

TOW ISSUE PAPER #3

DISTRIBUTION OF ASSETS BY NET WORTH CATEGORY IN 2010

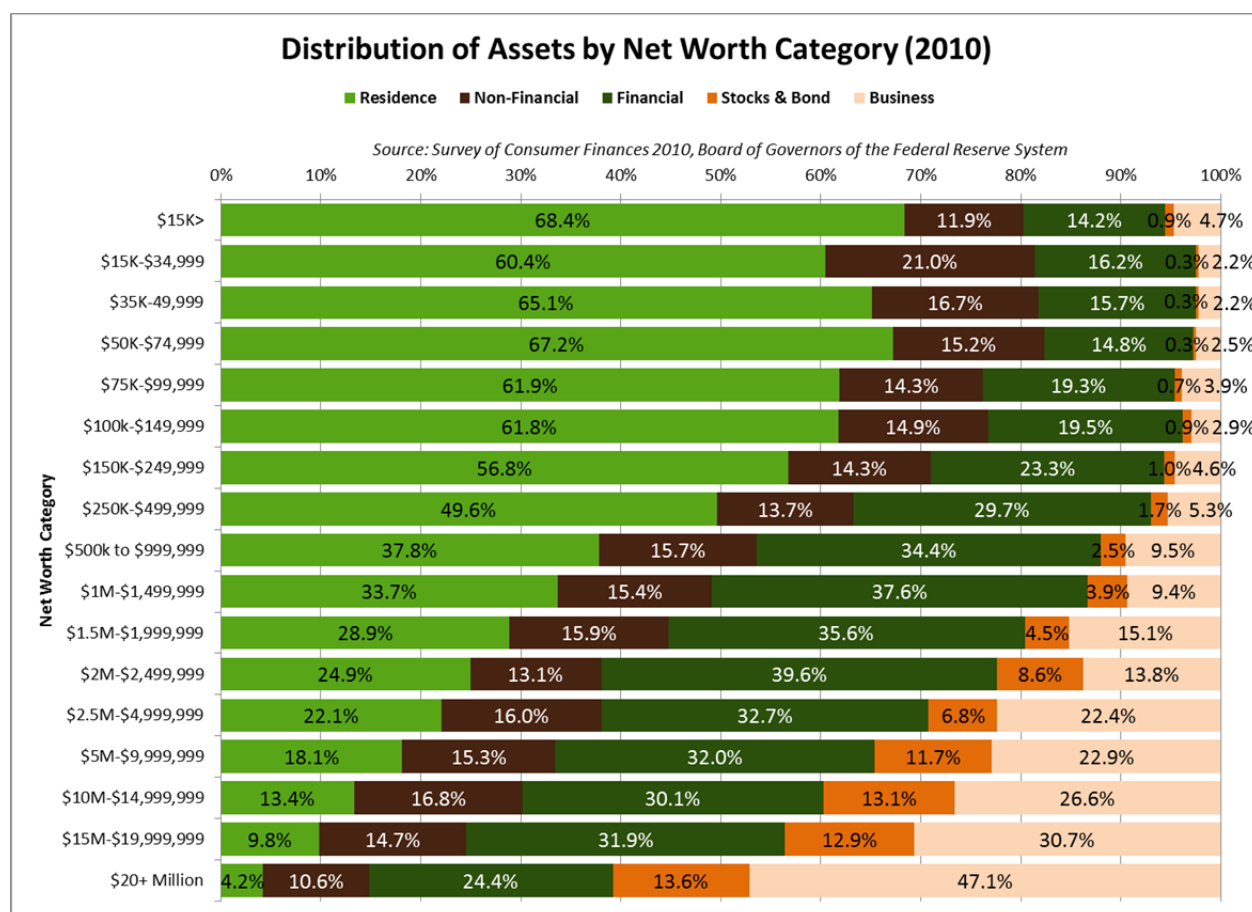
*Over the next 20 years (2010-2030), the Center estimates that current net worth – wealth – of America’s households will rise from \$28.1 trillion to \$65.2 trillion. The corresponding transfer of wealth opportunity – the amount that could be passed on from one generation to the next – is a remarkable \$15.4 trillion over this same period. If just 5% of the 20 year TOW opportunity were captured into community endowments across America, \$770 billion could be added to our nation’s philanthropic coffers. This level of capitalization in endowments could support a 5% annual payout rate over time, generating over \$38 billion for community betterment. This level of resource in the hands of community leaders across America holds the promise of changing lives and strengthening communities from tiny Mullen, Nebraska to Brooklyn, New York. (Macke, Markley, Binerer, *Transfer of Wealth in Rural America – Understanding the Potential, Realizing the Opportunity, Creating Wealth for the Future*, 2011)*

*Across the country, TOW research is being used to raise awareness among foundation and community leaders of the TOW opportunity; to help even the poorest regions in the country understand the magnitude and potential for legacy giveback; as a call to action in the face of threats to economic vitality and resilience; and as a tool for donor targeting and development. The Center’s **TOW Issue Papers** are designed to provide complementary insights for foundation and community leaders to more effectively understand the TOW opportunity and use this research as a tool for transformative change across rural and urban America.*

A new study by the Federal Reserve Board, *Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances*, looks at changes in household financial characteristics. This is the tenth publication by the Federal Reserve Board examining household financial characteristics; the first was published in 1983. There is little question that the Great Recession (2007-2009) has impacted the financial well-being of most households. In this paper, we consider how financial and non-financial assets are allocated by household across different

net worth categories. Through this paper, we hope to provide insights into possible donors with different levels of capacity to give-back.

The chart below illustrates the 2010 distribution of assets (financial and non-financial) for households by categories of net worth. To illustrate how asset allocations vary by the net worth of households, we grouped the data into 17 different categories. The level of net worth increases as you move from top to bottom on the vertical axis.



Households own both financial and non-financial assets. Financial assets include stocks, bonds and other assets including certificate of deposits, saving bonds, directly-held mutual funds, etc. Non-financial assets include the household's primary residence, non-financial assets including vehicles, jewelry, vacation homes, etc. and business assets. The horizontal axis displays the share of some key asset types held by all households in each net worth level.

There are several important insights gained from the data. **Primary residence** (bright green bar) as a share of total assets declines dramatically as you move up the net worth ladder. Home ownership, and the value of that home, accounts for half of total assets for households with less than \$500,000 in net worth. Households with more than \$15M in net worth hold 10% or less of their assets in their primary residence. As a result, declining housing values associated with the Great Recession have a differential impact on wealth holding across net worth categories.

The share of **non-financial assets** (brown bar) is relatively stable across net worth levels. The share varies between 11% and 17%, with the exception of the \$15,000 to \$34,999 net worth category where the share of non-financial assets is 21%.

The share of **financial assets** (dark green bar) increases as net worth increases, but then declines for the wealthiest households. Households with less than \$500,000 in net worth have less than 1/3 of their assets in financial instruments, while those with up to \$10M in net worth have 1/3 or more of their assets in financial instruments. The share of financial assets makes up less than 1/3 of total assets for households with more than \$10M in net worth as we see the increased importance of business assets for these households.

The share of **stocks and bonds** (light brown bar) is relatively small for households with less than \$1M in net worth, and then begins to increase steadily as net worth increases. Households with \$5M or more in net worth hold more than 10% of their assets in stocks and bonds.

Finally, the share of **business assets** (tan bar) grows exponentially as you move up the net worth ladder. Business assets account for less than 10% of total assets for households with less than \$1.5M in net worth. However, households with \$20M and above in net worth hold close to 50% of their assets in business.

This Issue Paper is an update of a similar analysis done for the California Community Foundation using the *Survey of Consumer Finances 2007*. During our transfer of wealth study, *Wealth in Los Angeles and Its Regions*, foundation leaders wanted to understand how the assets of high net worth individuals were allocated as a basis for creating an effective donor development strategy targeted to those living in the LA area. By using the *Survey of Consumer Finances* data, we are able to better understand the types of assets most likely to be held by households in different net worth categories. We see greater reliance on less liquid assets, such

as a primary residence, for lower net worth households and much greater reliance on financial and business assets as net worth increases. Understanding the sources of wealth for households in your region – the likely distribution of assets by key categories – should be helpful in designing more targeted donor development strategies that match these portfolios.

Questions & More Information:

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The Center for Rural Entrepreneurship's vision for rural America is one of vibrant communities and regions that embrace entrepreneurship, that find new sources of competitive advantage in their inherent assets, and that invest in a new more sustainable future for both present and future generations. The Center's mission is to help our local, regional and state partners achieve this future by connecting economic development practitioners and policy makers to the resources needed to energize entrepreneurs and implement entrepreneurship as a core economic development strategy.

These development efforts require financial resources. Most traditional sources of funding are challenged as governments, businesses and foundations struggle to meet rising community needs. A core program area for the Center is Community Development Philanthropy, where our team helps your community, region or state build a community wealth road map. Our Transfer of Wealth (TOW) research offers insight into possibly the greatest opportunity to tap new, significant and sustainable funding streams in support of growing better and stronger communities. For many communities and regions, TOW research can help jump start important conversations leading to greater community giveback.

The Center has conducted TOW studies for clients around the nation for more than 10 years, and has published a book titled, *Transfer of Wealth in Rural America: Understanding the Potential, Realizing the Opportunity, Creating Wealth for the Future*. More product offerings are planned under our Community Development Philanthropy area.

To learn more about the Center's history and program areas, go to www.energizingentrepreneurs.org.

The Rural Policy Research Institute (RUPRI) provided founding support to create the Center for Rural Entrepreneurship in 2001. RUPRI's mission is to provide independent analysis and information on the challenges, needs, and opportunities facing rural people and places. The work of the Center for Rural Entrepreneurship, along with other centers and collaborations, helps RUPRI achieve this mission. To learn more about RUPRI, visit www.rupri.org.