investing are also important. Since World War II there has been consistent and strong growth in the macro economy. Prudent investments in stocks, bonds and real estate guaranteed the power of compounding interest. A person in their 20s in the early 1970s who invested $10,000 in the U.S. stock market could be worth a million dollars today. Historic conditions over the past 50 years have been very supportive of wealth formation.

The future is less certain. Earnings and spending are now tracking very close for most American households. Saving and investment rates are relatively low compared to past decades. There appears to be less certainty around possible investment vehicles to grow nest eggs into larger estates. Nevertheless, wealth continues to be formed at rates nearing personal income growth rates despite current uncertainty and changes in household behavior.

One trend is clear, wealth in America is becoming more concentrated and the financial well-being of America's middle class is less certain. Let us explore America's Ultra-Rich next.

America's Ultra-Rich

We estimate adjusted current net worth for America's households at $31.1 trillion (2005 estimate). The U.S. Federal Reserve [B.100 Balance Sheet of Households and Nonprofit Organizations - March 6, 2008] estimates the current net assets at $51.95 trillion. Adjusting for non-profits we arrive at our estimated $31.1 trillion.

Research dating back to the 1970s strongly supports the view that wealth is concentrating within the United States. America's poor and low-income households are struggling to maintain income and wealth levels (which are very low compared to mean values). America's middle income households are being pulled in two directions. Most middle income households in the bottom half of this group are losing ground in terms of both incomes and wealth. Those in the upper end of the middle class are making progress and growing somewhat more wealthy. It is too early to tell how the declines in real estate values and the stock market might be impacting these higher net worth middle income households.

Now, let us take a look at our Western Kentucky TOW findings.

Our Golden Opportunity- Transfer of Wealth Opportunity

Western Kentucky is a remarkable landscape with a rich history and culture. Our study focuses on the 18 most western Kentucky Counties and includes the portion of Kentucky sandwiched among Missouri, Illinois, Indiana and Tennessee.

The geography of this region is defined by many influences including the Trace, the Land Between the Lakes, major rivers like the Mississippi and Ohio and a landscape richly endowed with natural resources and beauty. These physical and natural resources are key assets and contribute to the wealth of this region.

Population trends and characteristics have a profound impact on the well being and wealth of a region. Western Kentucky has grown from under 380,000 residents in 1970 to nearly 440,000 residents in 2005. In the most recent decade population grow has moderated and like much of rural America, this Region is aging as younger residents leave and the core remaining population is becoming older. Even with these changes, the median age in Western Kentucky is slightly below the U.S. median age (i.e., 36.6 years vs. 37.3 years). Other key indicators of economic and social progress suggest this region in recent times is doing relatively well. Per capita income is higher than the U.S. average (2005 = $28,008 vs. $26,371) and average earnings per job are significantly higher (2005 = $40,672 vs. $30,269). But the unemployment rate is moderately higher (2006 = 5.9% vs. 4.7%).

Overall trend lines for the period of 1970 through 2005 are relatively strong and aligned with national averages. The annualized population change is very comparable and just slightly lower (0.5% vs. 0.6%). Employment growth on an annualized basis is 1.3% versus 1.4% for the United States. Personal income growth (again on an annualized basis) is 2.2% which is also the U.S. growth rate. U.S. Bureau of Economic Analysis, 2008.

While the overall picture is relatively good when compared to the U.S. values, Western Kentucky (like every other region in the county) is now challenged by an unprecedented economic crisis and recession. There is no question that this recession will impact economic well being and wealth holding. The real question is the extent of these impacts. Only in time will we have a better idea of the permanent impacts.

A second consideration is that Western Kentucky as a region is very diverse. Within this region there is considerable variation of economic well being and wealth holding. Our current net worth and transfer of wealth analysis takes into account these differences and the following sections provide an overview of each of the 18 counties that make up this region.

There are a number of factors that shape the differences we have documented in our research. Before we explore each of the counties it would be helpful to summarize these "shaping" forces within the region:

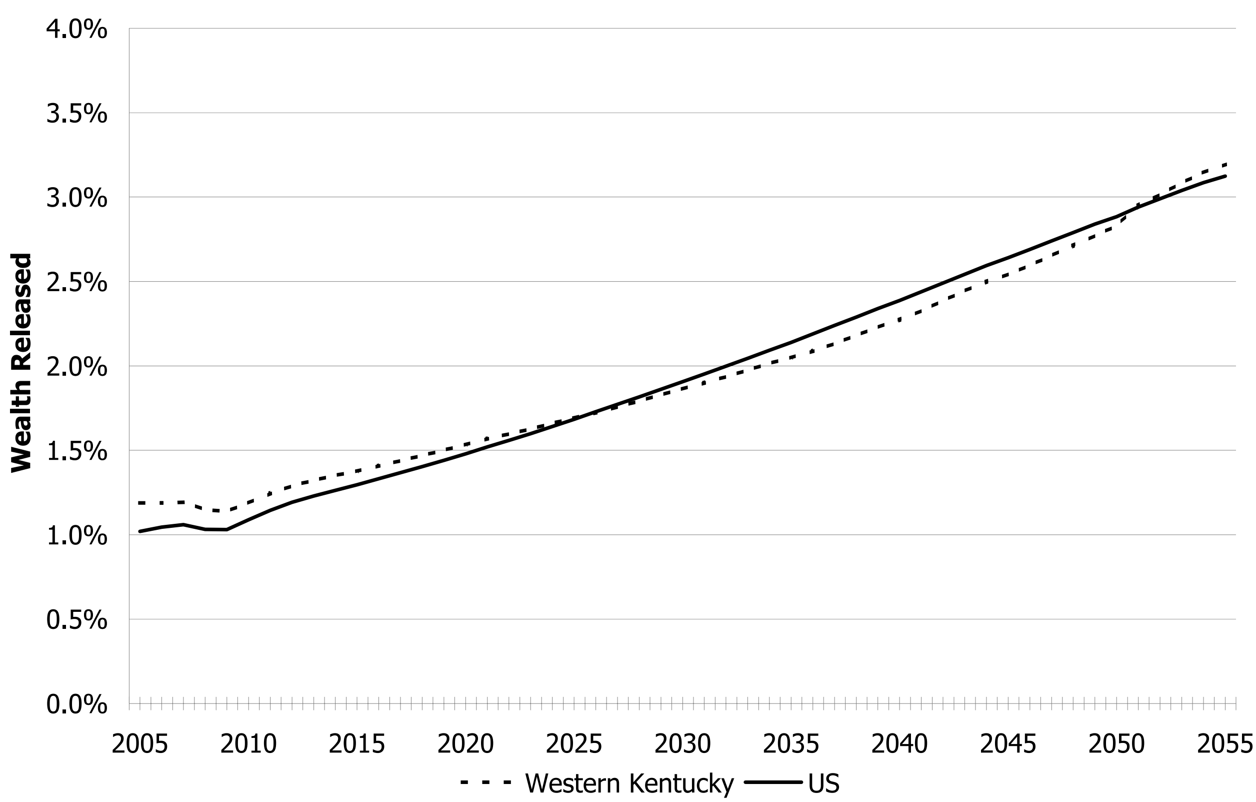
- There are a number of metropolitan areas that impact this region economically and socially including Evansville IN, Nashville/ Clarksville TN (distance between Hopkinsville & Nashville is just 70+ miles), and Memphis TN (the distance between Mayfield & Memphis is 150+ miles). With these metropolitan footprints we have noted development patterns that impact wealth formation and holding in the adjacent communities.
- This region is also impacted by a number of major transportation corridors. Major transportation corridors lead to greater development that in turn drives economic activity and wealth formation. Interstate 24 or the Carroll Parkway are examples of these corridors. We have made adjustments in our analysis to account for this shaping force.
- There are a number of unique natural amenities such as the Land Between the Lakes where recreational, second home and retirement home development is occurring. Whenever someone retires in a community, they bring wealth with them that can significantly impact overall wealth patterns.

- There are a number of counties where production agriculture coupled with relatively low populations results in a "land rich", but "cash poor" profiles. There is significant "tied up" land wealth or wealth connected with closely held family businesses that characterize these counties.
- Finally, there are a number major institutions that also impact wealth holding. The large prison in Lyon County or Fort Campbell in Christian County impact overall population size. However, these communities typically have relatively lower wealth holdings. We have adjusted our scenarios to account for these factors as well.

We have organized the region into a number of "similar" sub-regions. The following sections will provide insight on our findings for the region's counties.

Figure 12 displays our Team's scenario of the likely timing of the transfer of wealth for Western Kentucky compared to the trend line for the United States. This graph charts the share (represented as a percent of the total TOW) of inter-generational wealth to be transferred over the 50 year period. Early in the graph one can see the estimated impact of the current recession on wealth transfer. Our final report includes county reports and these reports will have similar charts for each and every county within the region.

Figure 12 - Transfer of Wealth in Western Kentucky



Our Golden Opportunity- Transfer of Wealth Opportunity

Our research indicates that five Kentucky counties are influenced by the greater Evansville Metropolitan Area -- Henderson (City of Henderson), Union, Webster, McLean (City of Owensboro) and Daviess. Three of these counties - Henderson, Union and Webster - are within the Western Kentucky Region and part of our transfer of wealth study.

Henderson County. Henderson County is the economic and social cornerstone of this Evansville sub-region. Considering critical trends for the period of 1970 through 2005, Henderson County has seen higher (when compared to the U.S.) population growth (0.7% vs. 0.6%), employment growth (1.5% vs. 1.4%) and personal income growth (2.3% vs. 2.2%). Per capita income is higher ($28,259 vs. $26,317) and average earnings per job is significantly higher ($41,253 vs. $30,269). Henderson County is an economic and social engine within this metropolitan area.

Union and Webster Counties have a less direct relationship with the Evansville Metropolitan Area. However, both of these counties are classified as bedroom communities with more residents commuting outside of these counties for work. Clearly there are strong economic ties with Henderson County.

Union County. Union County has a modest population at just under 16,000 residents. It has undergone severe depopulation over the last 35 years. As noted before there are strong economic ties with Henderson County. Agriculture and manufacturing are important to this county's economic diversification. Despite declining population and relatively weak employment and personal income growth overall, Union County has relatively strong income levels. Per capita income when compared to the U.S. is higher ($28,002 vs. $26,371) and average earnings per job is significantly higher ($38,026 vs. $30,269).

Webster County. Webster County is a bit smaller than Union County with just under 14,000 residents. Like Union County, Webster County is a bedroom community to Henderson County and the Greater Evansville Metropolitan Area. Agriculture and manufacturing anchor the county's economy. Despite a smaller population base and weaker economic growth - indicators of income are quite strong. Per capita income is higher than the U.S. average ($30,659 vs. $26,371) and earnings per job are dramatically higher ($52,454 vs. $30,269).

Our Golden Opportunity- Transfer of Wealth Opportunity

Five counties are directly impacted by the natural amenity called the "Land Between the Lakes" -- Calloway, Lyon, Marshall, Livingston and Trigg Counties. This sub-region is likely to see growth associated with the remarkable natural resource (e.g., Kentucky Lake, Lake Barkley, the Tennessee River & the Trace). In-migration, particularly of early age retirees is a significant development opportunity for these counties. The following summarizes some of our key findings with respect to each of these five counties.

Calloway County. Calloway County is of the micropolitan class with a good population base. It is an employment hub (City of Murray) and home to Murray State University (an economic stabilizing and diversifying force). The County has a good population base and relatively strong historic economic growth.

Livingston County. Livingston County has a relatively low population (just under 10,000 residents in 2005). It is characterized as a "bedroom" community with relatively high rates of commuting by residents to employment outside of the county. Non-labor income is relatively high and strong suggesting a sizable retirement population (typical of more rural and smaller population counties).

Lyon County. Lyon County has the smallest population base and is the most rural of these five counties associated with the Land Between the Lakes (just over 8,000 residents in 2005). It is home to a major prison, but also has significant commuting by residents to employment outside of the county.

Marshall County. Marshall County is classified as micropolitan and also has a good population base (just over 30,000 residents). Income levels are higher when compared to the Western Kentucky Region. Due to relatively high commuting patterns Marshall County is also classified as a bedroom community.

Trigg County. Trigg County is relatively rural and supports a modest population base (just over 13,000 residents). It is heavily dependent upon manufacturing and due to commuting patterns it is also classified as a bedroom community.

Data Sources

All statistical references are based on information provides by the U.S. Census Bureau, the U.S. Bureau of Economic Analysis, the U.S. Department of Agriculture or the U.S. Bureau of Labor Statistics. Complete statistical analysis is contained in the electronic library we have provided to Murray State University.

Our Golden Opportunity- Transfer of Wealth Opportunity

Ballard County is where the mighty Illinois River joins the Mississippi River. There are a number of river adjoining counties with similar socio-economic profiles including Fulton, Hickman, Carlisle, Ballard, McCracken, Livingston and Crittenden Counties. Given Livingston's connection with the Land Between the Lakes, we addressed this county in that section of our report. We have included Graves County in this sub-region given its economic and social connections with this most western Kentucky geography. Let's now take a look at each of these western river counties in a bit more detail.

Fulton County. Fulton County is very rural and has a relatively small population base with just over 7,000 residents. It has been losing population. Jobs and income growth is roughly half of the U.S. average growth rate. But Fulton County has wealth associated with agriculture and family owned businesses.

Hickman County. Hickman County is very similar to Fulton County with respect to population size (just over 5,000 residents), declining population and declining employment. However, personal income is stronger than the national average between 1970 and 2005 (3.4% vs. 2.2%). Per capita income is dramatically higher ($43,723 vs. $30,269). Average earnings per job are even higher ($81,979 vs. $30,269). Production agriculture is larger in Hickman when compared to Fulton County ($277 million vs. $78 million in 2005 gross receipts) and may account for the spikes in income levels.

Carlisle County. Carlisle County fits the profile for the smaller population western counties. It has just over 5,000 residents and it is very rural in character. There is a pattern of depopulation followed by a more recent stabilization in the county's population. It is a bedroom county with residents commuting to work outside of the county. Average earnings and per capita incomes are below the national averages for 2005.

Ballard County. Ballard is very rural with a somewhat larger population base at just over 8,000 residents. It too has a pattern of depopulation with periods of rebound in the most recent 15 year period. Per capita incomes are somewhat higher ($31,494 vs. $26,371 for the U.S. in 2005). Average earnings are even higher ($41,607 vs. $30,269).

McCracken County. McCracken County is home to Paducah (the largest community in this part of the region). This county is classified as micropolitan and as an employment hub. It has a substantial population with just under 38,000 residents. It is also part of the I-24 transportation corridor that runs from Nashville TN into southern Illinois. Population growth in the county is moderating in recent years. But employment growth has been historically strong. It has a relatively diversified economy and it is somewhat richer when compared to other counties in this sub-region.

Crittenden County. Crittenden County is rural with a population of just under 9,000 in 2005. There has been a steep depopulation during the current decade after fairly strong population maintenance. Employment growth is relatively flat, but there has been some growth in personal income. Both per capita income and average earnings per job are lower when compared to the U.S. medians.

Graves County. Graves County is home to Mayfield and the Julian M. Carroll Parkway transportation corridor. Population growth is comparable to the U.S., but job creation is somewhat lower (0.8% vs. 1.4% between 1970 and 2005). This county is classified as micropolitan with just under 64,000 residents. Overall income levels are comparable to moderate lower when compared to U.S. median values.

EASTERN COUNTIES

Our Golden Opportunity- Transfer of Wealth Opportunity

Three counties are within this sub-region -- Christian, Hopkins and Caldwell Counties. This sub-region is heavily influenced by the Nashville/I-24 and the Memphis to Louisville or Lexington transportations corridors.

Caldwell County. Caldwell County is home to Princeton with a population around 13,000. Overall performance is weaker with population loss and growth in employment and personal income running below the national values. Both per capita income and average earnings per job are lower (but not significantly lower). Caldwell County is a bedroom community with residents commuting to employment outside of the county.

Christian County. Christian County is very unique with two major influences shaping its wealth picture. They are Western State Hospital (long-term mental health) and Fort Campbell. Over half of all employment is government related (52% vs. 15% for the U.S.). Per capita income is comparable to the U.S. median values, but average earnings per job is very different ($54,733 vs. $30,269 for the U.S.). Because of the more transient nature of these two major players in this county, wealth formation rates, current net worth and transfer of wealth opportunities will be lower when compared to other counties and these key indicators. Christian County is an employment hub.

Hopkins County. Hopkins County is home to Madisonville and sports a 2005 population of just under 47,000 residents. Population growth is comparable to the U.S. benchmark. But employment and personal income growth are lagging. Per capita incomes are slightly lower, while average earnings per job are moderately higher. The county has a relatively diverse economy and benefits from its association with two major transportation corridors.

As part of our scope of work for this project, we asked Tim Murphy (an independent consultant who works with our TOW Team) to provide information on community foundations in Western Kentucky. Tim researched the Foundation Center Online database and created the following profile.

County	Foundation-Number	Assets *Most Recent Year*	Grants *Most Recent Year*
Ballard	2	$200,037	$5,850
Caldwell	3	$1,537,036	$88,070
Christian	6	$3,921,269	$611,684
Graves	3	$12,737,308	$342,479
Hickman	2	$904,837	$83,841
Hopkins	5	$283,249,071	$427,241
Marshall	2	$9,055,465	$464,250
McCracken	14	$29,973,325	$1,018,620
Union	2	$457,574	$1,000
Total	**39**	**$342,035,922**	**$3,043,035**

Source: Foundation Center Online

The Community Foundation of West Kentucky with two affiliates in this region include the Hopkins County Community Improvement Foundation in Madisonville and the Graves County Community Foundation of Mayfield.

For comparison, if just five percent of the 10 year estimated transfer of wealth were captured into community endowments and additional $300 million could be raised with the potential (assuming a 5% annual payout) of generating nearly $15 million annually in community betterment grant making.

HOW TO USE THIS RESEARCH

We all know it is important, but economics and finance can often be hard for many of us to get our heads around. This research by its very nature involves a lot of numbers and economic concepts. But the whole point of this research is to help individuals, communities, donors and organizations gain a grasp of this remarkable transfer of wealth opportunity. Goal setting is important in our culture and a way of doing business. Individuals, communities and even nations can be mobilized in powerful ways when there are clear goals and opportunities for being part of the effort. The TOW estimates provide not only a good idea of the size of this opportunity, but the ability to set donor development goals that can translate to endowment building and strategic grant making.

Sometimes we are asked why we use the 5% TOW transfer number. Its origins are simple but powerful. When we were first exploring this work with the Nebraska Community Foundation, a group of board members were pulled together to identify a possible target or goal for community wealth capture through endowments. Research was shared and options discussed. But in the final analysis, one board member said "what about 5%?" What if our communities could make the case to donors so that just 5% of the available TOW opportunity could be captured? All agreed that this goal was reasonable, achievable and the math was easy. As it turns out, they were right. The number 5% really did not matter -- it provides people who care with a reasonable target to work towards. Today in Nebraska and elsewhere, communities are working towards their 5% goals with passion and effectiveness.

At the request of places where we have completed TOW analysis, we are exploring offering practical "how-to" academies, technical assistance and mentoring. We believe that there is a growing body of experience from those who are using our TOW analysis that can be shared, helping others moving down this path. If you are interested in this kind of assistance, please contact Taina Radenslaben at taina@e2mail.org or 402.323.7336.

Thanks

First, we would like to thank the W.K. Kellogg Foundation of Battle Creek, Michigan and Robert Long for providing the funding that has enabled this project.

Second, we would like to recognize the leadership role of Murray State University, its Center for Regional Stewardship and Outreach and Gina Winchester for her leadership and support of this project.

Next we would like to recognize the leadership role of the Western Kentucky Stewardship Council for which this project has been undertaken.

We owe a special thanks to the members of the Project Technical Advisory Committee who have helped us gain a deeper understanding of this region and produce more meaningful research. Members of this Committee include: Bob Long, formerly with the Kellogg Foundation and now with Murray State University; Greg Pruitt, County Judge Executive; Chris Sutton, Pennyrile Area Development District; Kevin Sheilley, Northwest Kentucky; Bobbie Bryant, NewCities Institute; Martin Milkman, MSU Economic Professor; Kim Griffo, MSU Town & Gown; Tim Miller, MSU Foundation; Amber Roach, MSU Regional Stewardship and Gina Winchester, MSU Regional Stewardship.

For More Information . . .

Gina Winchester, Executive Director
Office of Regional Stewardship and Outreach
Murray State University
(270) 809-5086
www.murraystate.edu/stewardship

Murray
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METHODOLOGY

America is in the midst of a remarkable time -- a time when wealth from one of our most prosperous periods in time is passing from one generation to the next. This inter-generational Transfer of Wealth trend offers significant opportunities for most American communities to create community foundations and endowments capable of supporting community improvement work over time.

We would like to recognize the contributions of Boston College and their landmark transfer of wealth study Millionaires and the Millennium (1999). This research stimulated expansive discussion within the United States and was a primary motivation and influence in our Transfer of Wealth work. We encourage you to visit the Center on Wealth and Philanthropy at Boston College at www.bc.edu/research/swri/ to learn more about their work.

The RUPRI Center has developed a methodology for creating scenarios for inter-generational wealth transfer for states and counties. This section summarizes our basic methodology for creating these scenarios. 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:

1. It is important to note that we generate scenarios of likely transfer of wealth opportunities at the state and community level. Our scenarios are projections of likely futures, but are not predictions of what the future actually will become. Scenarios are driven by key assumptions about the future. To fully understand our scenarios, it is important to understand the assumptions we are making about the future. In all cases, we work to create very conservative scenarios, ensuring our projections represent realistic estimates of TOW opportunities.

2. One of our first steps is to establish a base year for analysis. For this study we have selected 2005 as our base year. 2005 was selected because it affords us considerable adjusted indicators necessary to establish state and county Current Net Worth (CNW). We consider 50 years of historical indicators (extending back to the post-World War II period) and project estimates 50 years into the future (to 2055).

Two types of assets are excluded from our CNW estimates. One is the value of personal assets like furniture, vehicles, art and collectibles. The second type of assets excluded are defined-benefit pensions which according to the U.S. Federal Reserve provide lifetime income to 57% of Americans, but may have no transferable value in an estate. Both exclusions mean our CNW estimates are conservative.

3. We begin by benchmarking our analysis to the U.S. Federal Reserve's Flow of Funds Accounts of the United States (http://www.federalreserve.gov/releases/z1/). The Flow of Funds Report is the definitive national accounting of household Current Net Worth in the United States on a year-to-year basis. All of our subsequent analysis is benchmarked to this national value.

4. Our next step is to employ national findings from the U.S. Federal Reserve's Survey of Consumer Finances research. Since the 1980s, the U.S. Federal

Reserve has commissioned every three years an extensive survey of household finances in the United States. The most current report covers 2004. This report provides detailed U.S. asset and liability holdings by key demographic characteristics (e.g., age of household, income of household, race, employment type, region, housing type, etc.) We match demographic characteristics with key indicators from the Survey of Consumer Finances Report to estimate likely CNW for the state and its counties. We generate three estimates -- low, moderate and high for CNW.

5. Once we have established final current net worth estimates for the base year at the state and county levels, we employ key indicators to customize these estimates to the unique characteristics of each county and state. Our primary customizing indicators include: (a) Dividend, interest and rent income; (b) Income characteristics; (c) Age characteristics; (d) Concentrations of creative class employment; (e) Concentrations of business ownership; and (f) Market valuation of real property by class. We also adjust our estimates to eliminate institutional populations (e.g., prisons, military, mental, colleges, etc.)

6. We then consider a number of additional customizing considerations to further refine our CNW estimates, including:

(a) Adjacency to high amenity areas, second home development and retirees. (b) Pockets of the ultra-rich (locals or newcomers). (c) Effects of public lands - Bureau of Land Management, Forest Service, National Parks, Department of Defense installations, etc. (d) Effects of mineral/energy right holdings. (e) Effects of tribal lands. (f) Pockets of high corporate stock ownership and ESOPs. (g) Pockets of the creative economy. (h) Specific new economic developments, e.g. new plants, mines, power plants, highways, alternative energy, water projects. (i) Effects of the gaming industry. (j) Effects of investment patterns and traditions of Western Kentucky. (k) Effects of new immigrants and repatriation of earnings. (l) Areas of future population boom, bust, or plateau.

Many of these factors are also key considerations in building assumptions for our TOW

Time Period for Analysis

Our original analysis incorporated a 2000 to 2050 time frame. We have since adjusted this time frame to cover the period of 2005 through 2055. Creating scenarios reaching out 50 years is somewhat heroic. But this time frame provides a full generational picture of the transfer dynamic.

projections. The technical advisory committee also helps us identify other unique circumstances that would impact our estimates of either CNW or TOW.

7. For each landscape we build (a) a population model for the period of 2005 through 2055 and (b) an economic forecasting model. We employ existing and available state population forecasts and then build out our population forecasts through 2055. Typically we become more conservative furthest into the future with high-growth states and a bit more optimistic with states that are currently struggling demographically and economically.

There is a strong and historic relationship between population, personal income change, and change in household current net worth. We employ these relationships along with our demographic and economic forecasts to project household CNW over time through 2055. Again, we generate relatively conservative projections benchmarked to the low-range CNW for the U.S. and the low TOW projection for the United States.

8. Not all assets are equal with respect to TOW opportunity. Many assets will not be available for give back either to heirs, charities or communities. We employ a discounting methodology to reduce the value of our CNW projections so we can generate a TOW estimate that more closely represents the likely TOW opportunity for each state and county. Here are some examples of where we might discount CNW:

(a) Assets that depreciate quickly such as motor homes, automobiles and other durable household goods. (b) Assets where future value is hard to estimate including collections, art and jewelry. (c) Assets that generate income, but are not part of our estimates from a give back standpoint, including defined benefit retirement programs or annuities. (d) Closely held assets including farms, ranches and family businesses. (e) The assets of lower income households which are likely to be consumed during retirement leaving limited estates available for give back.

This discounting can reduce gross CNW by 50% to 75% depending upon the demographics of households in a particular state and county. Again, the discounting allows us to estimate TOW which is truly available for potential give back.

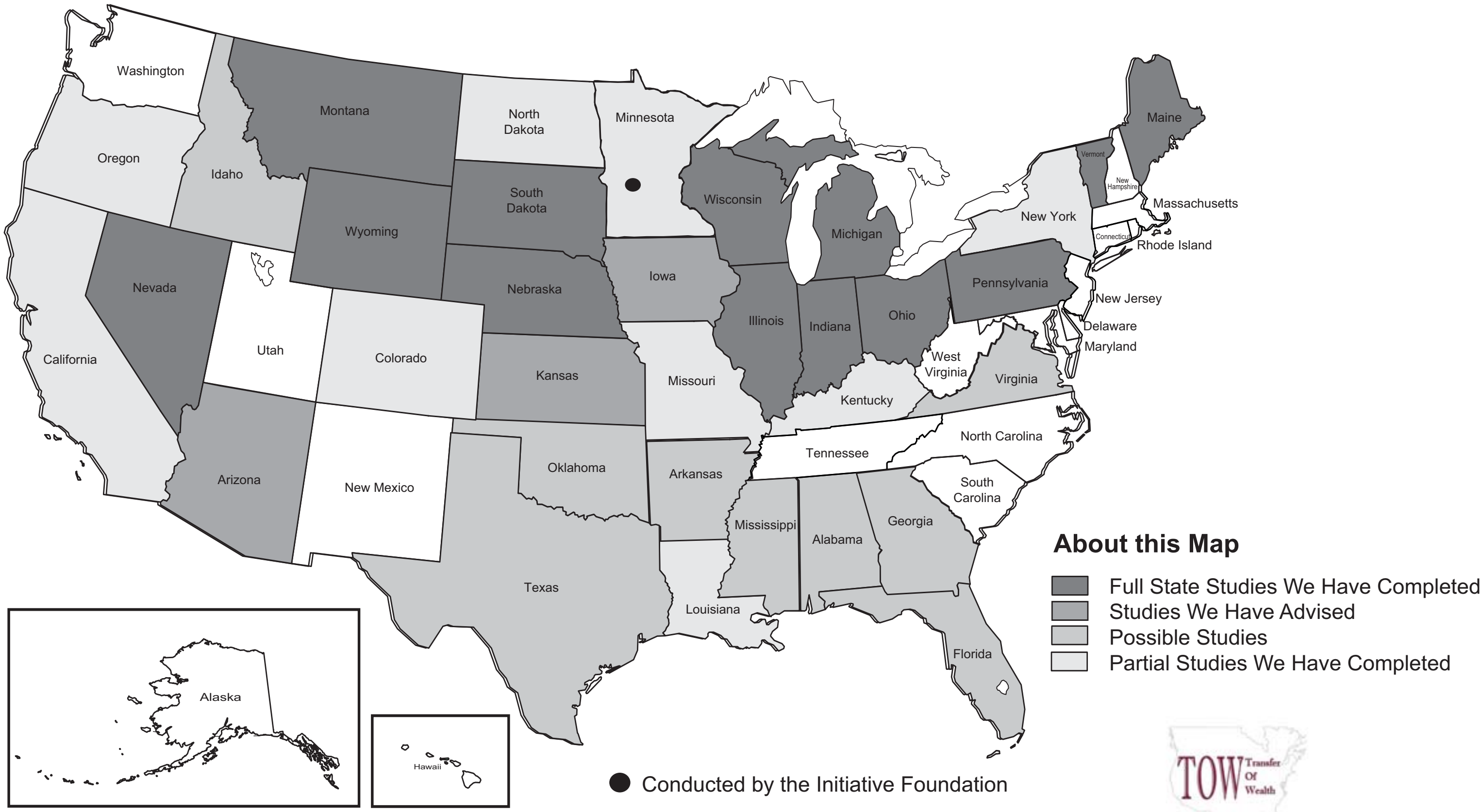
9. Our next step is to estimate the timing of TOW release. We employ projected deaths as our primary indicator of TOW release. Our demographic projections estimate the number of deaths throughout the analysis time frame and these percentages are used to estimate TOW release.

10. To ensure that we have captured all material considerations, we worked with the staff of the Western Kentucky Stewardship Council to review and finalize our analysis.

We hope this information on our methodology is helpful to understanding how we generate CNW and TOW estimates.

MORE ABOUT OUR TOW WORK

We are pleased that we have been able to contribute to America's development through our Transfer of Wealth Analysis. The following map highlights TOW work around the country including our studies.



The following is a chronology of TOW studies in the United States:

- 1999 - Boston College released <u>Millionaires in the Millennium</u> estimating $41 trillion in U.S. inter-generational wealth transfer.
- 2000 - We engaged in early discussions with the Nebraska Community Foundation to estimate TOW for Nebraska and its 93 counties.
- 2002 - We released Wealth in Nebraska - our first TOW study.
- 2003 - We completed TOW analysis for Wyoming.
- 2004 - TOW is done for Wisconsin and we advised the Iowa TOW study.
- 2005 - We completed TOW analysis in South Dakota and the Greater New Orleans Region. Boston College does TOW analysis for North Dakota.
- 2006 - We completed TOW studies for Montana and Indiana, and advised the Arizona TOW study.
- 2007 - We completed TOW studies for Ohio, Illinois, Michigan, Northeastern New York, and Pennsylvania. We also advised Wichita State University and the Kansas Health Foundation on a TOW study in Kansas.
- 2008 - We completed TOW studies for Vermont, Nevada, California, and Colorado.
- 2009 - We completed TOW studies for Western Kentucky, Maine, and Western North Dakota.

Over the years we have completed individual community and county studies in North Dakota, Kansas, Missouri, and Iowa.

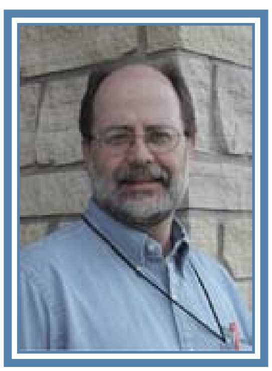
Our Inter-Generational Transfer of Wealth (TOW) analysis is a service of the RUPRI Center for Rural Entrepreneurship. The RUPRI Center for Rural Entrepreneurship strives to be the focal point for efforts to stimulate and support private and public entrepreneurship development in communities throughout rural America. The Center is part of the Rural Policy Research Institute, an organization dedicated to providing unbiased analysis and information on the challenges, needs, and opportunities facing rural America.

Original founding support to develop our TOW analysis service was provided by the Nebraska Community Foundation (NCF). For more information about NCF visit its web site at www.nebcommfound.org. Subsequent and ongoing support for the RUPRI Center for Rural Entrepreneurship and our TOW Analysis is being provided by RUPRI (www.rupri.org).

Our TOW Initiative is led by Don Macke who serves as a Director with the RUPRI Center. TOW analysis is supported by Ahmet Binerer (Senior Analyst), Taina Radenslaben (Project Manager), Dick Gardner (Senior Fellow), Tim Murphy (Geographer) and Dr. Eric Thompson (University of Nebraska - Lincoln, Bureau of Business Research).

Report Authors

Don Macke



Primary Author and Project Manager

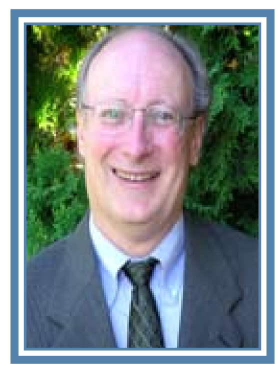
Taina Radenslaben

Report Preparation and Management

Ahmet Binerer

Senior Researcher and Analyst

Dick Gardner



Senior Fellow and Project Coordinator

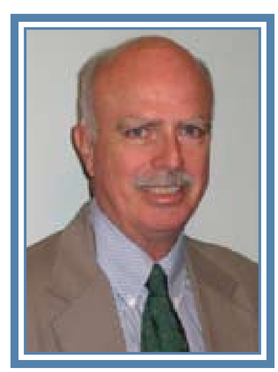
Dr. Eric Thompson

Economist/Demographer

__For More Information Contact:__

–Taina Radenslaben–
RUPRI Center for Rural Entrepreneurship
PO Box 83107– Lincoln, NE 68501
Voice 402.323.7336 – Fax 402.323.7349
Email taina@e2mail.org

Tim Murphy



Geographer