Center for Rural Entrepreneurship
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AMERICAN WEALTH

Household Wealth Holding in America

TOW Transfer Of Wealth

Transfer of Wealth Team
RUPRI Center for Rural Entrepreneurship

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The RUPRI Center for Rural Entrepreneurship is the focal point for energizing entrepreneurial communities where entrepreneurs can flourish. Created in 2001 with founding support from the Kauffman Foundation and the Rural Policy Research Institute (RUPRI), the Center is located jointly in Nebraska, North Carolina, and Missouri. The Center's work to date has been to develop the knowledge base of effective practices and to share that knowledge through training and strategic engagement across rural America. Working with economic development practitioners and researchers, the Center conducts practice-driven research and evaluation that serves as the basis for developing insights into model practices and other learning. The Center is committed to connecting economic development practitioners and policy makers to the resources needed to energize entrepreneurs and implement entrepreneurship as a core economic development strategy. To learn more about the Center, visit www.energizingentrepreneurs.org.

The Rural Policy Research Institute (RUPRI) functions as a national scientific research center, identifying and mobilizing teams of researchers and practitioners across the nation and internationally to investigate complex and emerging issues in rural and regional development. Since its founding in 1990, RUPRI's mission has been to provide independent analysis and information on the challenges, needs, and opportunities facing rural places and people. Its activities include research, policy analysis, outreach, and the development of decision support tools. These are conducted through a small core team in Missouri and Washington DC, and through three centers, including the Center for Rural Entrepreneurship, and a number of joint initiatives and panels located across the United States. RUPRI was created as a joint program of Iowa State University, the University of Missouri, and the University of Nebraska, and is now housed at the Harry S. Truman School of Public Affairs at the University of Missouri. To learn more about RUPRI, visit www.rupri.org.

The Inter-Generational Transfer of Wealth (TOW) analysis is a service of the RUPRI Center for Rural Entrepreneurship. Original founding support to develop our TOW analysis was provided by the Nebraska Community Foundation (NCF). For more information about NCF, visit www.nebcommfound.org. Subsequent and ongoing support for the RUPRI Center for Rural Entrepreneurship and our TOW Analysis is being provided by RUPRI and regional funding partners. The authors of this study include Don Macke (Project Leader), Ahmet Binerer (Research Analyst), and Dr. Deborah Markley (Editor).

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Background & Introduction

From America's earliest traditions, there has been a strong value placed on personal initiative and responsibility for one's economic well-being. Entrepreneurship and property rights have combined to create a powerful incentive for personal wealth creation. Another value system strongly tied to personal work ethic and estate formation is "giveback". Individuals, families, businesses and even communities are expected to give from their wealth, supporting those in need and helping to improve quality of life. Government policy embraces and encourages charitable giving in a remarkably wide range of areas. Over time, charitable giving or community giveback has become a deeply rooted value and behavior among most Americans.

This report, ***American Wealth - Household Wealth Holding in America***, was written to help communities better understand the transfer of wealth (TOW) opportunity. By better understanding wealth holding and formation attributes and trends, we can build giveback strategies more effectively. Investing in community development philanthropy offers most communities the greatest potential for creating new, substantial and on-going financial resources in support of community betterment.

Wealth Defined

For purposes of this analysis, wealth refers to household wealth or current net worth (gross assets – liabilities). We do not consider public, corporate, or non-profit wealth. Wealth typically includes such assets as homes, closely-held family businesses, retirement accounts, cash, life insurance and other property and financial assets. We typically do not include assets that are hard to value such as jewelry and art. We also discount assets that are less likely to be considered as part of community giveback, such as closely-held family businesses.

The first section of this report provides an overview of America's ***Transfer of Wealth*** opportunity. In addition to providing the most current estimates of America's TOW opportunity, we also provide some historical information on earlier related research.

The second and third sections feature research from the U.S. Federal Reserve (Fed). The Fed serves as America's "central bank" and plays a fundamental role in the U.S. in tracking financial status. The Fed generates considerable useful information and there are two particular resources that are helpful in understanding wealth in America:

Flow of Funds Report. The Fed produces one of the most comprehensive financial balance sheets of any nation in the world through its *Flow of Funds Report*. This report generates statistical information quarterly, providing real time insight on what is happening to America's financial health. As part of this report, the Fed calculates a balance sheet for American households including information on assets, liabilities and current net worth (assets - liabilities). Information from this report is reviewed in the second section.

Survey of Consumer Finances. Every three years since 1989, the Fed produces the *Survey of Consumer Finances Report*. This report is generated from a national scientific sample of American households. It provides more detailed insight into wealth holding both over time and in "snapshots" of time. We have drawn from this work to produce a rich picture of wealth holding and formation patterns and trends for the U.S. The third section contains some of the more useful findings from this research.

Finally, we have investigated key historical relationships between population, economic, and personal income trends and changes in household wealth. There are strong historical patterns that can help us predict what can happen in the future. The final section of this paper provides a review of these key relationships.

Our goal with this report is to provide helpful information to community and regional leaders as they work to build a "great community". We believe the TOW potential may represent the greatest opportunity for America's communities to raise significant new monies on an on-going basis in support of their economic development strategies. ***American Wealth*** is just one resource that can help you make the TOW opportunity real for your community.

Transfer of Wealth Defined

Transfer of wealth (TOW) is the process whereby one generation transfers their assets to the next generation. This typically occurs at the time of death and represents the moment when legacy community giveback is the greatest. TOW most likely represents the single largest under-developed financial resource available to communities to support their development.

Section 1 – America's Transfer of Wealth Opportunity

History of Wealth Generation in America

Beginning with World War II and continuing through the post war economic boom, the U.S. experienced dramatic economic growth that has resulted in the formation of widespread wealth throughout our society. From the late 1940s forward into the mid-1970s, significant new wealth was accumulated by America's households. Additionally, there was remarkable expansion of wealth into America's middle class and important reductions in poverty rates among America's lower income households. Bottom line – not only did overall wealth rates increase, driven by the expanding economy, but the distribution of wealth became more widespread throughout our society. While this trend line was positive and encouraging, not all American households have enjoyed economic security associated with growing assets.

Figure 1.1 presents data generated by the U.S. Internal Revenue Service (IRS) that provides important insight into wealth holding by high asset households. This study is increasingly cited in research and stories about wealth holding in the U.S., illustrating the concentration of wealth in the economy. It serves as an important reference point in our analysis.

As we moved into the 1980s and particularly the 1990s, we began to see a significant concentration of wealth in higher income households. Changes in economic structure and tax policy have greatly accelerated wealth formation in America's top 20% of households and particularly among the top 10% and 1%. As a result of these trends, the distribution of wealth is changing in the U.S. and the number of households without assets is rising rapidly once again. Overall, the middle class in the U.S. is shrinking when compared to pre-1970s levels.

Beginning in the 1970s and continuing to present times, the U.S. economy has witnessed strong overall growth as compared to economies elsewhere in the world. However, over this period, the U.S. economy has also experienced significant disruptions and slowing economic growth rates as compared to the 1950s, 1960s and 1970s. Nevertheless, the U.S. economy continues to be very resilient and is able to re-invent itself contributing to strong growth in wealth over these later periods of time.

Figure 1.1 - Concentration of Personal Wealth in the U.S., 2001

Top Wealth Holders with Gross Assets of $675,000 or Greater

Net Worth	Households	% Total	CNW ($M)	% Total	Average CNW
Negative Net Worth	32,000	0.43%	-$24,318	-0.18%	-$759,938
$1 to $600,000	1,509,000	20.51%	$680,767	4.92%	$451,138
$600,000 to $1 M	2,307,000	31.36%	$1,901,385	13.74%	$824,181
$1 M to $2.5 M	2,569,000	34.92%	$3,837,583	27.74%	$1,493,804
$2.5 M to $5 M	574,000	7.80%	$1,960,937	14.18%	$3,416,267
$5 M to $10 M	243,000	3.30%	$1,666,947	12.05%	$6,859,864
$10 M to $20 M	77,000	1.05%	$1,053,973	7.62%	$13,687,961
$20 M or more	46,000	0.63%	$2,756,315	19.92%	$59,919,891
Group Total	7,357,000	100.00%	$13,833,590	100.00%	$1,880,330

Source: Barry W. Johnson and Brian G. Raub, *Personal Wealth 2001,* Special Studies Project Branch, U.S. Internal Revenue Service.

Note - American households with $675,000 in gross assets represent 7.3 million individuals or 3.5% of the U.S. adult population (more in terms of households or families) holding $13.8 trillion or 32.7% of all U.S. CNW.

Uncertain Times

Every generation of Americans faces uncertain times. Times of war (e.g., World War II or the current war in Iraq), economic decline (e.g., the Great Depression or the dot.com crash) and social upheaval (e.g., Civil Rights Movement and desegregation or the migration of Americans from northern cities to the south and west) all create uncertain times that impact wealth creation trend lines and our perceptions of well being.

The current decade has been a particularly harsh time full of uncertainty with massive volatility in the stock market, boom and bust real estate markets, a long-running war, threats of terrorism, energy price inflation, intense global competition (particularly from China and India) and apprehension over global warming.

All of these challenges create uncertainty that contributes to a more conservative view of economic growth, associated household income growth and wealth formation rates. As a result, the Center TOW team has taken a very conservative approach to creating the scenarios described in this report, as a hedge against a full plate of uncertainty. A modest economic recession can wipe away billions of dollars in accumulated wealth located in the stock market or real estate, for example, in a matter of a few months. The Great Recession of 2008-2009 is a recent case in point. The scenarios presented later in this section reflect this conservative perspective.

Background on Transfer of Wealth in America

Ten years ago, Boston College published a landmark study, ***Millionaires in the Millennium.*** [1] While there had been earlier studies and estimates of America's transfer of wealth opportunity (TOW), Boston College's research set off a national dialogue focused on how this opportunity could be marshaled to support community betterment across the U.S. This study produced a range of estimates of estate wealth expected to transfer during the 1998 – 2052 period and Figure 1.2 presents the low estimates.

Figure 1.2 – Estimated Estate Wealth, 1998-2052

Low Estimate from the 1999 Boston College Study ($1,000s)

Estate Size	Number of Estates		Value of Estates	
	Number	% of Total	Value	% of Total
Neg. or Zero	4,981,782	5.67%	($50,856)	0%
$1 to $0.9 M	76,593,322	87.20%	$13,933,317	34.27%
$0.9 to $4.9 M	5,325,055	6.06%	$11,361,859	27.95%
$5 to $9.9 M	495,067	0.56%	$3,338,664	8.21%
$10 to $19.9 M	240,750	0.27%	$3,334,276	8.20%
$20 M or more	203,336	0.23%	$8,687,635	21.37%
Total	87,839,311	100%	$40,604,894	100%

The study also generated "medium" and 'high" estimates for the 1998 – 2052 period:

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

[1] Paul G. Schervish and John J. Havens, *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, Social Welfare Research Institute, Boston College, October 1999.

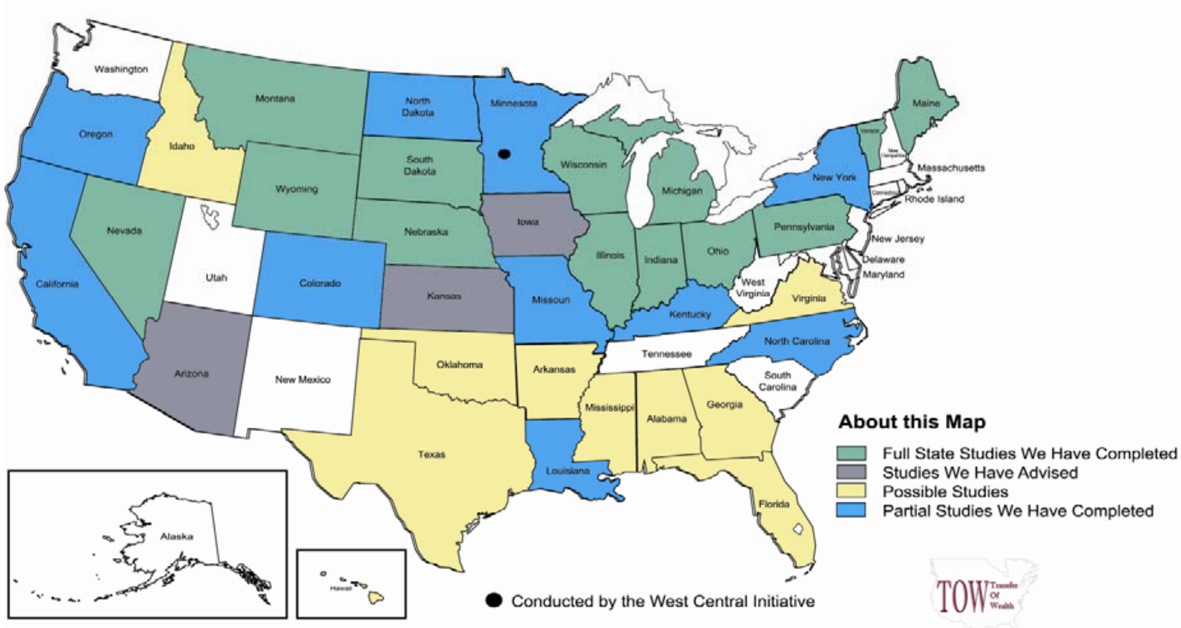
While the information contained in Figure 1.2 is dated, it represents an important reference point and benchmark of wealth holding by estate in the U.S. in 1999. However, much has happened in the past 10 years:

- The 9-11 Crisis
- The Post 9-11 Recession
- Economic Expansion
- The Great Recession of 2008-2009

These events also contributed to a fundamental shift in political power in the U.S. and the potential for major national policy changes in the areas of banking, finance, health care, and climate change.

To contribute positively to the discussion about wealth generation and TOW, the RUPRI Center for Rural Entrepreneurship tracks developments weekly and annually produces national scenarios of household current net worth and transfer of weath. These scenarios are used to provide benchmarks for our state, regional and community level TOW studies. Since 2002, the Center has had the opportunity to create or advise transfer of wealth scenarios for a significant number of states and regions within the U.S. As of this report, we have completed 38 TOW studies (Figure 1.3).

Figure 1.3 – Map of Center TOW Studies



Our methodology for preparing these TOW scenarios has grown more sophisticated over time as additional research and experience have enhanced our learning and knowledge. For additional information on these studies, go to our website – www.energizingentrepreneurs.org. The rest of this section is based on the Center's TOW work.

A Note about Scenarios

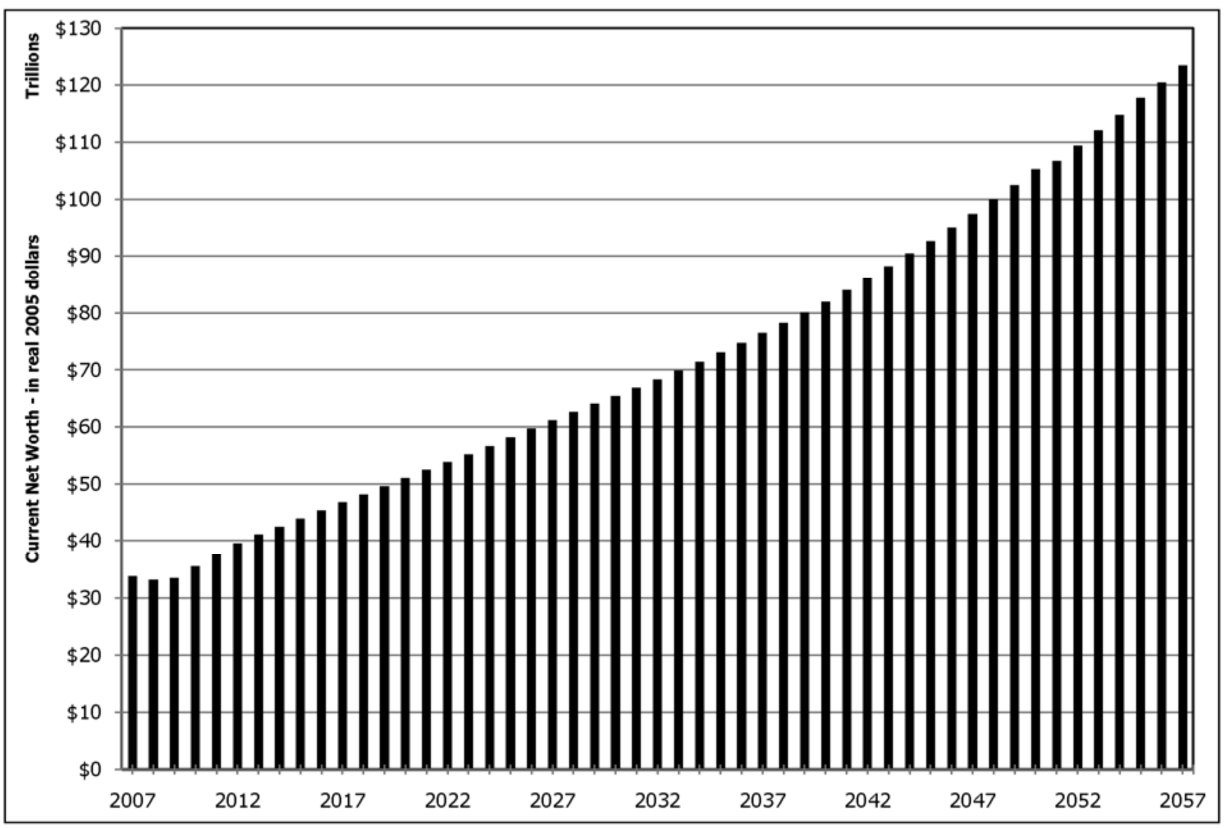
Projecting anything out 50 years is heroic at best. Yet this is what we must do in order to portray the magnitude of the TOW opportunity. The TOW figures presented here are plausible scenarios of the future, rather than explicit projections of a single data point like a town's population over the next decade. You can view these scenarios as descriptions of a likely future based on a conservative set of assumptions.

Scenarios of U.S. Household Current Net Worth

Collective U.S. household current net worth (CNW) has risen throughout history. While there have been periods of decline associated with major recessions, the overall trend line is positive. Our scenario of growth in current net worth for households over the next 50 years (2007 – 2057) captures the likely impacts on household wealth associated with the Great Recession of 2008-2009 (Figure 1.4).

Over the next five decades, we are projecting that household wealth will grow more slowly as compared to the past 50 years, but will nevertheless increase to over $120 trillion by 2057 (as measured in real or inflation adjusted dollars). This growth will be driven by continued demographic and economic growth in the U.S. over time. Despite serious economic, social and political challenges throughout history, the U.S. has been able to repeatedly recover from crisis and grow anew through innovation and entrepreneurship. The competitive edge in American culture remains strong and will likely drive new prosperity following the economic cold blanket associated with the Great Recession.

Figure 1.4 – A Scenario of U.S. Household Current Net Worth

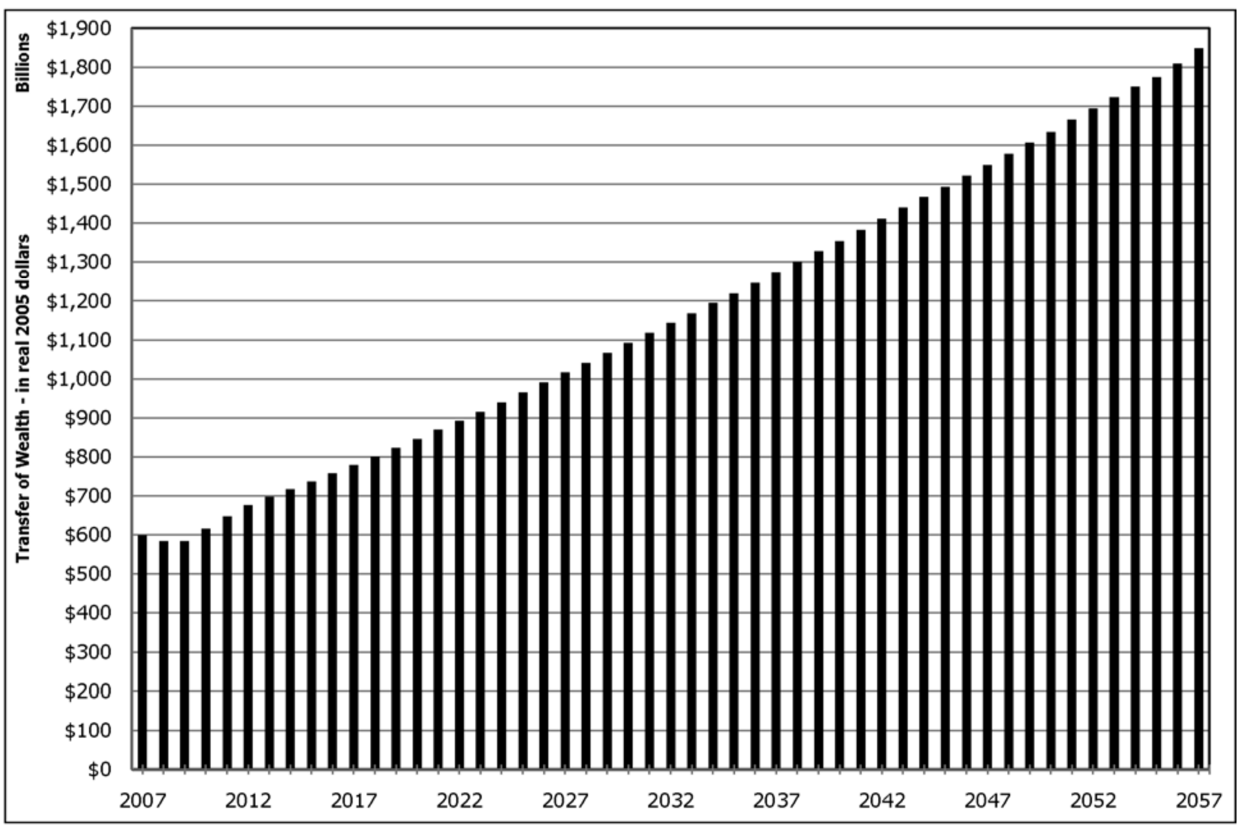


Scenarios of U.S. Household TOW Opportunity

Our scenario for U.S. household transfer of wealth projects a more rapid increase over the next 50 years (2007 through 2057) as compared to our scenario for changes in household current net worth (Figure 1.5). The underlying TOW trend line will be driven by rising current net worth as well as by population, economic and personal income growth. But as America ages over the next five decades, overall estate size will increase thereby creating greater transfer of wealth. Research later in this report summarizes the strong correlation between household age and estate size.

The Baby Boom Generation will particularly impact this TOW trend. The Baby Boomers are the largest and possibly most affluent generation in American history. The leading edge of the Boomers is now entering retirement. As they retire, age and pass away, they will create tremendous TOW opportunities for those communities where they have affinity. It is important to note that Boomers often have more than one community affinity. As a very mobile generation, they have multiple "hometowns" where there may be passion for giveback.

Figure 1.5 - A Scenario of Household Transfer of Wealth

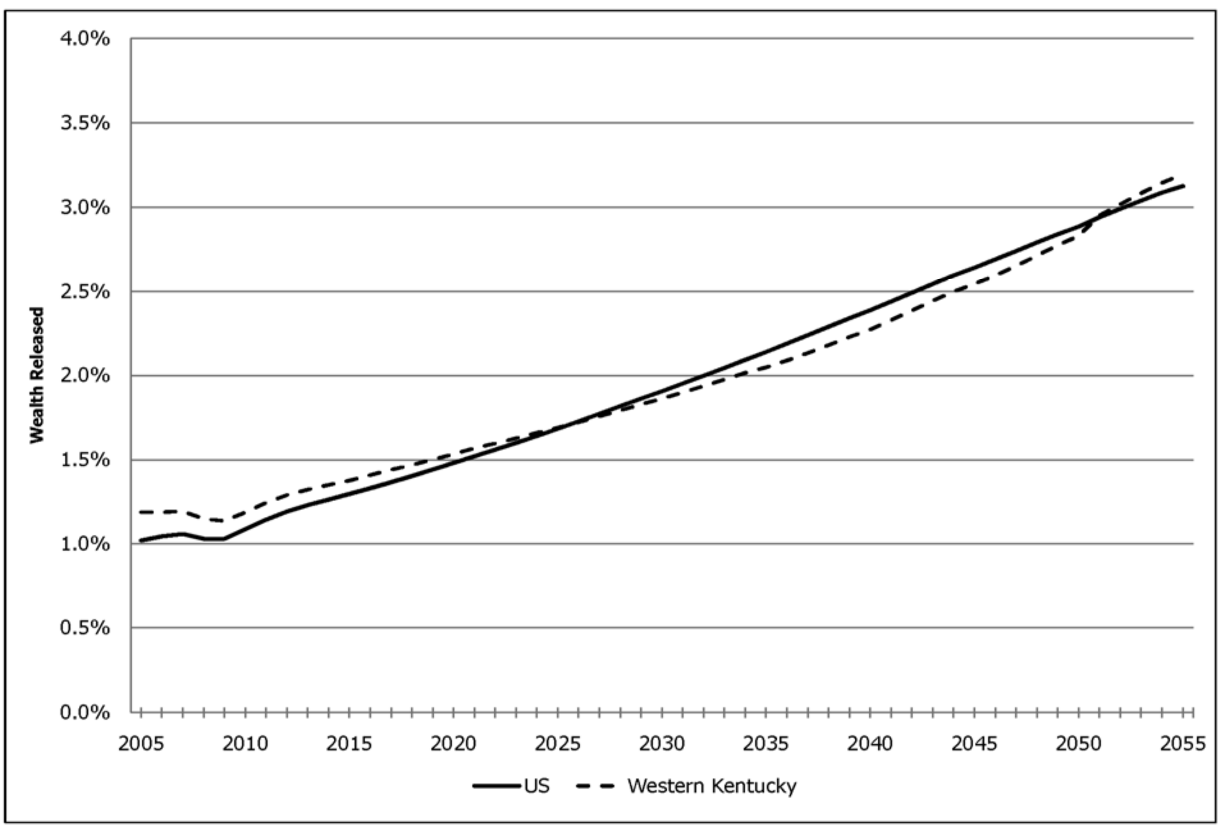


Projected Timing of U.S. TOW

To demonstrate the projected timing of the transfer of wealth, Figure 1.6 displays our scenario of the transfer of wealth timing for the U.S. and for a specific region, Western Kentucky. This chart illustrates the rate of TOW release by year throughout a 50 year period (2005 – 2055).

Because the U.S. is projected to continue to grow throughout this period, both demographically and economically, the rate of release increases over time as new wealth is being created somewhat faster than old wealth is being transitioned. However, the rate of increase slows throughout this five decade period reflecting slowing demographic and economic growth as assumed in our U.S. TOW scenario. Western Kentucky, while primarily a rural region, has a track record of doing quite well as compared to the U.S. Its TOW timing trend line is very comparable to the U.S. with somewhat higher release in the early period, followed by somewhat lower release in the middle decades and then an uptick in the very last five years of the period. This reflects Western Kentucky's unique demographics and likely economic growth over the period.

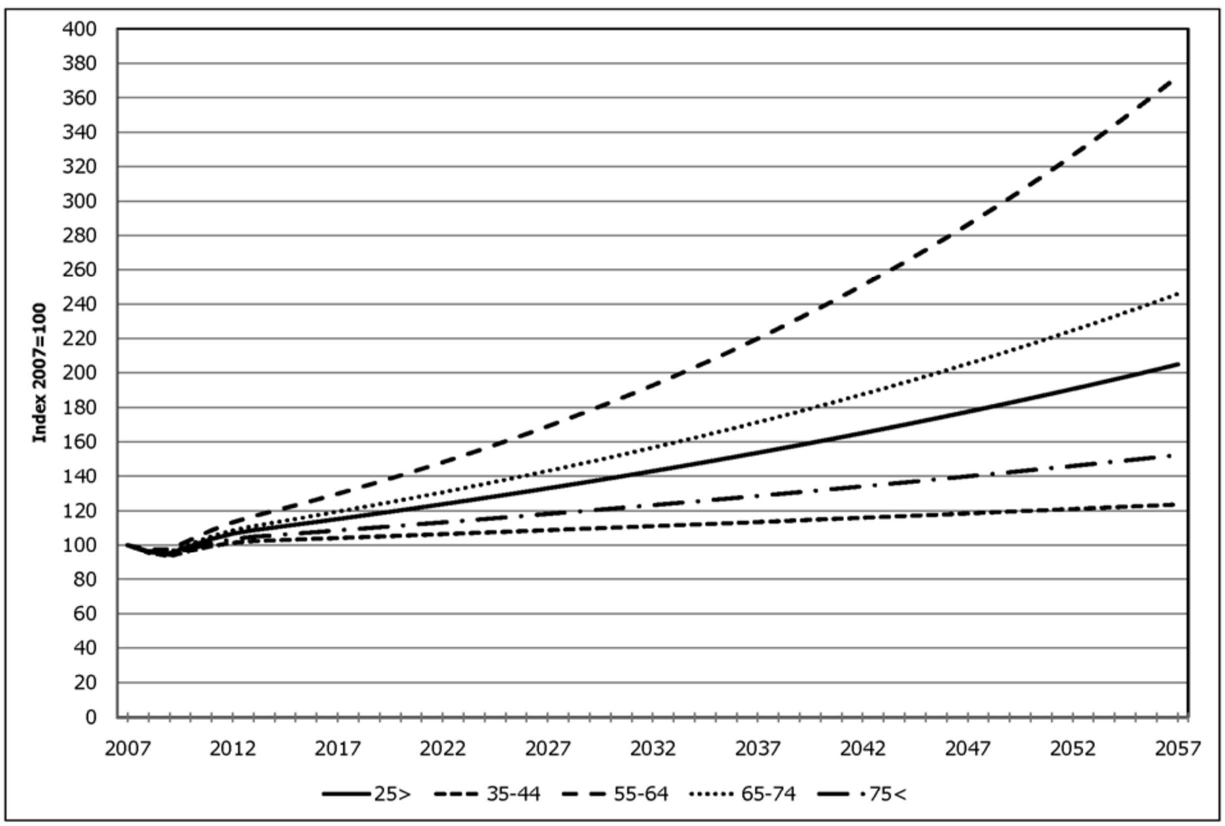
Figure 1.5 - Transfer of Wealth Timing for U.S. & Western Kentucky



Generational Drivers of TOW

Figure 1.7 illustrates the likely current net worth change by age cohort between 2007 and 2057. While we project that current net worth will increase in real dollar terms for all age cohorts over time, the greatest growth will come from the 55 to 64 year old age cohort. During these years, on average, persons tend to be at the peak in their careers and income generation. As we age beyond 65, we begin to consume more of our wealth relative to our ability to create new wealth. For higher net worth households (e.g., top 1%, top 10% and even some in the top 25% of households), the size of non-labor income generating assets creates a situation where estate wealth grows faster than it is eroded in older age. As you might expect, the peak cohort for TOW release are those 75 years of age and older. Creating giveback culture in younger cohorts produces a more favorable environment for significant legacy giving later in life when asset accumulation enables larger gifts.

Figure 1.7 - Change in Mean Net Worth by Age Cohort



Section 2 – Household Wealth Trends

This section draws on the Fed's **Flow of Funds Report** to describe America's balance sheet – a picture of the overall financial health of American households. This information is useful background for understanding the potential for both wealth generation and transfer over time.

Figure 2.1 below highlights the long-term trend in aggregate household current net worth for the U.S. as calculated by the Federal Reserve. This graphic illustrates two important realities in understanding household wealth over time. First, it illustrates the consistent progression of wealth creation in the U.S. over this multi-decade period. Growth in America's wealth is being driven by both demographic growth and particularly rising productivity within the American economy. Second, this trend highlights the volatility associated with economic recessions and recoveries. Scaling in the graph somewhat distorts this part of the picture, but clearly shows the remarkable volatility associated with the 9-11 Recession, expansion in the early years of this decade, the Great Recession of 2008-2009, and finally initial indicators of wealth recovery.

Figure 2.1 - U.S. Household Current Net Worth, 1945-2009

Figure 2.2 provides a more contemporary view of household wealth for the period 2000 – 2009 on a quarter by quarter basis. This trend reflects our contemporary history with wealth creation and erosion associated with two major economic recessions. The 9-11 Recession and Recovery was a classic "V" event – rapid decline followed by a rapid recovery. However, this recession reduced overall household wealth in the U.S. From its peak in the first quarter of 2000, it took until the fourth quarter of 2003 for full restoration of household wealth. Despite rising debt and household liabilities, there was strong and consistent growth in household wealth until the peak in the fourth quarter of 2006. In retrospect, this expansion in wealth was largely tied to two asset bubbles – real estate and the stock market. By the end of 2006, debt was rising faster than assets and net worth or wealth peaked. This peak, in fact, was a leading indicator of the evolving bubble in real estate that greatly contributed to the financial melt-down and the Great Recession of 2008-2009. Household wealth has dropped by a full 20% from its peak in 2006, measured in real dollars, creating a floor in the first quarter of 2009. The uptick with a positive trend in the second quarter of 2009 hopefully suggests the beginning of a more positive longer-term trend.

Figure 2.2 – Changes in Net Worth, 2000 to 2009

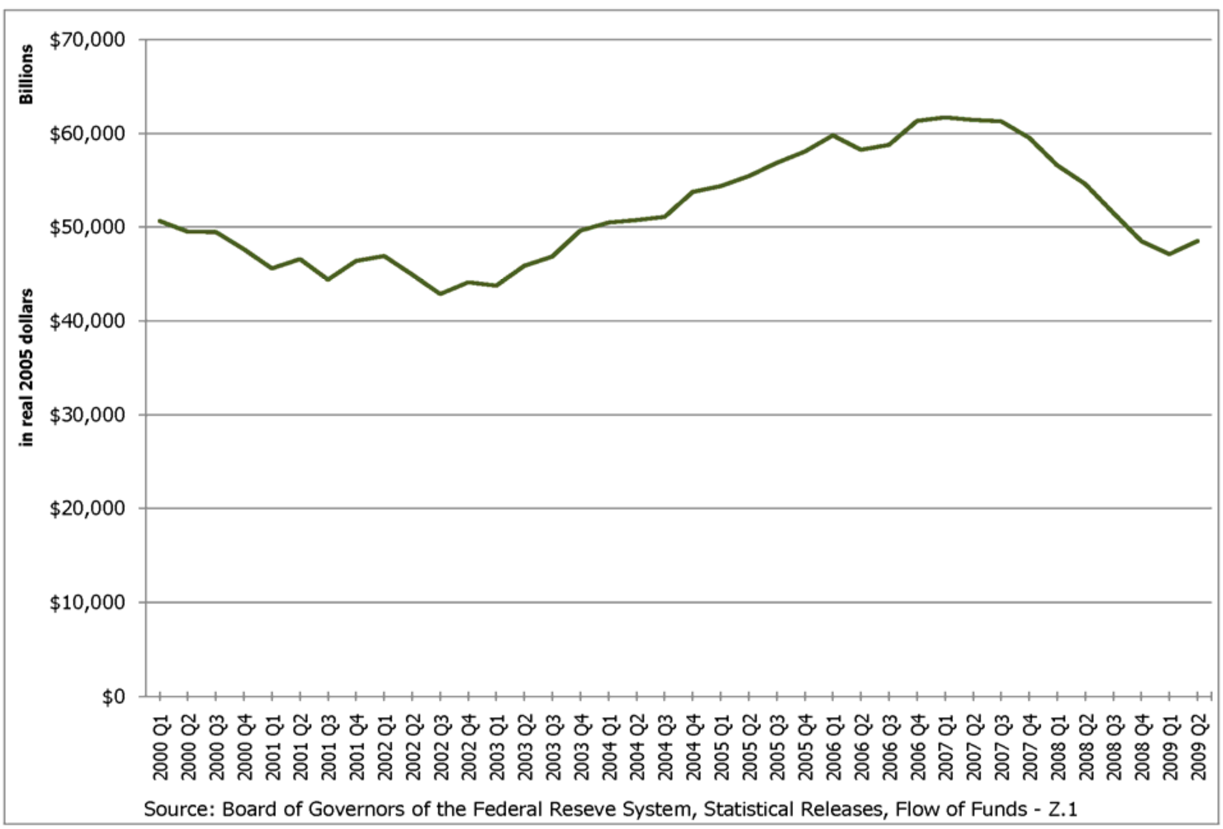
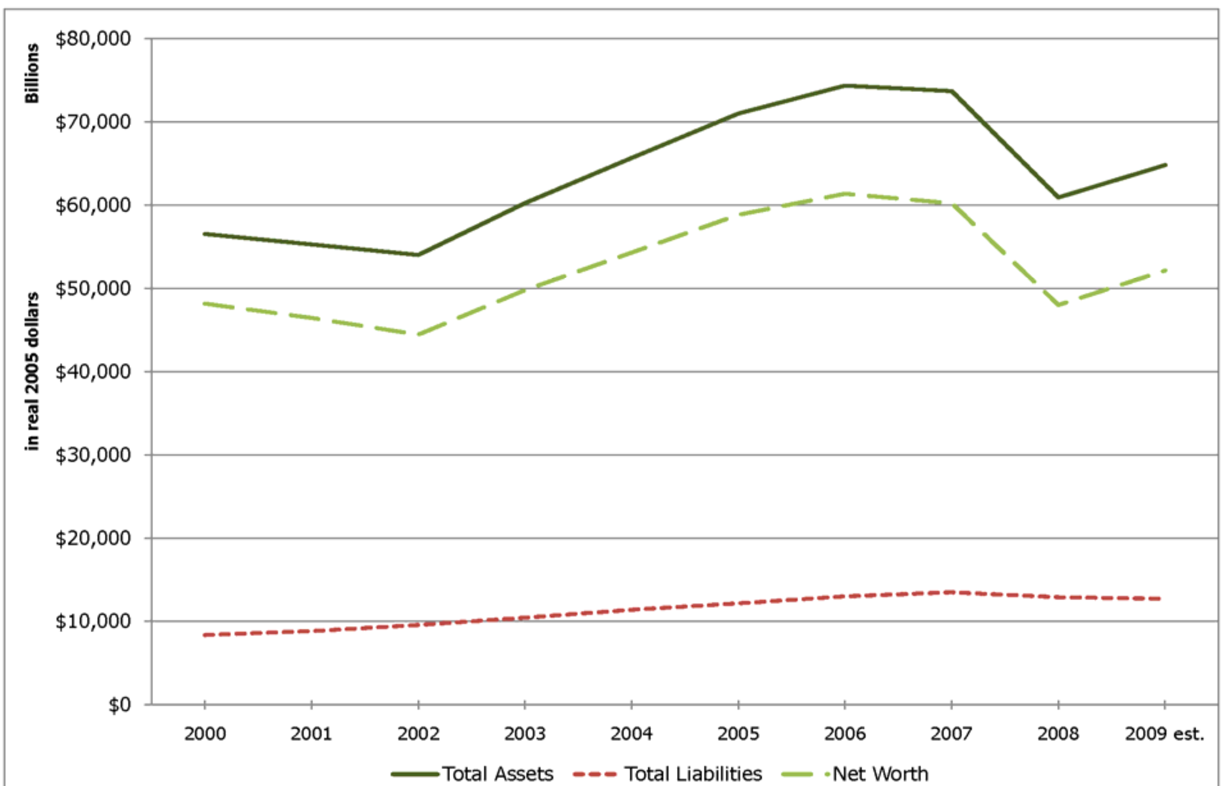


Figure 2.3 provides a somewhat more detailed look at household net worth as calculated by the Federal Reserve for the period 2000 – 2009 using quarterly data. This graphic illustrates the respective trend lines in gross household wealth, or assets, liabilities and current net worth (gross assets – liabilities).

There are two important points to take from this graph. First, we see the rising level of debt or liabilities with the bottom trend line. A review of the data confirms that debt is rising faster than gross assets, thereby eroding net household wealth. Of course for millions of American households over this period, their net worth has gone negative contributing to rising mortgage failures and bankruptcies – a common pattern associated with all deep recessions. While predictable, it does not lessen the human suffering embedded in the trend lines and headlines. Second, most U.S. household wealth remains intact. In time, with economic recovery, households will rebuild what they have lost. Clearly, in difficult times households respond by cutting spending as illustrated by the rapidly rising savings rate and the associated aggregate improvement in the U.S. household balance sheet.

Figure 2.3 - Assets, Liabilities & Net Worth, 2000-2009



Source: Board of Governors of the Federal Reseve System, Statistical Releases, Flow of Funds - Z.1

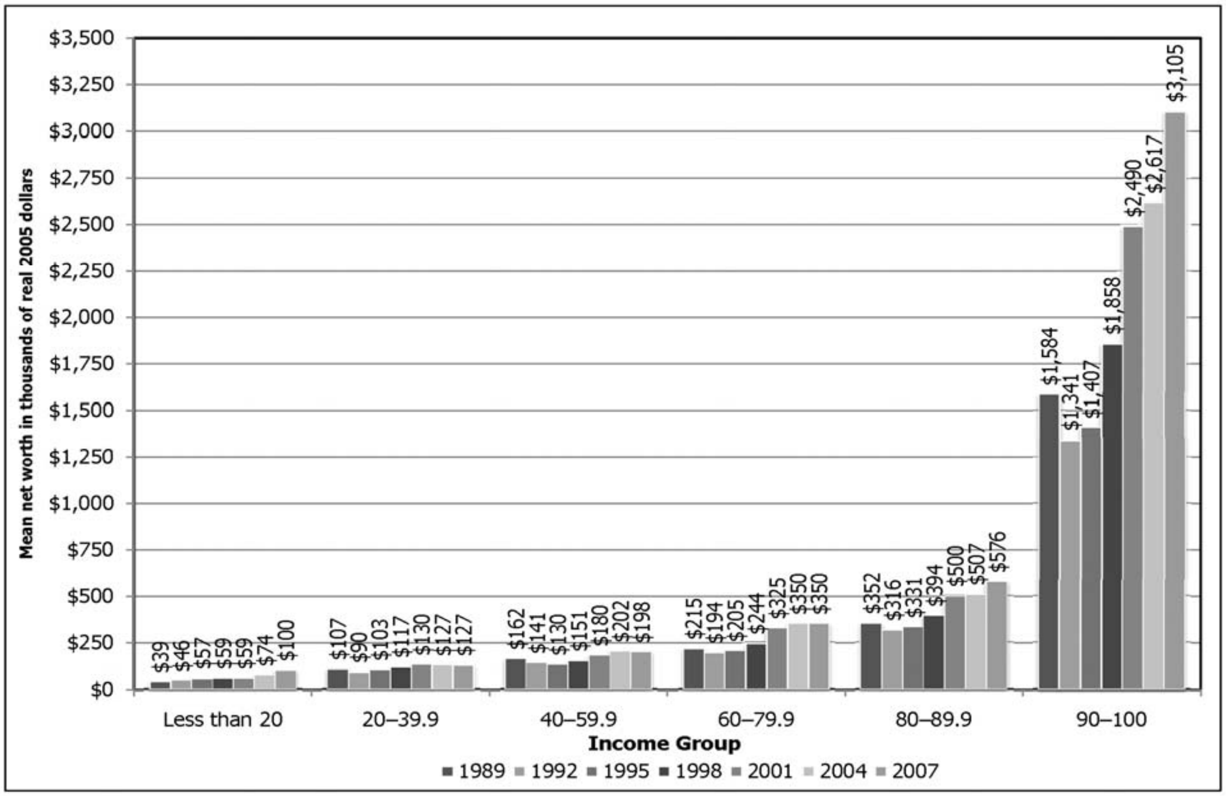
Section 3 – Determinants of Household Wealth

This section explores historical findings from research presented in the **Survey of Consumer Finances**, 2007 (latest year for the Survey). These graphs provide a detailed picture of the relationship between key demographic indicators and wealth holding in the U.S.

Household Income and Wealth Creation

As one might expect, there is a strong connection between household income and wealth accumulation. Figure 3.1 shows the relationship between household income and current net worth (CNW). In 2007, Americans in the top 10% of income earnings averaged $3.1 million in CNW compared to $100,000 for households in the bottom 20%. These averages are just that – averages. There are ample stories of modest income families that saved, invested well, and left a sizeable estate to their church, school or community. At the same time, there are Americans with exceptionally high incomes who are challenged to make ends meet due to extravagant lifestyles. However, there is a clear correlation between income and the ability and probability of households creating larger estates.

Figure 3.1 - Average U.S. Net Worth by Income Group



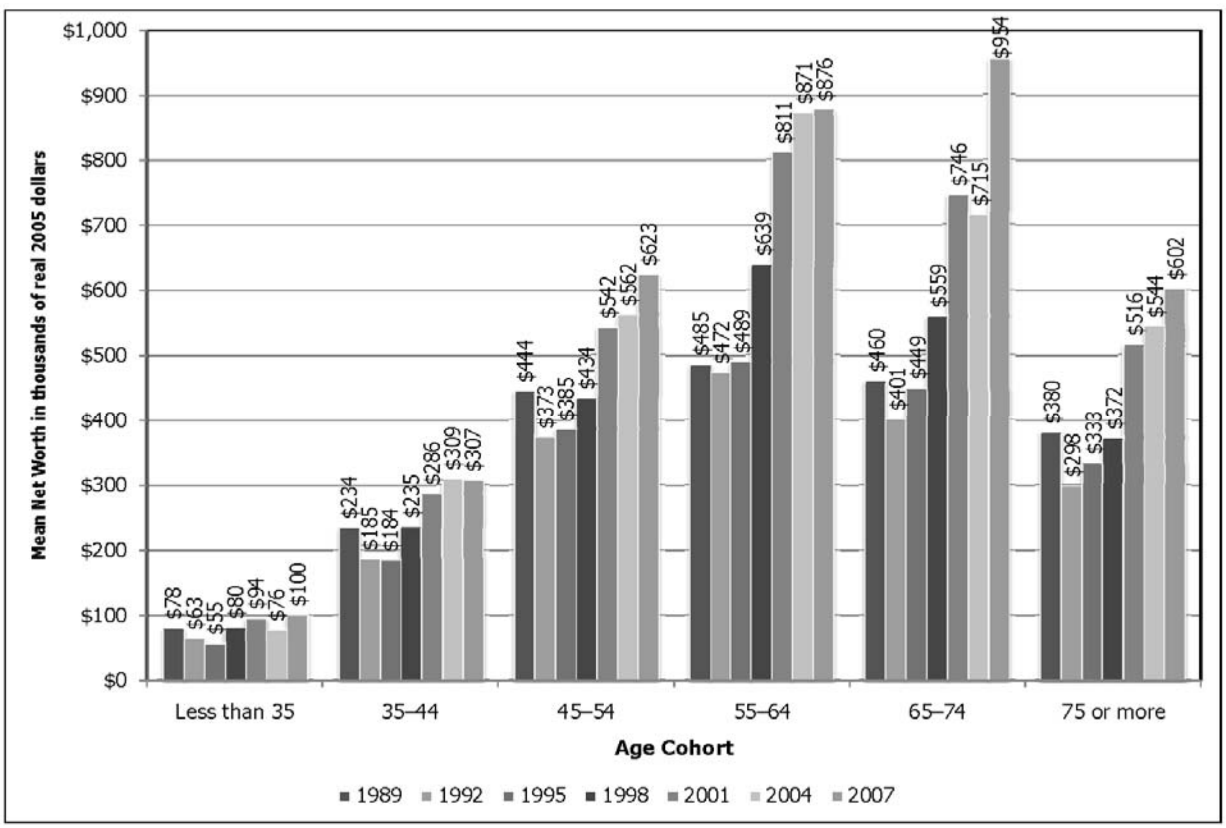
Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007

Age of Household and Wealth Creation

Age of household is also a strong predictor of wealth accumulation. On average, as we grow older we accumulate assets in the form of homes, retirement funds, investments, businesses and the like. Figure 3.2 displays the relationship between age of household and CNW. In general, little wealth accumulation occurs in our early years as we are struggling to pay for school, start a family and establish a career. By the time most households reach their 40s, wealth accumulation takes root and grows through our 50s and even 60s. There is an interesting change between the 2004 and 2007 surveys. For the first time in the history of the survey, peak wealth holding is now achieved in the 65 to 74 year old group versus the 55 to 64 age cohort. As we age further, wealth holding diminishes as incomes drop, and savings are spent down or given away.

Bottom line, life stage really matters in predicting estate formation through the collection of assets like homes, businesses, and retirement accounts. As we are living longer and uncertainty over retirement programs and social security rises, there is increasing pressure in the latter part of peak earning years to accumulate necessary assets to carry one through retirement.

Figure 3.2 - Average U.S. Net Worth by Age of Head of Household

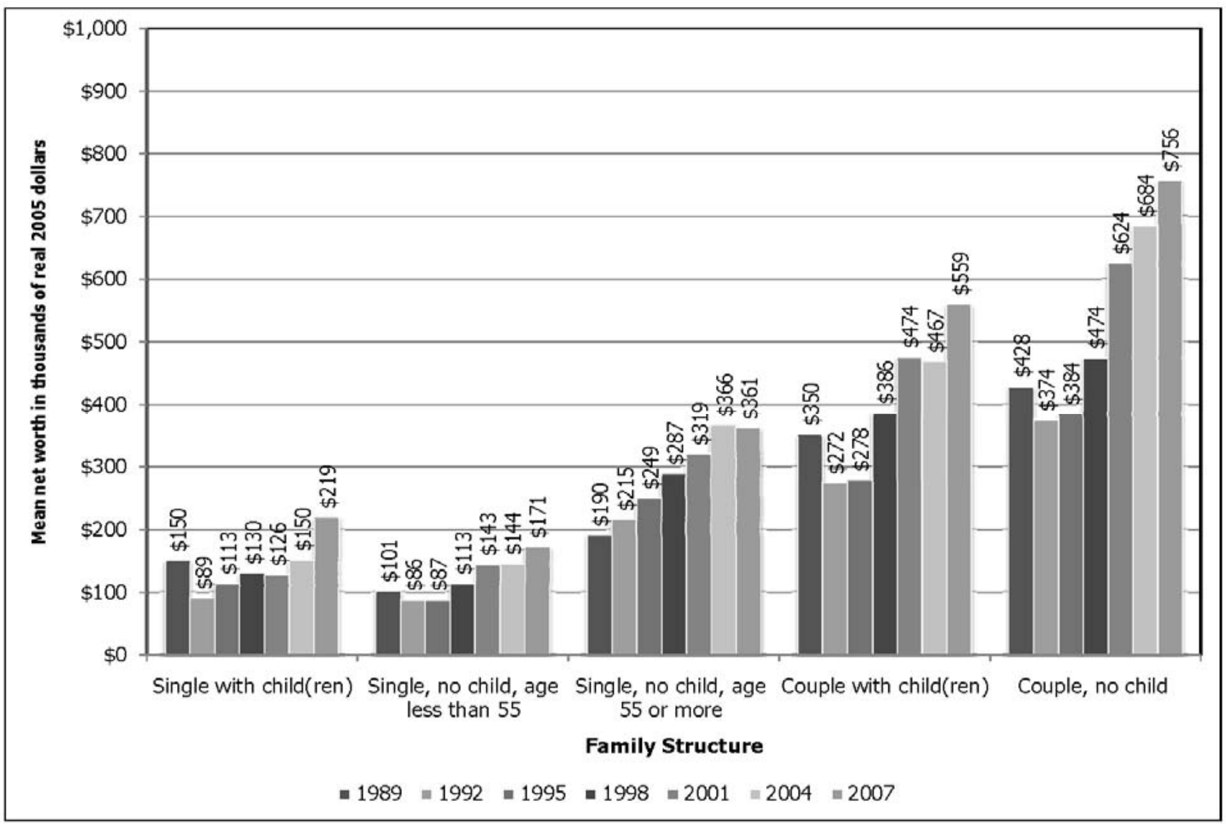


Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007

Family Structure and Wealth Creation

Family structure also matters and is a good predictor of wealth status. Figure 3.4 provides a number of comparison groups based on the Survey's research. As one might expect, a couple with no children has significantly greater wealth than a single parent with children ($756,000 vs. $219,000). In scenarios for our TOW studies, we consider family structure as one of our indicators of wealth holding. Preliminary Census studies (2009 American Community Survey) suggest that Americans are coping with the current recession by delaying marriage and having fewer children. Contemporary trends coincide with increases in average age for first marriages and continuing declines in average family size. This is particularly true when first generation immigrant households are excluded.

Figure 3.4 - Average U.S. Net Worth by Family Structure



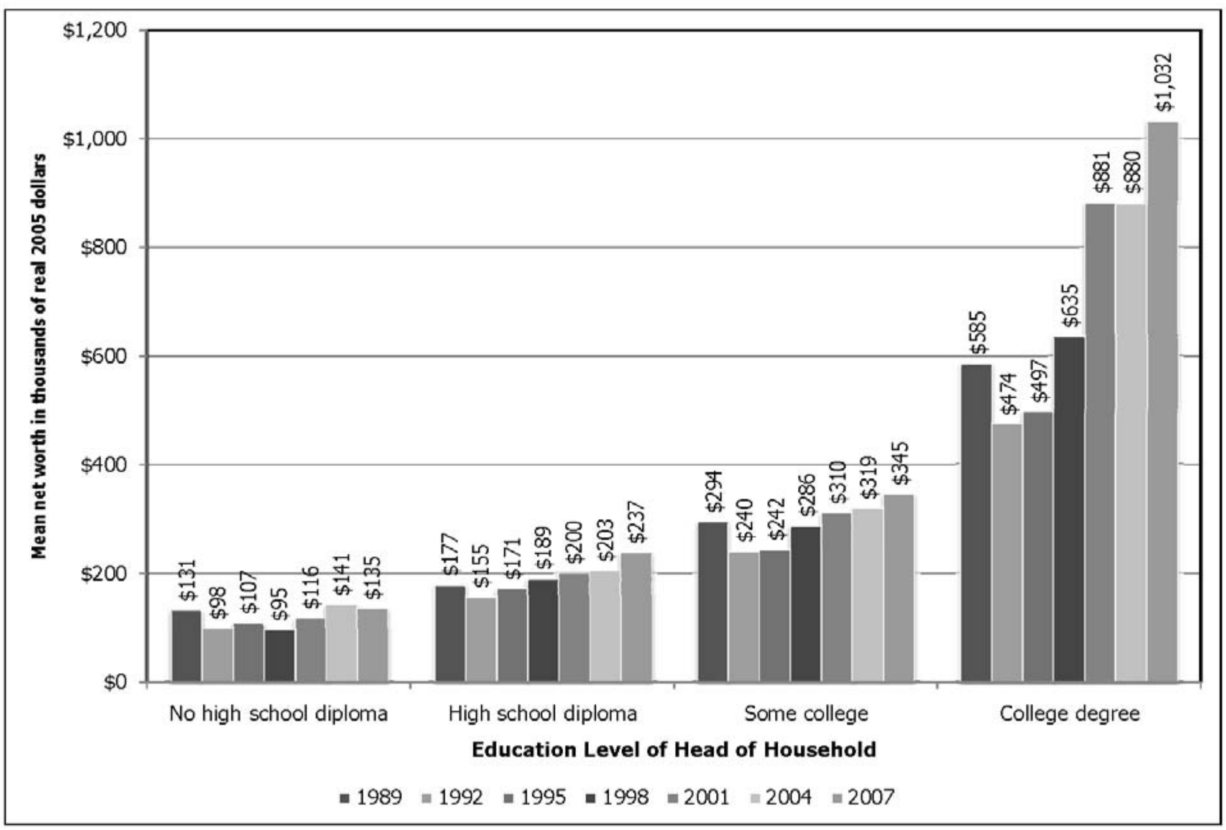
Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007

Education and Wealth Creation

There is broad agreement that education is key to the ability of households to get ahead. Figure 3.5 illustrates the relationship between education and CNW and the difference is profound. In America in 2007, a head of household with a college degree has over $1 million in CNW compared to a head of household without a high school diploma with only $135,000 in CNW. Over time, the gap between "educated" and "less educated" persons has grown. Other research suggests an even greater gap when advanced or specialized education is compared. Historically, a high school diploma was adequate to ensure a reasonable income. Later, the minimum was a bachelors' degree. Now post-16 education with specialization appears to be increasingly important to achieve a somewhat secure middle income lifestyle.

There are exceptions and Figure 3.7 later in this report shows the important role of business ownership as a pathway to wealth formation and accumulation. Many entrepreneurs are exceptionally bright, but may not have advanced formal education.

Figure 3.5 - Average U.S. Net Worth by Education Level

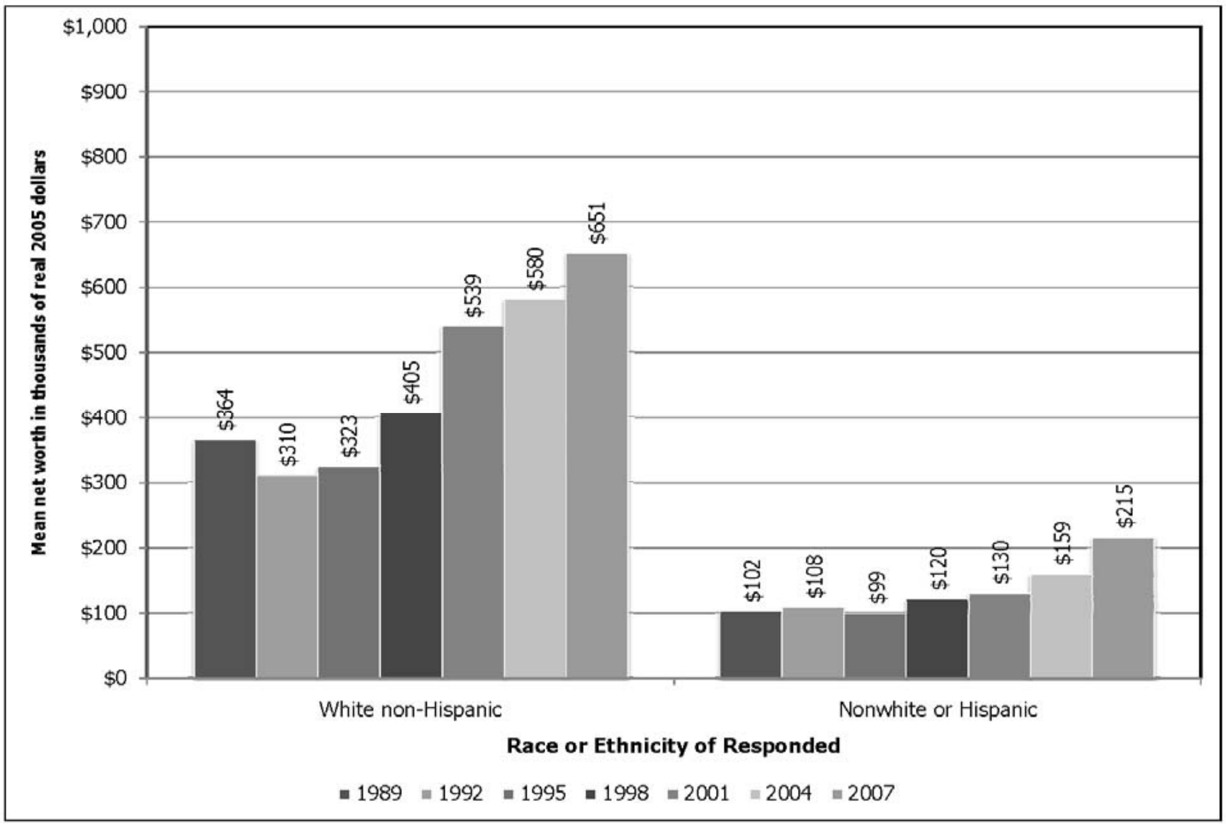


Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007

Ethnicity and Wealth Creation

Unfortunately, the legacy of disadvantage based on racial ethnicity continues to be reflected in household wealth holding. Figure 3.6 compares average household wealth for “White non-Hispanic” households with “nonwhite or Hispanic” households. On average, white non-Hispanics have estates that are three times greater than those of people of color. Unfortunately, the sample size does not provide more detailed breakdowns by ethnicity. As one might expect, other factors can alter these relationships. For example, educational attainment and business ownership by minorities can significantly increase wealth holdings as it does for White non-Hispanic households.

Figure 3.6 - Average U.S. Net Worth by Ethnicity



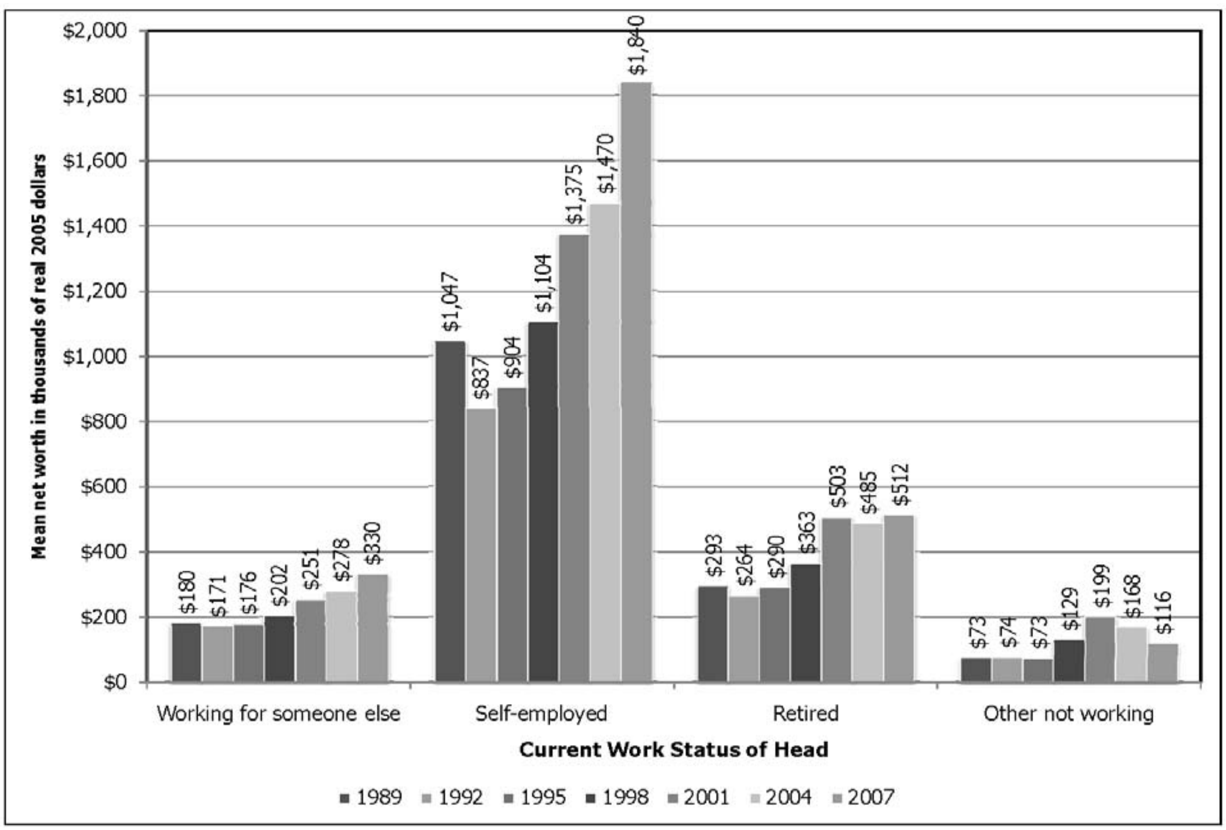
Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007

Work Status/Entrepreneurship and Wealth Creation

Entrepreneurship or business ownership is part of America's tradition. From our earliest history, a promising pathway to economic success and security was through self-employment or business ownership. For many immigrants unable to obtain good jobs, business ownership is the primary route to economic success and wealth formation. Business ownership is full of challenges and risks where most new businesses fail. Despite this reality, on average, self-employed heads of households have 5.6 times more CNW as compared to those who work for someone else. Figure 3.7 provides both comparative and trend line information for wealth status by work status.

We are particularly interested in work and career trends. There is increasing employment turnover as our economy sheds legacy workers, transitions to a more flexible workforce, and pursues both out-sourcing and in-sourcing strategies. More and more workers are teleworking. This rise in self-employment driven by our changing economy suggests that this form of entrepreneurship is becoming more important. Time will tell if it can generate comparable wealth to more traditional self-employment associated with owning a main street store, construction company, or area manufacturing plant.

Figure 3.7 - Average U.S. Net Worth by Work Status



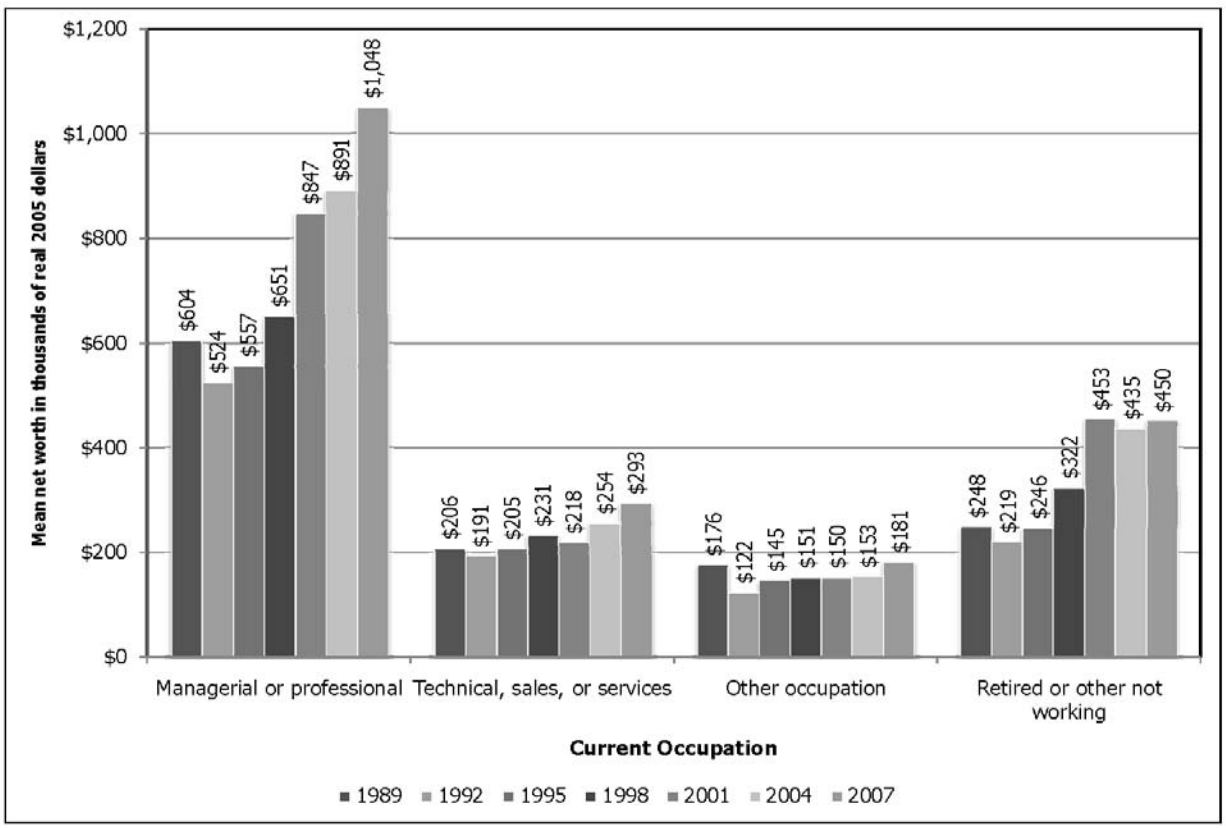
Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007

Occupation and Wealth Creation

Different career tracks associated with various occupations are also an important indicator of wealth formation and estate size. Heads of households who are in "managerial or professional" occupations have significantly higher wealth when compared to other occupations. Figure 3.8 provides a sampling of this research.

As one might expect, there is a strong relationship between education and occupations. Particularly given challenges within organized labor, it is increasingly difficult for less educated persons to realize higher incomes as compared to those with more advanced and specialized education. Unfortunately, this research provides only the most basic breakouts by occupation. However, the comparison is helpful in understanding the linkages between education, occupation, income potential and wealth formation.

Figure 3.8 - Average U.S. Net Worth by Occupation

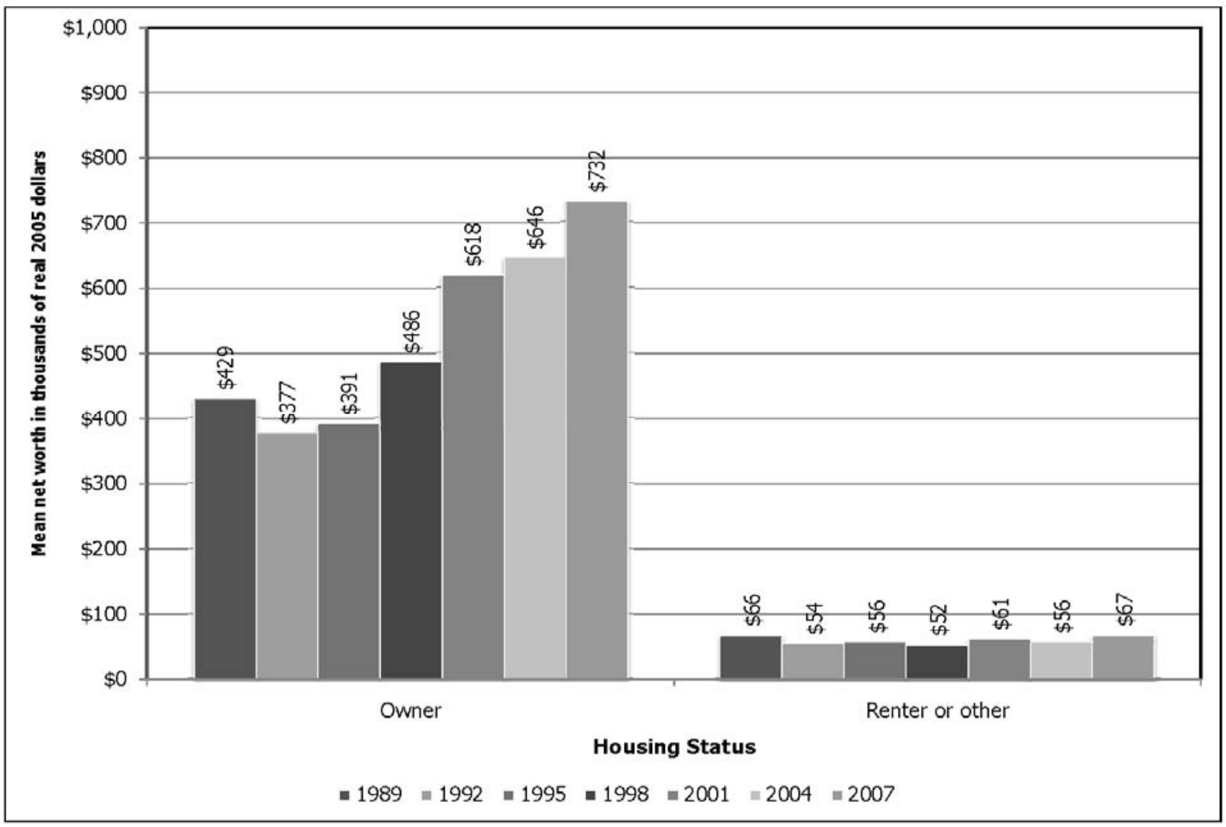


Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007

Housing Status and Wealth Creation

Another American tradition is home ownership. U.S. and state policies strongly encourage home ownership and, for many American households, home ownership is the beginning step in asset accumulation and wealth formation. Figure 3.9 provides a striking contrast between wealth holding by housing status. On average, a home owner has nearly 11 times more CNW as compared to renters.

Figure 3.9 - Average U.S. Net Worth by Housing Status

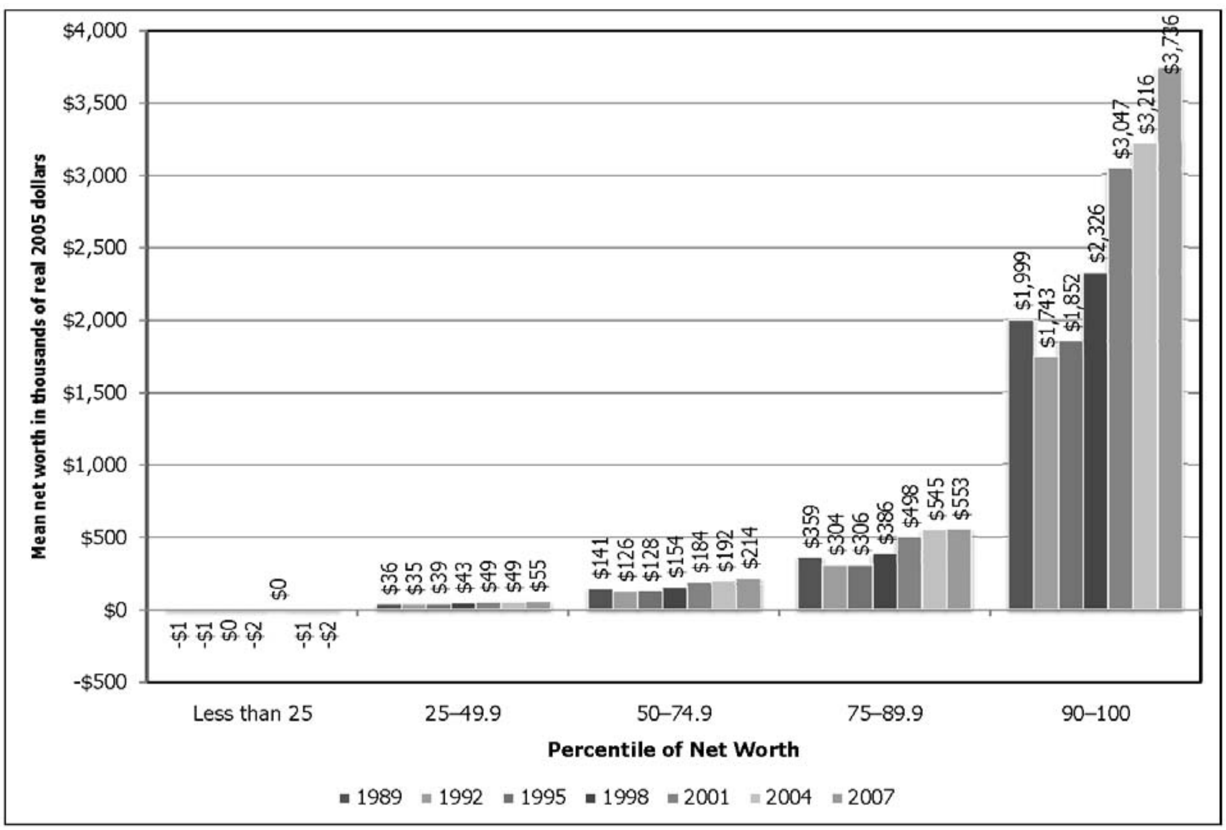


Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007

Who Holds the Wealth

As communities build giveback strategies, information about who holds wealth is important. For the past 30 years, household wealth holding has been concentrating in the U.S. Other research in this report highlights this trend and its implications. Figure 3.10 provides the most current picture on household wealth holding for the U.S. Based on research from the Fed's **Survey of Consumer Finances**, all American households are profiled by their estate holdings. The bottom 25% of households has negative current net worth. The next 25% of households has very modest estates with the 2007 survey indicating a mean net worth between $36,000 and $55,000 for this group. In other words, one out of every two American households has a very limited estate, both historically and currently. Estate size increases for the next 25% of households as we begin to see the impact of middle income families and individuals. Estate size more than doubles for the next 15% of households; the difference between those in the 75 – 89.9 percentile and the top 10% is a remarkable 6.8 times larger for those in the top 10%. When current data are compared to 1989 data, this difference is 5.6 times, reflecting the increase in the concentration of wealth in recent decades.

Figure 3.10 - Average U.S. Net Worth by Percentile of Net Worth



Source: Board of Governors of the Federal Reserve System, The Survey of Consumer Finances, 2007

Section 4 – Historical Relationships & Predicting Future Wealth

There is a set of historical relationships that help us predict future transfer of wealth opportunities. These relationships are:

1. Population
2. Gross Domestic Product
3. Personal Income
4. Household Current Net Worth
5. Death Rates

This section summarizes these key relationships from a historical and national perspective, and explains why these relationships are important. The figures in this section visually display the relationships between these key TOW drivers historically. This presentation may help to ground you with respect to how we combine historical trends and relationships with our TOW scenarios of the future.

Time Frames & Real Dollars

Our historical analysis spans the period 1955 – 2008. It is for this period that we have reliable data for all the key relationship indicators. The analysis was completed in "real" dollars – the value of a dollar in 1955 has the same spending power as a dollar in 2005.

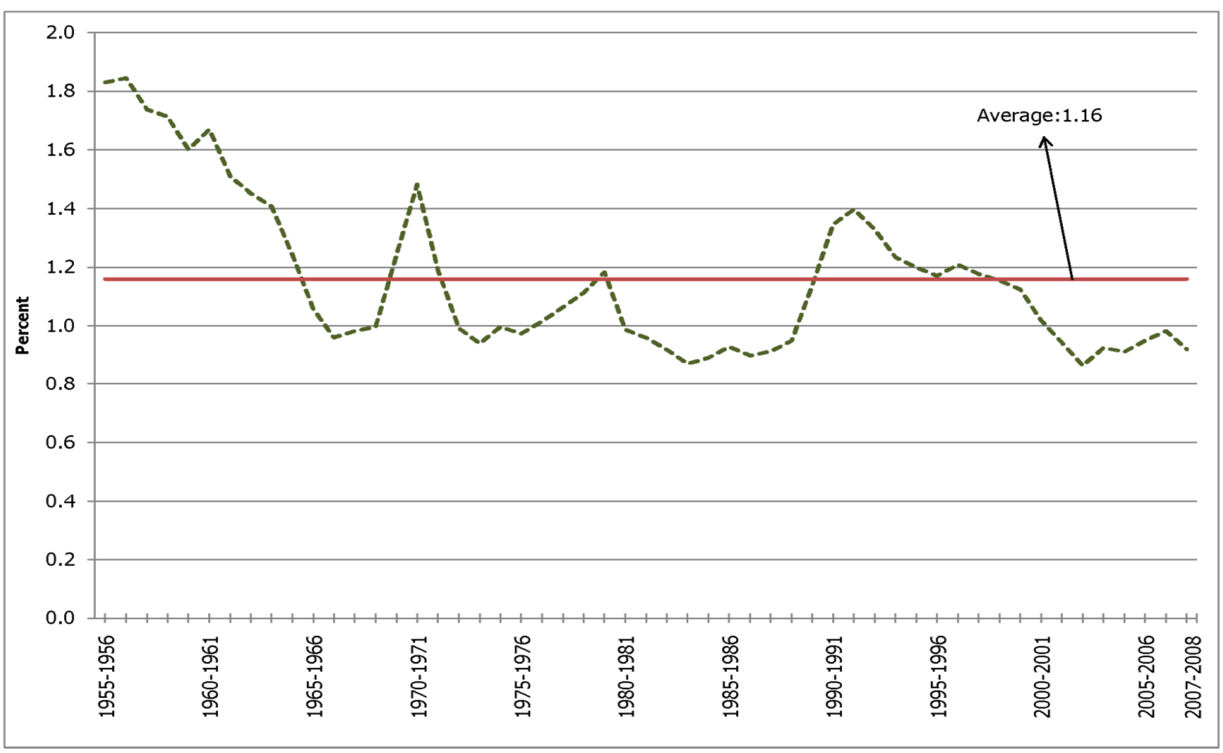
Population Change

Since World War II, America's economy has increasingly become dependent upon consumer spending. There is a strong and powerful correlation between consumer spending and overall economic growth and prosperity. Population growth, and the spending it generates, drives wealth formation in that it continues to drive economic growth and income generation. Both are essential conditions for enabling household wealth formation and accumulation.

Figure 4.1 provides an illustration of the percentage change in U.S. population between 1955 and 2008. Overall for this period, U.S. population has grown on average just one percent per year. The graphic illustrates the impacts of the Baby Boom following World War II and the echoes that have followed it. These trend lines are also impacted by changes in immigration policy and levels. New immigrants tend to be younger, have more children, and drive population growth more than historic resident populations. Since the early 1990s, the percentage growth in population has slowed reflecting a maturing society, stabilizing death rates and falling overall birth rates.

Historically, for every 1% change in population, the Nation's gross domestic product (GDP) has increased 2.45% per year. Generally speaking, a growing population enables greater wealth creation.

Figure 4.1 - Historic U.S. Population Change



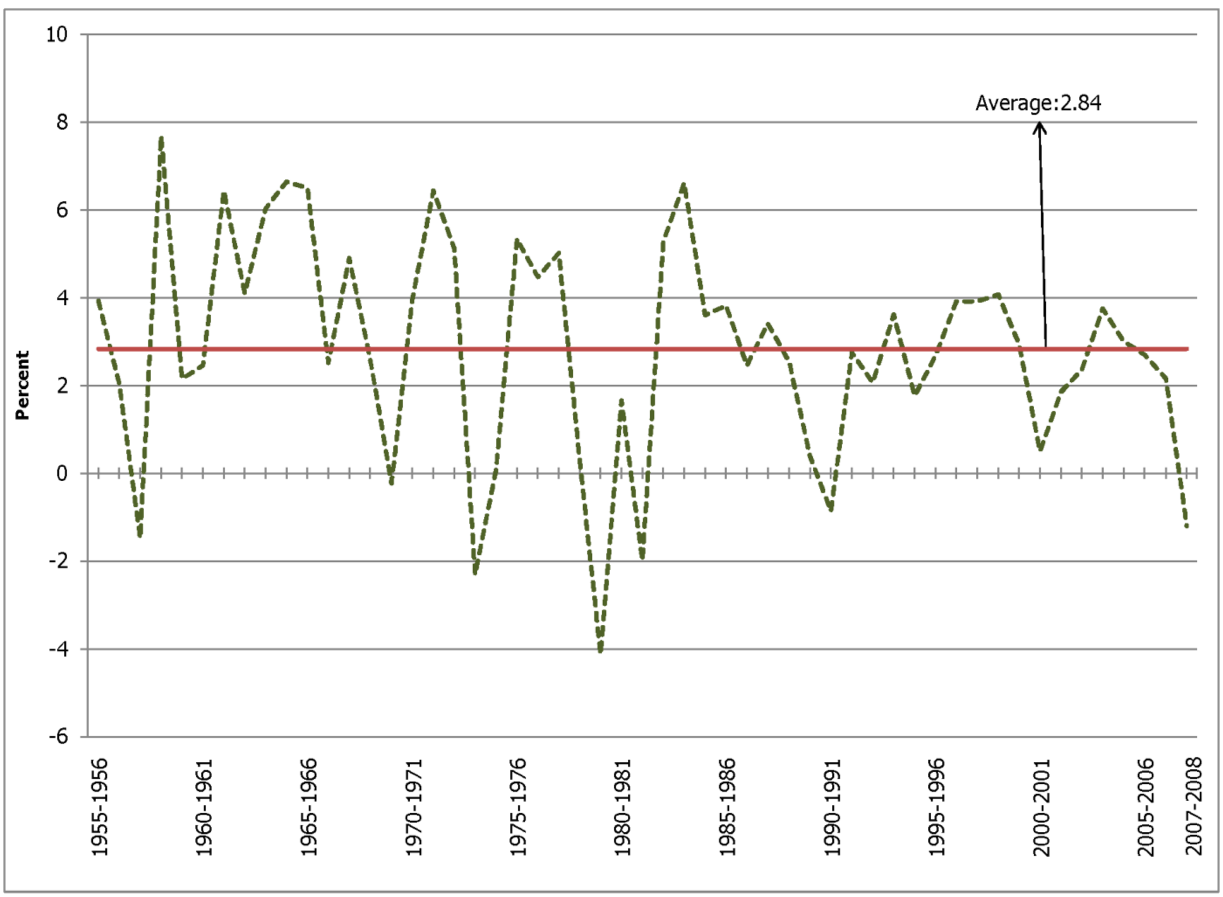
Source: U.S. Department of Commerce Bureau of Economic Analysis

Gross Domestic Product

Gross Domestic Product (GDP) is a collection of statistical measures that captures a nation's or state's economy. It tracks how well an economy is generating overall economic opportunity and the potential for household wealth formation. On average, GDP between 1955 and 2008 has grown (in real dollar terms) 2.84% per year. As Figure 4.2 illustrates, the year to year growth rates vary widely reflecting the business cycles that are part of an economy. While business cycles have been less volatile this century as compared to past centuries, understanding the role of business cycles is important to predicting future wealth creation. In our TOW scenario model, we assume that in the next 50 years, we will have a similar pattern of recessions and recoveries as was experienced in the past 50 years of American economic history.

Historically, a 1% increase in GDP results in a 1.06% increase in household personal income. Household income is a pre-requisite for potential asset collection. With rising personal incomes, managed spending, and sound investing, households can create estates.

Figure 4.2 - Gross Domestic Product Change

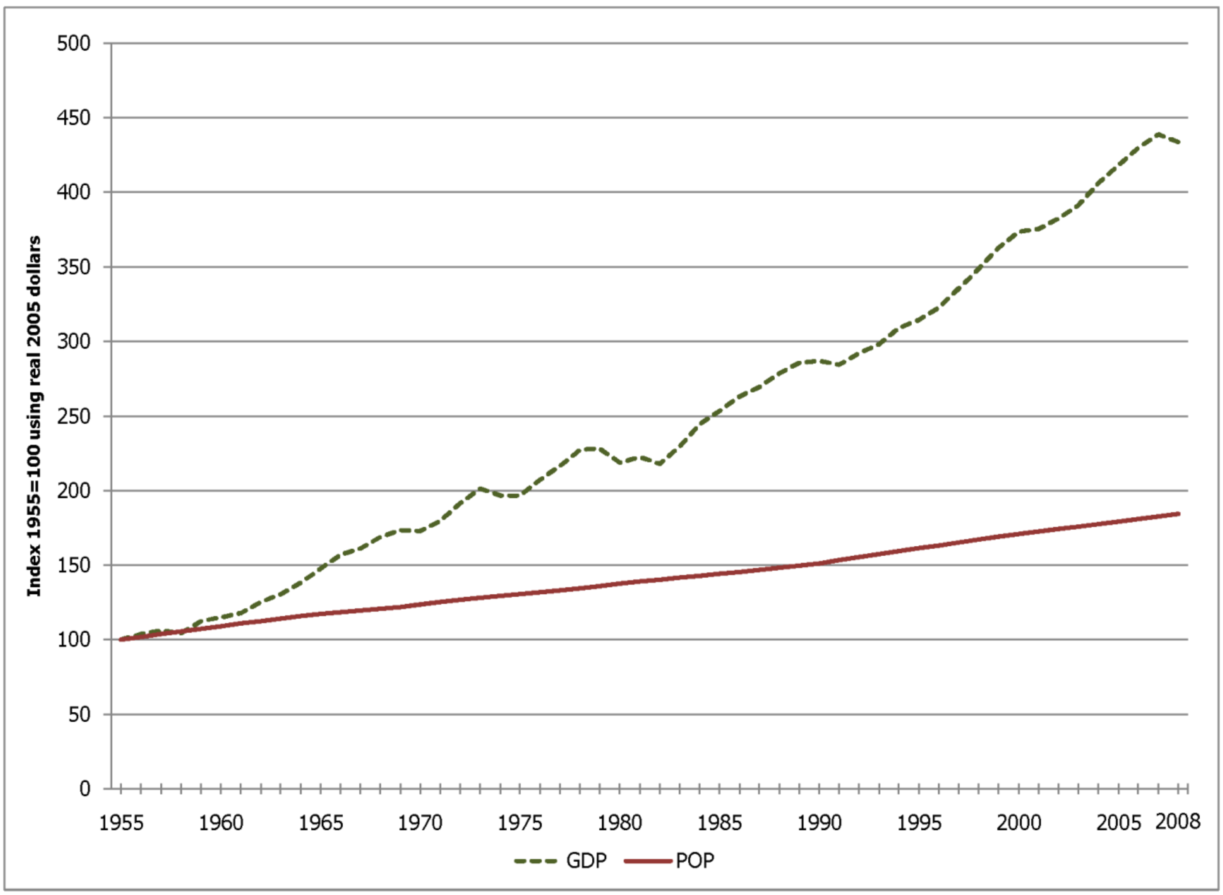


Source: U.S. Department of Commerce Bureau of Economic Analysis

Population and GDP

There is an important relationship between population growth and economic growth (as measured by GDP) and this relationship is changing over time (Figure 4.3). As the American economy matures, economic growth is not only driven by population change, but also by increases in productivity and export based industries. Historically the economy has grown faster than our population. By measuring this difference at the state level when benchmarked to the U.S. population/GDP relationship, we can adjust the TOW scenario to measure the relative strength of a state or regional economy in generating opportunity for its households.

Figure 4.3 - Population & GDP Comparison



Source: U.S. Department of Commerce Bureau of Economic Analysis

Personal Income

As shown earlier in this report, income matters when we are attempting to understand differences in wealth formation and accumulation rates. Overall, rising income creates greater opportunity for savings, investment and wealth formation. When income rises faster than core costs of living, there is a surplus from which a household can increase asset formation based on changes in spending and investment behavior. If new income goes toward disposable assets like clothes and vacations, there may be little change in wealth status. If new income is invested in a more valuable home or business investment, estate size is likely to grow. Spending behavior also generally changes over a lifecycle, from meeting immediate needs to building more permanent assets.

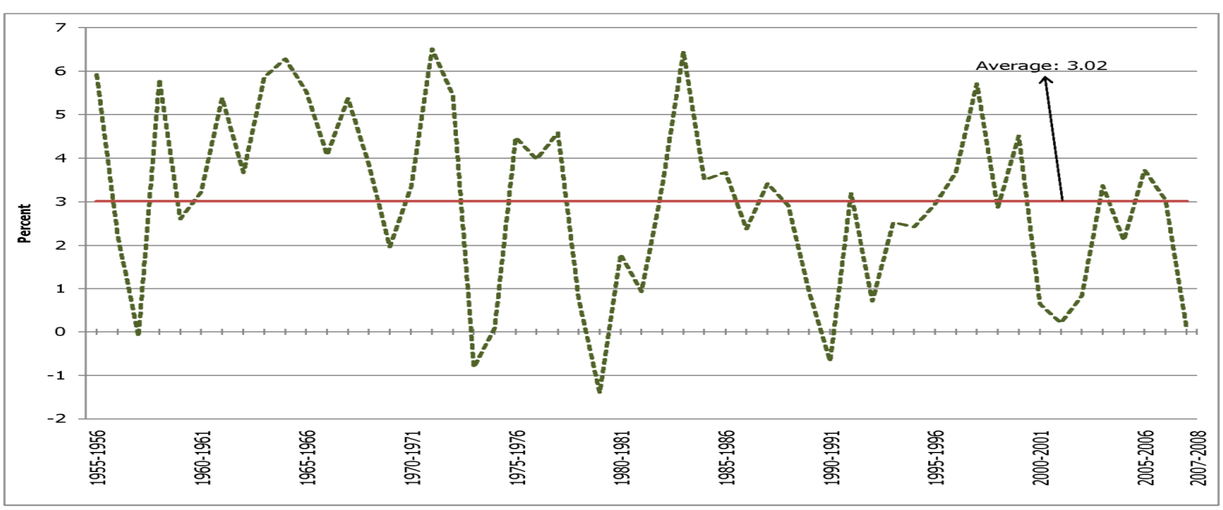
Research from the Federal Reserve's most current **Survey of Consumer Finances** (2007 data) finds the following relationships between household income and current net worth (averages):

Top 10%	$3,105,000
Next 20%	$567,000
Next 20%	$360,000
Next 20%	$198,000
Next 20%	$127,000
Bottom 20%	$100,000

Includes all assets including motor vehicles.

Historically, a 1% increase in personal income generally generates a 1% increase in household current net worth. However, there is significant volatility during the business cycles of expansion, recession and recovery. Ironically, current net worth tends to rise more rapidly during a recovery than either GDP or Personal Income (Figure 4.4).

Figure 4.4 - Personal Income Change

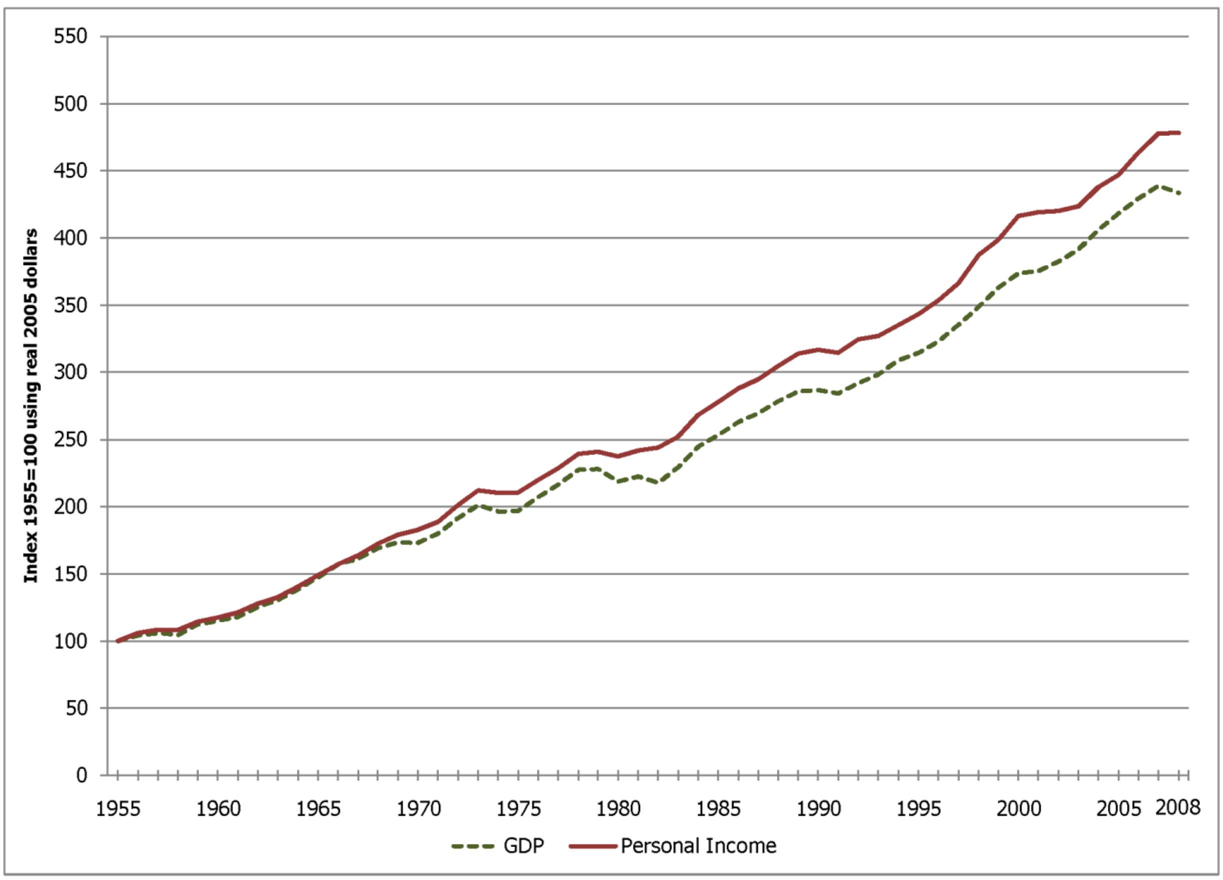


Source: U.S. Department of Commerce Bureau of Economic Analysis

Personal Income and GDP

There is a clear, close and powerful correlation between GDP and personal income change. The pattern is remarkable but there is evidence (Figure 4.5) of a changing relationship. In fact, growth in personal income is slightly larger than growth in GDP (GDP = 2.84% per year compared with Personal Income = 3.01% per year). While the annual difference is modest, it reflects the maturing nature of our society and economy, where investments in education and movement toward more value-added industries result in a more productive economy and rising average income levels. Across the U.S. these relationships are diverse, with regional economies where income levels are stagnant or falling due to over-reliance on declining industries with falling wage rates (generating declining personal income levels).

Figure 4.5 - GDP and Personal Income Comparison



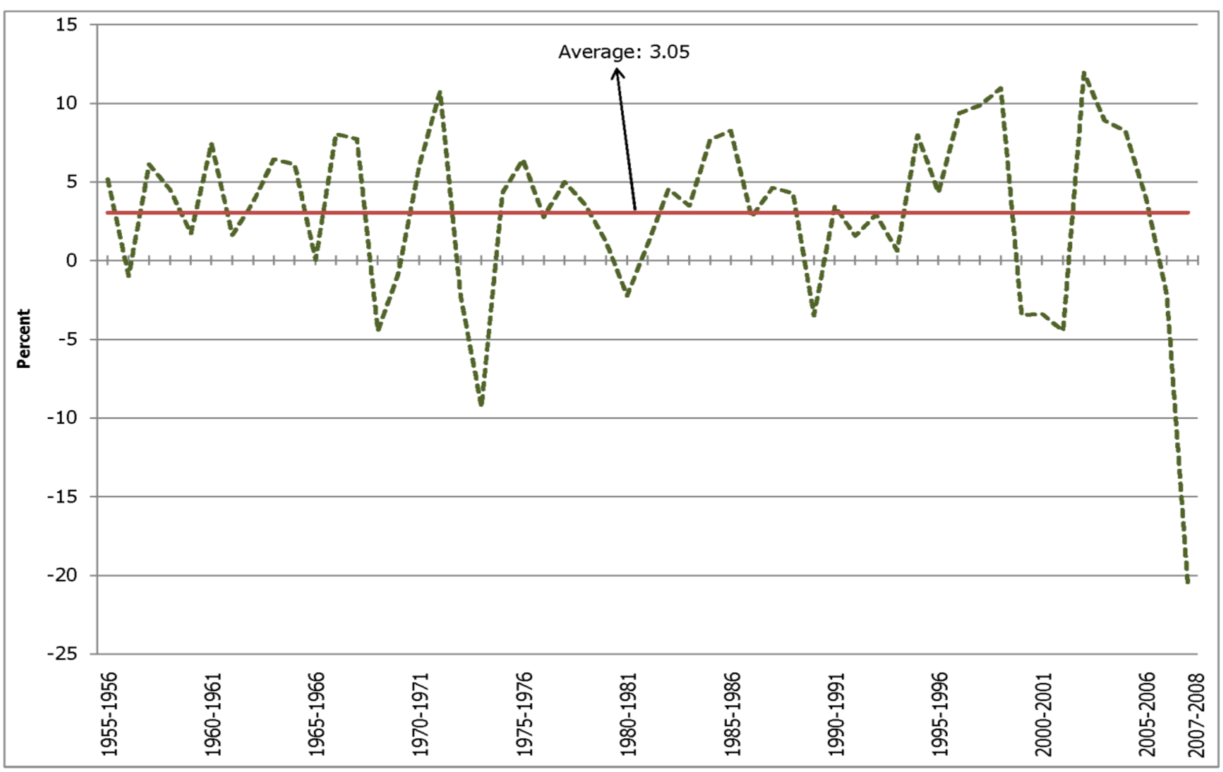
Source: U.S. Department of Commerce Bureau of Economic Analysis

Household Current Net Worth

Household current net worth (CNW) is derived by calculating total assets (e.g., homes, cash accounts, investments) less debt (e.g., mortgages, consumer debt) to generate a net value or CNW. The Federal Reserve provides the overall definition and framework for calculating assets. However, the Fed's definition is quite inclusive and counts assets we do not consider – motor vehicles, art, jewelry and other assets that are hard to value. On average, household current net worth has risen slightly faster than personal income (3.05% versus 3.02%) per year between 1955 and 2008.

Just as GDP and personal income rise and fall with business cycles, current net worth does as well as (Figure 4.6). This figure shows the severity of the mid-1970s recession and the dramatic impact of the Great Recession of 2008-2009. From peak household wealth in 2006 to the 2nd quarter of 2009, about 20% of all household wealth has been eroded. But all of this wealth may not have been permanently lost. Particularly in severe recessions, assets are often devalued radically driven by fear and collapsing markets. The impact of asset loss is not uniform, impacting different geographies and income groups to varying degrees. We continue to believe that there will be a net 5% to 10% wealth loss due to this recession. And, it may take another two to three years before current wealth levels reach 2006 peak levels.

Figure 4.6 - Current Net Worth Change

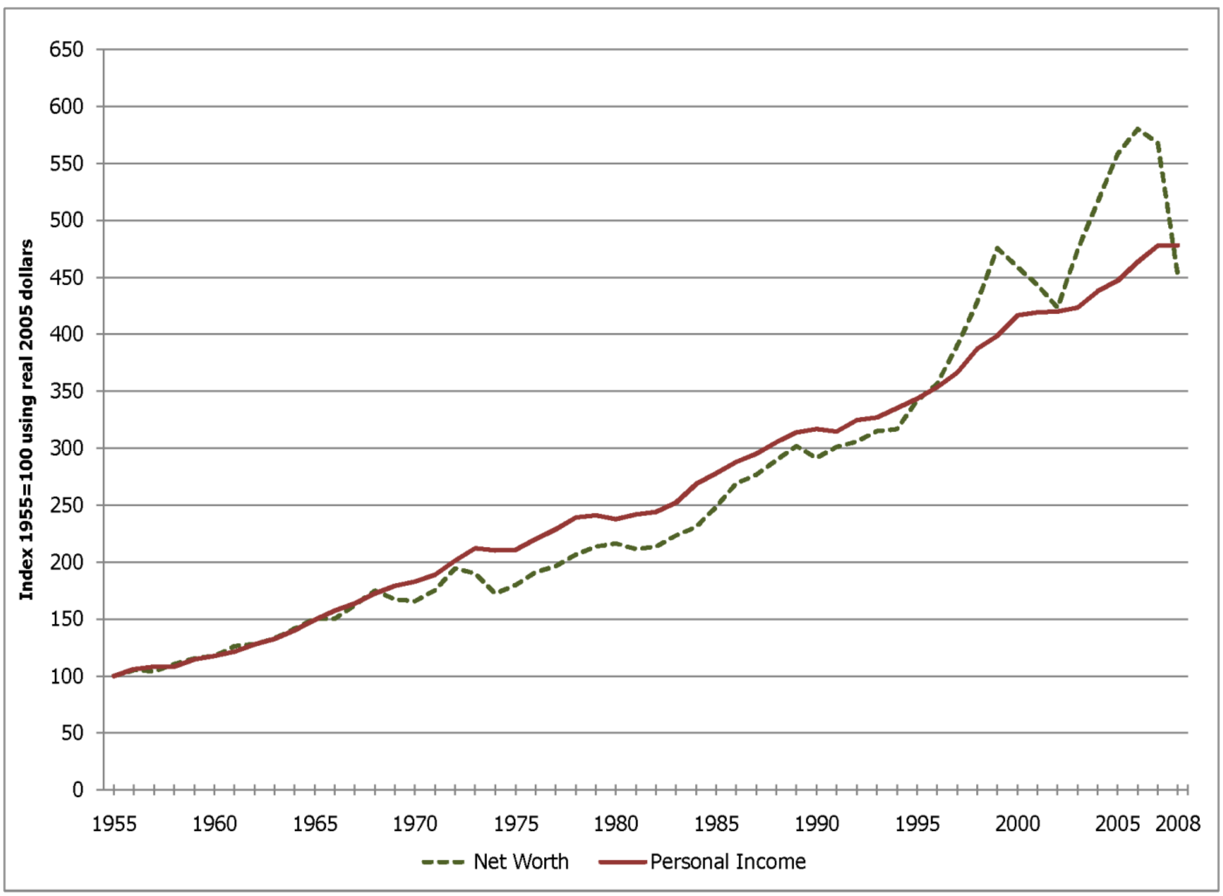


Source: Board of Governors of the Federal Reserve System, Flow of Funds Accounts of the U.S. – Z.1

Personal Income and Current Net Worth

Figure 4.7 illustrates the relationship between personal income and household net worth for the period between 1955 and 2008. The relationship is very strong with a robust correlation. Over the entire period, net worth has grown slightly faster than personal income. However, for the period between the early 1970s and the mid-1990s, personal income grew faster than household net worth. In our TOW model, we embrace this relationship and assume that in the future, surplus income for asset acquisition will be more challenging to realize for households. As a result, more and more income will go to meet basic day to day needs with less available for longer-term asset formation. Overall, this trend will reduce the rate of growth in current net worth in the future as compared to the past. In a way, we are returning to the historic relationship of the 1970s, 1980s and most of the 1990s.

Figure 4.7 - Personal Income and Current Net Worth Comparison

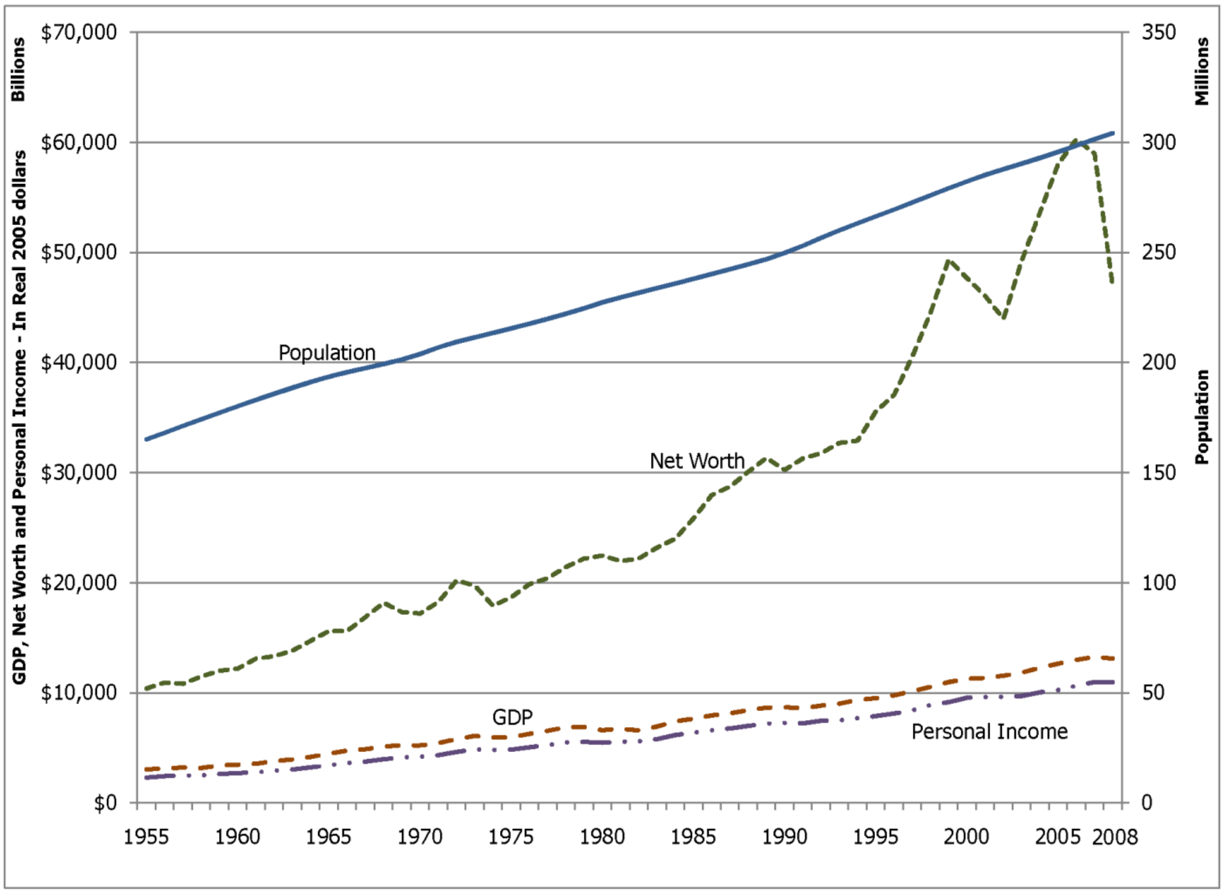


Source: U.S. Department of Commerce Bureau of Economic Analysis
Board of Governors of the Federal Reserve System, Flow of Funds Accounts of the U.S. – Z.1

Relationship Among Key Drivers

Figure 4.8 brings all of the key wealth drivers together in a single graph. This illustration can be useful in picturing the entire set of connections that have historically existed between these key factors in determining U.S. household wealth.

Figure 4.8 - Population, GDP, Personal Income & Net Worth



Source: U.S. Department of Commerce Bureau of Economic Analysis
Board of Governors of the Federal Reserve System, Flow of Funds Accounts of the U.S. – Z.1

Death Rates

The best predictor for estimating the timing of household estate transfer is deaths. Estates can transfer at any time, given the necessary legal documents. However, when a death occurs, we know that there will be estate transfer. Because there are good indicators with respect to death rates, we can use this indicator to predict estate transfer or TOW.

Key Relationships and Assumptions

The following table summarizes the key relationships between the drivers of wealth:

Ratios	Population	GDP	Personal Income	CNW
Population	1:1	1:2.45	1:2.60	1:2.62
GDP	2.45:1	1:1	1:1.06	1:1.07
Personal Income	2.60:1	1.06:1	1:1	1:1
CNW	2.62:1	1.07:1	1:1	1:1

In our base scenario for TOW studies, we typically assume the following core relationships:

- For every 1% increase in population, we will see a 1.5% increase in personal income.
- For every 1% increase in personal income, we will see a 0.75% increase in household current net worth.

These assumptions are conservative in that they anticipate that economic performance will be weaker in the next 50 years as compared to the past 50 years. Population growth will generate a lower personal income growth rate. And, the ability of households to convert personal income into CNW will be somewhat weaker as well. As a result of these assumptions, we are creating a "floor" scenario. Actual performance may well be stronger resulting in greater TOW opportunities.

To Learn More About Transfer of Wealth

For the last decade, we have been committed to understanding the TOW potential in communities, regions, and states throughout the country. We consider the TOW scenarios to be a tool for better understanding wealth creation potential and, most importantly, how that wealth could be tapped to make strategic economic development investments for the future. To learn more about this work, contact:

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