Today's Wealth Holder and Tomorrow's Giving: The New Dynamics of Wealth and Philanthropy

Paul G. Schervish

For me, the compelling new questions of the twenty-first century for an increasing segment of our nation's and the world's population are:

- How will individuals fashion their own, their family's, and their society's voluntary financial morality in an age of affluence?
- How will the vast growth in the quantity of choice be translated into a deeper development in the quality of choice?
- How can wealth become a tool to achieve the deeper purposes of life when acquiring more wealth has ceased to be of high importance?

Participating more directly and intensely in philanthropy is only one way for wealth holders to meet their need to discern and live out what I call a moral biography of wealth or the way wealth holders link their substantial financial capacity with a corresponding moral compass. Continuing or starting a business enterprise, investing, and caring for family and friends, when chosen wisely, are equally important paths for a moral biography. But our focus here is specifically on philanthropy, not necessarily as a higher calling for any particular person, but as that one area of deeper purpose that wealth holders across the nation are finding an increasingly central and fulfilling aspect of their lives.

Today's Wealth Holder

The distinctive trait of wealth holders in all eras is that they enjoy the fullest range of choice in determining and fulfilling who they want to become and what they want to do for themselves, their families, and the world around them. Today, increasing numbers of individuals are approaching, achieving, or even exceeding their financial goals with respect to the provision for their material needs, and doing so at younger and younger ages. A level of affluence that heretofore was the province of a scattering of rulers, generals, merchants, financiers, and industrialists has come to characterize large groups and even whole cultures. For the first time in history, the question of how to align broad material capacity of choice with spiritual capacity of character has been placed before so many of a nation's people.

Abstract: Increasing numbers of individuals are approaching, achieving, or even exceeding their financial goals at younger and younger ages. A level of affluence that had been rare has come to characterize large groups and even whole cultures. In the context of an ongoing intergenerational transfer of wealth, the author examines demographic and spiritual trends that are motivating wealth holders to allocate an ever-greater portion of their financial resources to charity. Syllabus for Gift Planners code: 1.01, 2.02.

The new physics of philanthropy begins with the recognition that the dramatic growth in wealth that has occurred over the past fifty years will, despite the recent economic downturn and stock market stagnation, continue at unprecedented levels over the next fifty.

The New Philanthropy

Today, many changes are taking place on the supply (or donor) side of philanthropy and on the demand (or beneficiary and fundraising) side. In the following comments, I will focus on several identifiable forces affecting the finances and attitudes of wealth holders that are changing the supply-side or donor-side of philanthropy. These changes constitute what I call the new physics of philanthropy—a set of vectors or forces that have to do with the money, meaning, motives, and decision-making models of donors. As such, the new physics entails an innovative way of thinking, feeling, and acting in regard to philanthropy. In the new physics, wealth holders seek out rather than resist greater charitable giving, move their giving toward inter-vivos involvements, approach their philanthropy with an entrepreneurial disposition, make philanthropy a key ingredient of the financial morality they observe and impart to their children, and see it as a way to achieve simultaneously the happiness of themselves and others.[1]

Trends in Wealth and Philanthropy

The new physics of philanthropy begins with the recognition that the dramatic growth in wealth that has occurred over the past fifty years will, despite the recent economic downturn and stock market stagnation, continue at unprecedented levels over the next fifty. Analysis of the Federal Reserve 2001 Survey of Consumer Finances (the most recent data available) by my colleague, John Havens, indicates that:

- of the 106.5 million households in the U.S. about 436,000 had net worth of $10 million or more in 2001;
- within this total, 412,100 households had net worth of $10 million to $49 million;
- 16,500 had net worth of $50 million to $99 million; and
- approximately 7,000 households had net worth of $100 million or more.

These 7,000 households:

- comprise less than 0.01percent of all households; but
- held $2 trillion (4.7 percent) of the nation's $43 trillion in net worth;
- earned $40 billion (0.5 percent) of the total $7.153 trillion in income; and
- contributed $14 billion (7.0 percent) out of a total of $201 billion in charitable contributions (calculated from the 2001 Federal Reserve Survey of Consumer Finances and the General Social Survey of the National Opinion Research Council).

The wealth transfer simulation model Havens and I have developed at Boston College indicates just how much wealth will change hands over the coming half-century, and how it will be distributed among bequests to heirs, bequests to charity, estate taxes, and deductible settlement costs. Assuming a meager two percent growth rate and saving rates below historical levels, our model projects that the wealth transfer from final decedents to heirs, government, and charity for the period 1998 to 2052 will be $45 trillion, $6.6 trillion of which will be in the form of charitable bequests (Table 1).[1] This is by every measure a low estimate when we look at long-term trends: for example, from 1950 to 2001, a period which included nine recessions, the average real growth in GDP was 3.39 percent, average growth in stocks was 4.47 percent, and average growth in household wealth, 3.34 percent. When we model a three percent growth rate and historical levels of saving, the wealth transfer estimate rises to $80 trillion and charitable bequests increase to $12.8 trillion. And when we model an average, but still reasonable, growth rate of four percent along with savings rates that are slightly above historical levels, the projected transfer jumps to $150 trillion, including $27.4 trillion in charitable bequests (Havens and Schervish, 1999).[2]

To be clear, the foregoing projections of charitable bequests only measure what goes to charity when people die. They do not include lifetime or inter-vivos charitable giving by individuals, which in 2004 totaled $188 billion (*Giving USA* Foundation, 2005). When we project inter-vivos giving over the same period from 1998 to 2052, inter-vivos giving will total $14.6 trillion if it grows at a real annual rate of two percent; $20 trillion if it grows at three percent; and $28 trillion at four percent growth (Table 1). Once again these estimates, especially at the lower end, are conservative. Over the 15-year period from 1985 through 2000, the real annual rate of growth in charitable giving was 3.72 percent, while over the five-year stretch from 1995 through 2000 the rate of growth was 8.08 percent. Combining charitable bequests and inter-vivos giving, we project that individuals will give to charities between $21 trillion and $55 trillion, in 2002 spending power, over the years from 1998 to 2052. For the 20-year period from 1998 to 2017 the amount given will be between $5.5 trillion and $7.4 trillion. To get a feel for how much that is, it is helpful to remember that the entire annual Federal Budget now hovers around $2.6 trillion, with annual non-defense discretionary spending totaling about $400 billion.

There is some additional important news, which those who generate a substantial percentage of their charitable revenue from wealth holders will be glad to learn, among them colleges, universities, and health care institutions. Contrary to popular perception, wealth holders contribute large percentages of their income and wealth to charity, and as their wealth grows, we expect they will contribute even more. The richest seven percent of households, defined in terms either of wealth or income, contribute approximately 50 percent (Schervish and Havens, 2001) of the $188 billion inter-vivos charitable dollars given by individuals. Similarly, we estimate that the two percent of the estates (excluding spousal transfers) worth $3 million or more contribute 75 percent (Havens, 2004) of the approximately $20 billion in charitable bequests (*Giving USA* Foundation, 2005). Charitable bequests rise with the net worth of the estate, as bequests to heirs decrease. An analysis of estate tax returns by Havens (2005) at the Center on Wealth and Philanthropy indicates that across all estates filed in 2003 (net of fees and spousal deduction) charitable bequests were valued at 12.2 percent of the estate, taxes at 22.7 percent, and bequests to heirs at 65.1 percent. Among estates worth $20 million or more, the trend is skewed more toward charity and away from heirs, with charitable bequests at 31.6 percent of the estate (net of fees and spousal deduction), taxes at 37.1 percent and heirs receiving 31.3 percent. Once again, giving is top heavy. The 700 estates worth $20 million or more contribute 43 percent of all charitable bequests. Using more conservative projections than indicated by the foregoing statistics, we conclude that millionaires will be responsible for at least 52 percent to 65 percent of the astonishing $21 trillion to $55 trillion of charitable giving that is in the offing (see Table 1).

New Horizons

As bountiful as the foregoing projections are, they do not take into account that wealth holders—indeed, the population at large—are likely to become more charitably inclined as time goes on. Charitable giving, while spurred by increased material wherewithal, is advanced even more by increased spiritual wherewithal. As our research shows, several motivational vectors are at work on the supply-side, prompting wealth holders to allocate an ever-greater portion of their financial resources to charity (Schervish and Havens, 2001; Schervish and Havens, 2002).

Happiness

One of these vectors is the desire of wealth holders to find a deeper purpose for their accumulated riches. Happiness is the result of making wise choices about how to close the gap between one's history and aspiration. As more individuals come to recognize at an earlier age that their financial resources exceed the material needs of themselves and their families, they

For behind the desire to give back is a sense of gratitude, and behind that gratitude is the appreciation of blessing, gift, luck, or fortune. There are many dimensions to the spiritual secret of money, but one of the most powerful is the recognition that just as my fortune is not due entirely to my own merit, others' misfortune may not be completely attributable to their own failure.

begin to focus more on how to allocate their excess wealth for the care of others (Murphy, 2001) in a way that brings deep satisfaction.

Financial Security

This brings us to a second vector: the greater the degree of self-recognized financial security, the greater the level of charitable giving. Clearly, financial security is both an objective and a subjective status. Our research reported in the Deutsche Bank Study on Wealth with Responsibility/2000 (2001) found that for every category of wealth, those with higher levels of self-defined financial security gave substantially more dollars to charity as well as a greater percentage of their wealth. When the 112 respondents with net worth at or in excess of $5 million (1998 dollars) were asked to rate themselves on a scale from 0 to 10, with 10 being complete financial security, although 98 percent placed themselves above the midpoint on a scale from 0 to 10 (from not at all secure to extremely secure), only a relatively low 36 percent felt completely financially secure. The median amount needed for financial security was $20 million, or 67 percent more than current wealth, while the average amount needed was $44 million, or 76 percent more than current wealth. Nevertheless, as can be seen in Table 2, for each level of wealth, there is a constant increase in the amount and percentage of wealth contributed to charity as the level of financial security increases. As more people become wealthier and reach higher levels of financial security, charitable giving can be expected to increase accordingly.

Identification

The third and fourth vectors concern the motivations for giving. The first of these motivations that generates charitable giving, and indeed all acts of care, is identification with the fate of others as being akin to one's own fate. People almost always express this vector of identification in familial terms. What motivates their charitable contributions is their perception that those they wish to help are like themselves, their spouse, their parents, their siblings, or their children. This disposition of identification contrasts sharply with that of altruism to the extent the latter term connotes the prominence of self*lessness*. Our research has consistently revealed that wealth holders, like all others who make charitable gifts, regard their philanthropy as an engagement, rather than an absence of self (Schervish and Havens, 1997). As such, it is philosophically more consistent and practically productive to activate, rather than remove, a commonality of interests between donor and recipient (Martin, 1994). Indeed, it has been and continues to be the wisdom of many religious traditions and theories of human psychology to set aside the model of selflessness in favor of this model of self-connection. As philosopher Thomas Aquinas takes pains to point out in his writings on charity and friendship in the thirteenth century, it is the unity of love of self with love of God and love of neighbor that grounds and generates the care for others that meets their true needs.

Gratitude for Blessing

The second of the major motivations of giving is gratitude for blessing. Many express this as the desire "to give back." But there is an even more vital impetus at work than this salutary phrase conveys. For behind the desire to give back is a sense of gratitude, and behind that gratitude is the appreciation of blessing, gift, luck, or fortune. There are many dimensions to the spiritual secret of money, but one of the most powerful is the recognition that just as my fortune is not due entirely to my own merit, others' misfortune may not be completely attributable to their own failure. This realization, it turns out, is a generative one. It forges identification between donor and recipient as the offspring of a common destiny. As such, those who recognize that they have been blessed with good fortune become more inclined to care for those who have been less blessed.

Entrepreneurial Disposition

A fifth dispositional vector shaping the new physics of philanthropy is the entrepreneurial temperament of wealthy donors. The major attribute of financial security is that it offers a greater range of choice for the disbursement of financial resources. Wealth holders find that philanthropy is an especially attractive outlet for their wealth because it is a particularly welcoming setting in which to be creative, purposeful, and effective producers of the world around them. In philanthropy, as in business, individuals harness their intelligence, skills, and finances most energetically when they find something that needs to be done that they want to do, and that has a higher probability of being done successfully due to their hands-on involvement (Schervish, O'Herlihy, and Havens, 2001). What *is* new about the so-called "new philanthropy" is not simply this entrepreneurial disposition, but how widespread and favored it has become. Never before have so many people, with so much wealth, with so much energy, and with so much entrepreneurial instinct concluded that productively employing their financial wherewithal for the care of others is the path to effectiveness and happiness for themselves and their children, and the world.

Philanthropy as Financial Morality for Self and Family

The sixth animating force is that wealth holders are seeking, and finding in philanthropy, a more positive and productive dimension of financial morality than simply eschewing leisure and limiting consumption. As wealth holders find that they and their children need to spend less time in full-time employment and as they reach the limit of their desire to consume, they come to recognize that a positive financial morality will require something more than instilling in their children the ethics of productive labor and conscientious consumption. As we have found in our interviews with wealth holders, more and more families are turning to philanthropy to explore what they perceive to be the more profound aspects of financial care and to teach them to their children (Schervish, O'Herlihy, and Havens, 2001). A major trend reported by financial planners and by wealth holders is the desire to limit the amount of wealth that will be given to heirs, except in some cases where the bulk of the

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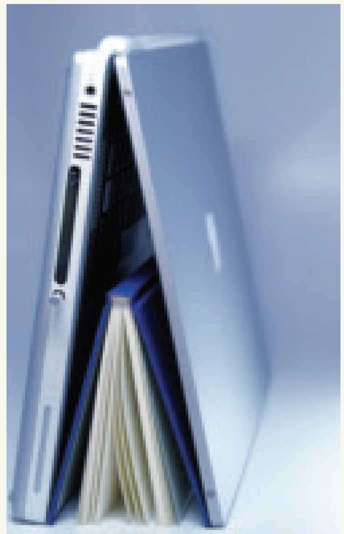

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estate is a family business. The rationale is to provide a sufficient amount of inheritance to provide a sufficient level of advantage for children and grandchildren, but not so much as to spoil them or eliminate the ability to still give to charity.

Self-Reflective Discernment

A seventh vector contributing to the positive relation between wealth and philanthropy, and the major practical implication of the foregoing, is methods of fundraising that take into account the needs of donors for clarity, effectiveness, and significance in their giving. Fundraisers and charities are finding that donors are more inclined to give, and to give larger amounts, to the extent donors are allowed to find the point of convergence where what *needs* to be done coincides with what they *want* to do. This means ensuring that donors are not just allowed to, but are encouraged to go through a process of self-discovery about their material capacity, and more importantly about their desire to be effective, to express their gratitude for good fortune, and to personally identify with the needs of people and causes that parallel their own experience. This discernment approach allows wealth holders the opportunity to reflect on their material capacities and spiritual inclinations in an atmosphere of liberty and inspiration, rather than one of guilt and dictated expectations. An emphasis on discernment as an important mediating variable in the translation of financial capacity into substantial charitable giving does not deny the importance of charitable duty. Rather, it seeks to make such duty self-discovered, and hence more wholeheartedly pursued and sustained.

Conclusion: Wealth as a Tool for Deeper Purposes

Taken together, the vectors of the new physics of philanthropy provide an increasingly important aspect of spirituality or financial morality in an age of affluence—both because they are creating quantitative changes in the relationship between wealth and philanthropy, and because they are generating qualitative changes in the relationship between wealth and self-fulfillment.

In 1930 John Maynard Keynes wrote about the growth in material capacity and its implications for the development of moral compass. "I look forward to the greatest change which has ever occurred in the material environment of life for human beings," says Keynes. "There will be ever larger and larger classes and groups of people from whom problems of economic necessity have been practically removed" (1933: p. 372). The consequence will be that "for the first time since his creation man will be faced with his real, his permanent problem—how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well." (p. 367) "When the accumulation of wealth is no longer of high social importance," he writes, "there will be great changes in the code of morals." (p. 369) Central to this change in the code of morals will be a change, says Keynes, in "the nature of one's duty to one's neighbour. For it will remain reasonable to be economically purposive for others after it has ceased to be reasonable for oneself." (p. 372)

As more people achieve financial security, an even greater number will become highly affluent. This latter group, too, will join wealth holders in looking for ways to answer the spiritual questions raised by wealth, namely, how to use their wealth as a tool to achieve deeper purposes when acquiring more wealth is no longer of high importance, and how to put into practice their identification with the fate of others. As such, the new physics of wealth and philanthropy is also a new physics about the marriage between care for our neighbor and care for our soul.

Paul G. Schervish is professor of sociology and director of the Center on Wealth and Philanthropy at Boston College, and national research fellow at the Indiana University Center on Philanthropy. He is senior advisor to the John Templeton Foundation and to the Wealth & Giving Forum, an international roundtable for wealth holders to reflect on and discuss their charitable giving in a peer environment. He is also a faculty member in the Wealth Coach program of the Legacy Companies. He has served as Distinguished Visiting Professor of Philanthropy at the Indiana University Center on Philanthropy and as Fulbright Professor of Philanthropy at University College, Cork, Ireland. He has been selected five times to the NonProfit Times "Power and Influence Top 50." Schervish is the author of *Gospels of Wealth: How the Rich Portray Their Lives.* Along with John J. Havens, associate director of the Center, he authored the report, *Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*. Schervish serves as a consultant to financial and development professionals and to wealth holders on the patterns and motivations of charitable giving, on the moral biography of financial life and on discernment as a process of conscientious decision-making around wealth and philanthropy.

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1 All dollar figures in this article are in 2002 dollars unless otherwise stated. The original wealth transfer report, *Millionaires and the Millennium: The Forthcoming Transfer of Wealth and Prospects for a Golden Age of Philanthropy*, published in 1999, used 1998 dollar figures.

2 In January 2003, Havens and Schervish (2003) published the results of a thorough investigation of the validity of the wealth transfer projections, "Why the $41 Trillion Wealth Transfer is Still Valid: A Review of Challenges and Questions" which appeared in *The Journal of Gift Planning (2003)*. The full report can be downloaded from our web site www.bc.edu/cwp.

TABLE 1
PROJECTIONS FOR WEALTH TRANSFER AND CHARITABLE CONTRIBUTIONS*

20-Year Period from 1998-2017 (2002 Purchasing Power)

	Low Estimate (2% secular growth)	**Middle Estimate** (3% secular growth)	**High Estimate** (4% secular growth)
	($2002 in trillions)	($2002 in trillions)	($2002 in trillions)
Total Wealth Transfer	$12.80	$15.67	$19.31
Bequests to Charity**	$1.88	$2.43	$2.98
Additional Inter-Vivos Giving by Individuals	$3.64	$3.97	$4.41
Total Charitable Contributions	$5.52	$6.40	$7.39
% of Total Contributed by Millionaires	54.4%	56.3%	58.2%

55-Year Period from 1998-2052 (2002 Purchasing Power)

	Low Estimate (2% secular growth)	**Middle Estimate** (3% secular growth)	**High Estimate** (4% secular growth)
	($2002 in trillions)	($2002 in trillions)	($2002 in trillions)
Total Wealth Transfer	$45	$80	$150
Bequests to Charity**	$6.6	$12.8	$27.4
Additional Inter-Vivos Giving by Individuals	$14.6	$20.0	$28.0
Total Charitable Contributions	$21.2	$32.8	$55.4
% of Total Contributed by Millionaires	52.0%	57.5%	65.3%

Source: Calculated by the Center on Wealth and Philanthropy at Boston College.

* Note: This table is calculated for secular trends of two percent, three percent, and four percent in growth rates of both real personal wealth and real inter-vivos giving. The actual real growth rate in inter-vivos giving was 1.61 percent in the 10 years from 1985 through 1995; 8.08 percent in the five years from 1995 through 2000; and 3.72 percent in the 15 years from 1985-2000.

**Note: Bequests to charity were estimated by the Center on Wealth and Philanthropy at Boston College (Havens and Schervish 1999).

TABLE 2
1997 CHARITABLE GIVING BY NET WORTH AND FINANCIAL SECURITY (2002 DOLLARS)

Panel A. Net Worth of $15 Million or Less

	Less than 8/10 Financial Security (a)	8/10 or 9/10 Financial Security	Complete (10/10) Financial Security	All Levels of Financial Security
Mean Charitable Contribution	$35,996	$77,381	$414,474	$130,893
Mean % Income Contributed	5.0%	6.6%	23.4%	9.5%
Mean % Net Worth Contributed	0.4%	0.5%	3.0%	1.0%

Panel B. Net Worth of More than $15 Million

	Less than 8/10 Financial Security (a)	8/10 or 9/10 Financial Security	Complete (10/10) Financial Security	All Levels of Financial Security
Mean Charitable Contribution	$255,932	$1,170,488	$4,235,955	$2,504,972
Mean % Income Contributed	7.6%	19.2%	51.0%	32.9%
Mean % Net Worth Contributed	0.7%	2.0%	3.9%	2.8%

Panel C. All Levels of Net Worth

	Less than 8/10 Financial Security (a)	8/10 or 9/10 Financial Security	Complete (10/10) Financial Security	All Levels of Financial Security
Mean Charitable Contribution	$65,988	$676,826	$2,913,134	$1,242,719
Mean % Income Contributed	5.4%	13.5%	41.5%	20.4%
Mean % Net Worth Contributed	0.5%	1.3%	3.6%	1.8%

Source: Calculated by the Center on Wealth and Philanthropy at Boston College, and based on data from the Center's study, *Deutsche Bank Wealth with Responsibility Study 2000.*
(a) Respondents were asked to rate their sense of financial security on a scale of 0-10 from completely insecure to completely secure.