The Center for Rural Pennsylvania
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# Wealth Transfer in Pennsylvania

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The Center for Rural Pennsylvania is a bipartisan, bicameral legislative agency that serves as a resource for rural policy within the Pennsylvania General Assembly. It was created in 1987 under Act 16, the Rural Revitalization Act, to promote and sustain the vitality of Pennsylvania's rural and small communities.

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## Executive Summary


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.

This study on the Transfer of Wealth (TOW) in Pennsylvania was completed to provide estimates on the amount of personal wealth that is likely to be transferred from one generation to the next in the state. It was completed to spark conversations about the magnitude of the assets present in every county of the commonwealth and the opportunities to invest a small portion of those assets toward community betterment projects.

The researchers completed the TOW analysis for all 67 Pennsylvania counties and the state as a whole. The findings included the following:

- Current Net Worth for Pennsylvania in 2005 is estimated at $1.01 trillion (or $216,000 per household).
- The 50-year TOW estimate for Pennsylvania is $1.17 trillion.
- During the decade of 2005 to 2015, the TOW is estimated to be $193.38 billion (or $42,000 per household).
- If just 5 percent of the 10-year TOW was captured into community endowments across Pennsylvania, an estimated $9.67 billion fund would be realized.
- Assuming a conservative 5 percent payout rate on the $9.67 billion in endowed funds, an estimated $483.44 million would be available annually for community betterment investments.


## More About RUPRI's Transfer of Wealth Work

The RUPRI Center has completed Transfer of Wealth (TOW) analyses for the following locations: Nebraska, Wyoming, Wisconsin, South Dakota, Montana, Indiana, Illinois, Michigan, Ohio, and Nevada. Regional analyses have been completed in North Dakota, Kansas, Louisiana, and New York. It has advised studies in Iowa, Arizona, and Kansas.


Original founding support to develop the 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 on-going support for the RUPRI Center for Rural Entrepreneurship and the TOW Analysis is being provided by RUPRI (www.rupri.org).

# Introduction

Why should the commonwealth care about the idea of a transfer of wealth (TOW), or the amount of personal wealth that is likely to be transferred from one generation to the next? Because the transfer of wealth may be one of the most important opportunities for the development of communities across the state over the next 50 years.

Take, for example, two powerful trends that are impacting nearly every community throughout Pennsylvania. The first trend is the growing pressure on existing government and non-profit finances. In most cases, resources are tight and becoming even more strained. Community leaders and stakeholders are wondering where the funds will come from to ensure their community's future.

The second trend is the growing need for community investment. While the majority of funding will likely come from private businesses and government, there is an expanding need for new dollars to fuel projects and programs that will help communities flourish.

This is where TOW comes in. The TOW estimates for Pennsylvania and its 67 counties in this study provide reliable estimates on the magnitude of this opportunity. It is critically important that local and state leaders and citizens understand this TOW opportunity so that they are motivated to take action. By stimulating community dialogue around this important opportunity, a new generation of community philanthropy action may be born.

## Scenarios

Experienced researchers would say that projecting anything out 50 years is heroic at best, and foolhardy at worst. Yet this is what must be done to portray the magnitude of the TOW opportunity. The state and county 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 county's population 10 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 (their content) is less important than the types of conversations and decisions they spark." This research was completed to spark conversations about the magnitude of the assets present in every county of the commonwealth and the opportunities to invest a small portion of those assets toward community betterment projects.

## Legacy Assets and Economic Diversification

Pennsylvania has an enormous reservoir of "legacy assets," which include extensive infrastructure systems and housing stocks. The commonwealth has strong education systems in K-12 schools, colleges and universities that can continue to educate and train skilled workers and conduct research. The natural amenities of lakes, rivers and forests, historic sites, museums and world class health facilities are all assets upon which new economies are being built. Most of all, the residents themselves offer a diverse and deep set of skills, creativity and drive.

Coupled with these legacy assets are the efforts of state and local governments to reinvent local economies. These include strategic investments in research and innovations, entrepreneurship, workforce training programs, improvements in telecommunications capacity, downtown revitalization efforts, urban homesteading, and business finance. Progressive leaders across Pennsylvania are helping their communities build on their assets and adapt to change.

## Wealth Drivers

Many factors have a significant impact on the TOW scenarios and projections at the state and county levels. Following is a sampling of the more important drivers:

- Current Net Worth, or CNW, is very important, as it is the wealth that has been created over time through savings, property and other assets. States and counties 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 without a high school diploma.
- Another key demographic factor is age of households. On average, as people grow older, their estates grow. 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, someone who is not working will have lower net worth than a gainfully employed person.
- Behavior and customs also play a critical role. For example, a high-income family with corresponding high spending habits will have very low net worth and limited wealth. On the other hand, a single farmer who does well, spends little and invests well will have significant wealth.

# Background

## Wealth in America

Forget the numbers for a moment and think about U.S. history over the past 100 years. Not that long ago, America departed prosperity and good times of the 1920s and entered into two of its greatest challenges – the Great Depression and World War II. Hard times, tragedy and, eventually, victory characterized 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. This study - Wealth Transfer in Pennsylvania - creates reasonable scenarios of wealth holding in this region of America and the likely transfer of wealth over the period of 2005 through 2055.

## Review and Verification Process

The researchers undertook a careful review and verification process to ensure that the TOW scenarios reflect Pennsylvania's unique circumstances and realities. An advisory group organized by the Center for Rural Pennsylvania helped in this process.

## Various Estimates

A considerable amount of research has been done on wealth in America. For this research, the study team reviewed the literature and all available writings on this topic and incorporated the best current thinking on wealth holding and transfer as it relates to Pennsylvania.

The researchers' early work was greatly informed by the research of Boston College and its groundbreaking study, *Millionaires and the Millennium* (John Havens & Paul Schervish, October 1999).

For purposes of wealth in Pennsylvania, the researchers employed a mid-range national estimate of current net worth and used a low scenario of intergenerational wealth transfer for the period of 2005 through 2055. The current estimate of U.S. current net worth (2005) is $45 trillion ($405,000 per household) and the researchers' estimate for U.S. Transfer of Wealth within the next 50 years is $53 trillion ($477,000 per household). These assumptions are conservative and the reader is encouraged to view the scenario as a floor estimate. There is reason to believe that the actual transfer of wealth in Pennsylvania may well be higher.

Figure 1: U.S. Average Net Worth by Income Group, 2004 (In $1,000s)

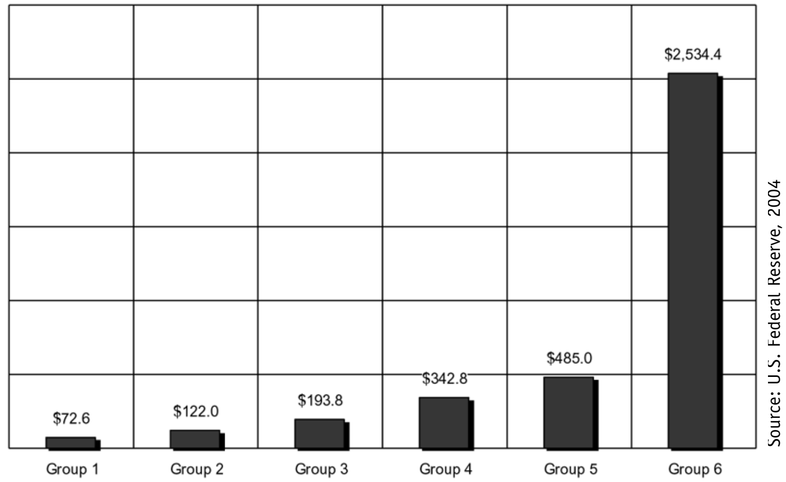
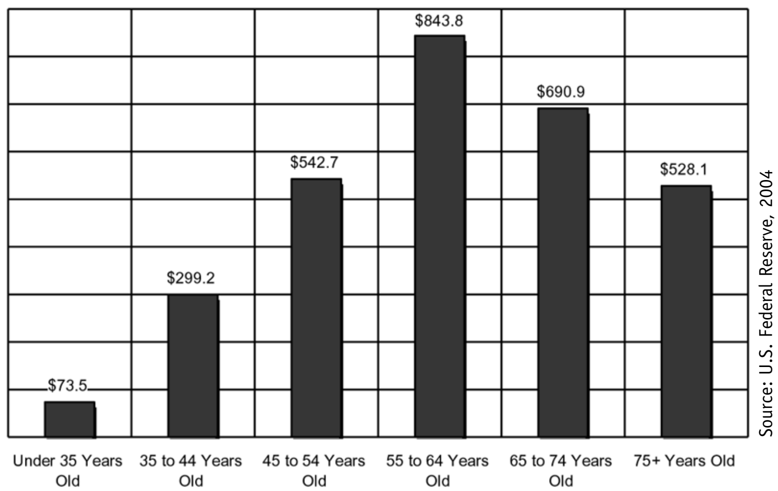



Figure 2: U.S. Average Net Worth by Age of Householder, 2004 (In $1,000s)




## Affluent Pennsylvanians

Pennsylvania is home to many affluent households. According to the U.S. Census Bureau, in 2005, there were nearly 694,700 households (14 percent) in the commonwealth with incomes of $100,000 or more. Income in these households is twice the national median income of $46,242. Compared to other states, Pennsylvania ranks seventh in the nation in the number of affluent households.

Within Pennsylvania, affluent households are found in every county. According to personal-income-tax-return data from the Pennsylvania Department of Revenue, in 2005, every county in Pennsylvania had 60 or more households with incomes of $100,000 or more. Statewide, affluent households comprise 4 percent of all households. In rural counties, they comprise 2 percent of all households, and in urban counties, 5 percent of all households.

In 2005, the total income of affluent households was $113.6 billion, or 45 percent of all taxable household income in Pennsylvania. This means that 4 percent of households in Pennsylvania have 45 percent of the state's taxable income.

Since 1995, the number of households in Pennsylvania with taxable incomes over $100,000 has increased 138 percent. The largest increase was in rural counties at 179 percent.

From 1995 to 2005, inflation-adjusted income levels among affluent households have also increased 89 percent.

## Current Net Worth

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

Figure 1 provides "net worth" or "current net wealth" by income group for 2004. Group 1 includes the bottom 20 percent of families by income. Groups 2, 3 and 4 include the next 20 percent to 80 percent of all families by income. Groups 5 and 6 include subsequent increments of 10 percent of families. The differences are striking. The bottom 20 percent of families by income have an average net worth of just under $75,000. This compares with the top 10 percent 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 1 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.

Figure 3: U.S. Average Net Worth by Education Attainment, 2004 (In $1,000s)

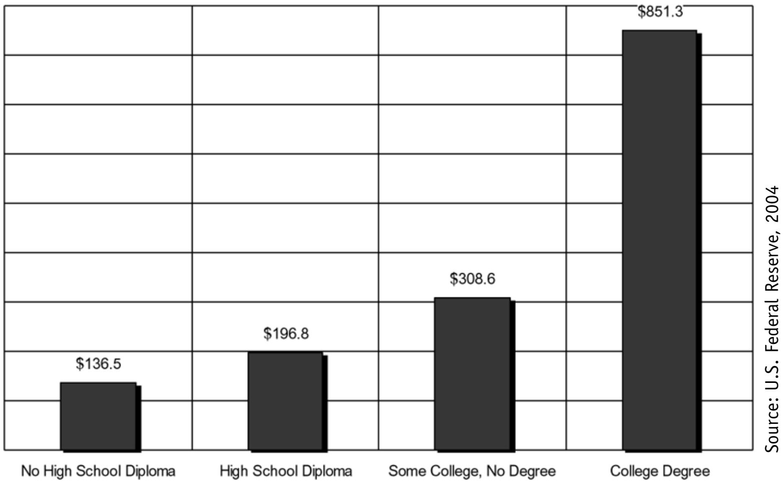
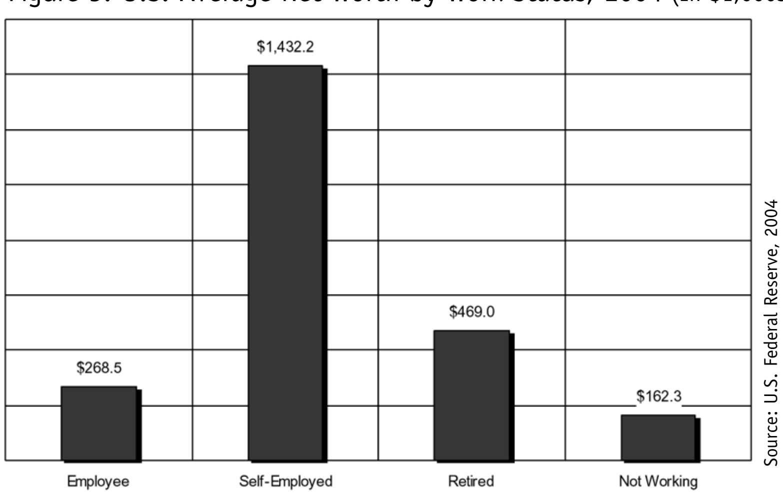



Figure 4: U.S. Average Net Worth by Race, 2004 (In $1,000s)


Figure 5: U.S. Average Net Worth by Work Status, 2004 (In $1,000s)




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 2 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 3 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 contribute to estate development. 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 to save and build assets.

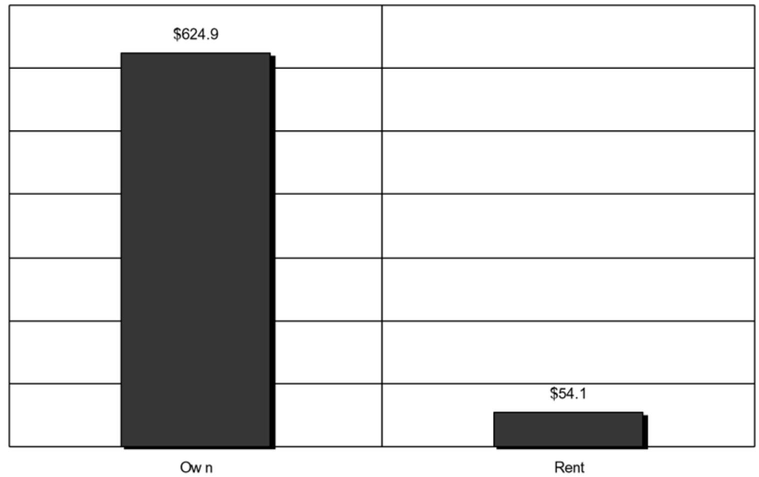
Tragically, race still matters in the United States. Figure 4 illustrates the tremendous divide of wealth held by race. A simple comparison of "white" families compared to all "non-white" families results in a 3.7 times difference. People of color continue to have lower levels of education, lower earning power and less capacity to accumulate assets and wealth.

America is the land of opportunity where owning a business has been a pathway to economic opportunity and greater financial security for some entrepreneurs. In today's economy, where major corporate and government employers downsize jobs, self-employment is becoming even more important. Figure 5 provides a striking picture of the important connection between business ownership and wealth holding. However, research has shown that business ownership or self-employment offers no guarantee to success and wealth. Many business owners struggle and fail. However, 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 greatly stimulating movement of both poorly educated and very well educated persons towards self-employment. 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 6 highlights this on-going relationship between home ownership and wealth formation. On average, for all American families, a family that owns instead of rents a home has nearly 12 times more net worth.

Figure 6: U.S. Average Net Worth by Housing Status, 2004 (In $1,000s)




Source: U.S. Federal Reserve, 2004

## Inflation Adjusted Dollars

The analysis is 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

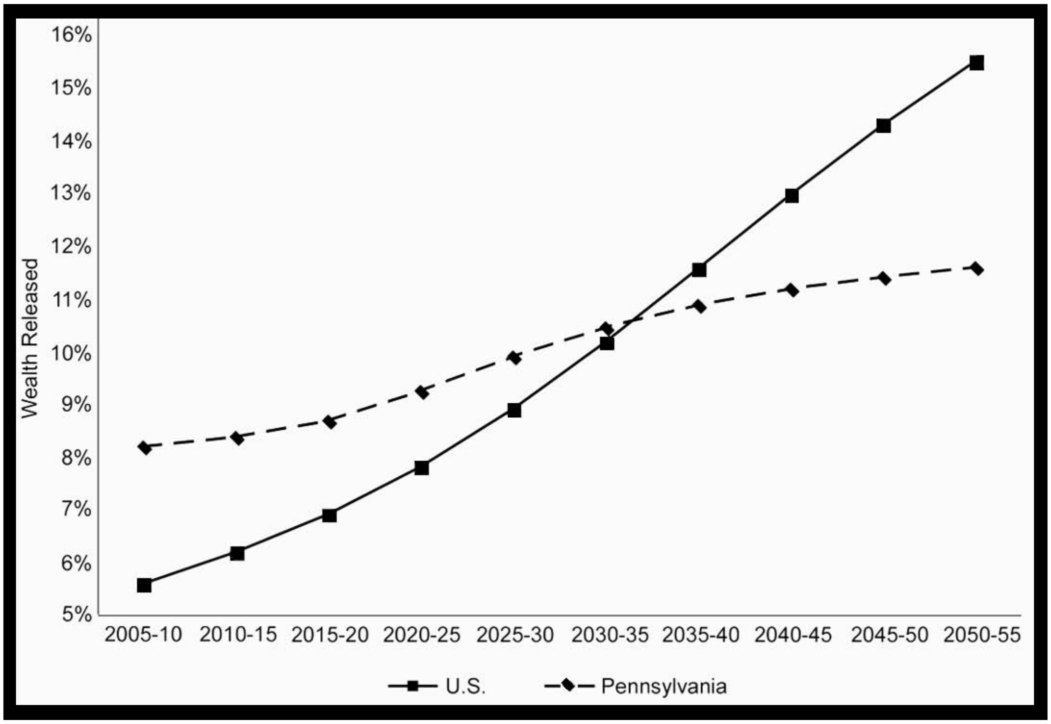
Evolving research on wealth holding in the United States continues to document that wealth is concentrating within America's most wealthy households. Generally speaking, the top quarter of 1 percent of American families (roughly 250,000 families) now control about 25 percent of all American wealth. When considering the top 1 percent and even the top 10 percent of Americans (based on wealth holdings), more than 50 percent of all American wealth is concentrated in the top 10 percent. 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 percent of all American wealth.

## United States Estimates

Research about the wealth holdings in the United States and on current and projected transfers of wealth is richer and more reliable than the state and county research. There continues to be debate regarding the size and the nature of both current net worth in the United States and the TOW opportunity. This research employed three benchmarks of U.S. current net worth ranging from a low of $35 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, the researchers are now benchmarking their studies to the mid-range current net worth estimate of $45 trillion. While recognizing the rapid growth of some middle-income households to higher income levels, they continue to employ a conservative and low scenario of transfer of wealth over the 50-year period due to slowing economic growth rates and stagnating wealth formation rates, particularly among middle-income households.

# FINDINGS

Figure 7: U.S. and Pennsylvania TOW - A Likely Scenario




The researchers ran multiple scenarios for Pennsylvania and its TOW opportunity. The Federal Reserve System, U.S. Census Bureau, Bureau of Economic Analysis and state and local researchers provided data for the analysis.

Based on the analysis, the researchers believe the following estimates are most likely:

| | |
|---|---|
| Current Net Worth in 2005 | $1.01 Trillion |
| 50 Year TOW Estimate | $1.17 Trillion |
| 10 Year TOW Estimate | $193.38 Billion |
| 5% Capture Rate Opportunity on 10 Year TOW Estimate | $9.67 Billion |
| 5% Payout Rate Opportunity on 10 Year TOW Estimate | $483.44 Million |

The following scenarios for Pennsylvania are based on the TOW analysis. Figure 7 provides, for the U.S. and Pennsylvania, the most likely scenario of the timing of wealth transfer between 2005 and 2055.

The trend line for the U.S. represents modestly aggressive growth throughout the period. Continued demographic and economic growth means the U.S. trend line in wealth transfer continues to rise over time. Pennsylvania's TOW trend line is flatter when compared to the U.S. trend line. Overall, Pennsylvania has a more stable and slower growing population and economy relative to the national patterns. Within Pennsylvania, for example, there is considerable diversity when faster growing Adams County is compared with slower growing Venango County.

Based on the mid-range scenario, the researchers are estimating current net worth (CNW) for Pennsylvania at about $1.01 trillion in 2005. (Figure 8) This value equates to $216,000 per household (PHH). Considering the 50-year TOW estimate, Pennsylvania has a TOW of $1.17 trillion (PHH value = $251,000). Focusing on the current decade (2005-2015) alone, the state TOW estimate is $193.38 billion (PHH value = $42,000). Early TOW transfers are somewhat lower for most of Pennsylvania because of its overall growth structure. Transfers of wealth will rise over time fueled by population and economic growth.

Pennsylvania's TOW values are higher when compared to the United States and this opportunity is massive. If just 5 percent of the 10-year TOW were captured in community endowments, nearly $9.67 billion could be permanently set aside for future community betterment projects. Assuming a very conservative 5 percent payout rate on endowments,

## Figure 8 - Commonwealth of Pennsylvania Transfer of Wealth

| | CURRENT NET WORTH (CNW) | | 50 YEAR TRANSFER OF WEALTH (TOW) | | 10 YEAR TRANSFER OF WEALTH (TOW) | | 5% CAPTURE FROM 10 YEAR TOW | |
|---|---|---|---|---|---|---|---|---|
| | CNW, 2005 ($ Billions) | CNW Per Household, 2005 | TOW ($ Billions) | TOW Per Household | TOW ($ Billions) | TOW Per Household | ($ Million) | 5% Pay out ($ Million) |
| Pennsylvania | $1,006.26 | $216,000 | $1,165.24 | $251,000 | $193.38 | $42,000 | $9,668.77 | $483.44 |
| Adams | $7.46 | $212,000 | $9.25 | $263,000 | $1.35 | $38,000 | $67.64 | $3.38 |
| Allegheny | $129.08 | $255,000 | $136.73 | $270,000 | $27.05 | $53,000 | $1,352.64 | $67.63 |
| Armstrong | $5.00 | $179,000 | $5.23 | $187,000 | $1.05 | $37,000 | $52.45 | $2.62 |
| Beaver | $10.26 | $147,000 | $10.38 | $149,000 | $2.23 | $32,000 | $111.39 | $5.57 |
| Bedford | $3.55 | $180,000 | $4.04 | $205,000 | $0.70 | $36,000 | $35.02 | $1.75 |
| Berks | $27.41 | $198,000 | $35.85 | $259,000 | $5.05 | $36,000 | $252.54 | $12.63 |
| Blair | $8.17 | $165,000 | $8.35 | $168,000 | $1.75 | $35,000 | $87.75 | $4.39 |
| Bradford | $4.07 | $169,000 | $4.32 | $179,000 | $0.82 | $34,000 | $40.82 | $2.04 |
| Bucks | $66.01 | $297,000 | $77.84 | $350,000 | $11.19 | $50,000 | $559.27 | $27.96 |
| Butler | $12.57 | $187,000 | $15.54 | $231,000 | $2.30 | $34,000 | $114.89 | $5.74 |
| Cambria | $8.38 | $148,000 | $8.45 | $149,000 | $1.89 | $33,000 | $94.46 | $4.72 |
| Cameron | $0.37 | $162,000 | $0.30 | $128,000 | $0.08 | $33,000 | $3.77 | $0.19 |
| Carbon | $4.84 | $198,000 | $5.72 | $233,000 | $0.97 | $40,000 | $48.64 | $2.43 |
| Centre | $9.59 | $201,000 | $12.45 | $260,000 | $1.66 | $35,000 | $82.81 | $4.14 |
| Chester | $56.33 | $339,000 | $75.20 | $453,000 | $8.81 | $53,000 | $440.58 | $22.03 |
| Clarion | $2.90 | $192,000 | $3.06 | $202,000 | $0.59 | $39,000 | $29.69 | $1.48 |
| Clearfield | $4.94 | $155,000 | $5.29 | $166,000 | $1.02 | $32,000 | $50.97 | $2.55 |
| Clinton | $2.21 | $156,000 | $2.21 | $157,000 | $0.47 | $33,000 | $23.44 | $1.17 |
| Columbia | $5.02 | $207,000 | $5.81 | $239,000 | $1.01 | $42,000 | $50.74 | $2.54 |
| Crawford | $5.54 | $165,000 | $6.23 | $186,000 | $1.11 | $33,000 | $55.55 | $2.78 |
| Cumberland | $19.77 | $238,000 | $26.76 | $322,000 | $3.67 | $44,000 | $183.39 | $9.17 |
| Dauphin | $20.41 | $205,000 | $23.97 | $241,000 | $3.77 | $38,000 | $188.46 | $9.42 |
| Delaware | $51.37 | $254,000 | $59.81 | $296,000 | $9.66 | $48,000 | $483.02 | $24.15 |
| Elk | $2.17 | $162,000 | $2.00 | $149,000 | $0.47 | $35,000 | $23.37 | $1.17 |
| Erie | $17.50 | $171,000 | $19.13 | $187,000 | $3.47 | $34,000 | $173.45 | $8.67 |
| Fayette | $8.67 | $149,000 | $9.07 | $156,000 | $1.83 | $31,000 | $91.69 | $4.58 |
| Forest | $0.35 | $159,000 | $0.33 | $148,000 | $0.06 | $27,000 | $2.96 | $0.15 |
| Franklin | $10.89 | $207,000 | $13.08 | $249,000 | $2.19 | $42,000 | $109.58 | $5.48 |
| Fulton | $1.25 | $215,000 | $1.38 | $238,000 | $0.22 | $38,000 | $11.06 | $0.55 |
| Greene | $1.88 | $133,000 | $1.97 | $140,000 | $0.36 | $25,000 | $17.95 | $0.90 |
| Huntingdon | $2.48 | $156,000 | $2.71 | $170,000 | $0.47 | $29,000 | $23.30 | $1.17 |
| Indiana | $6.07 | $186,000 | $5.88 | $180,000 | $1.30 | $40,000 | $65.05 | $3.25 |
| Jefferson | $2.98 | $165,000 | $3.11 | $172,000 | $0.64 | $35,000 | $31.78 | $1.59 |
| Juniata | $1.79 | $207,000 | $2.00 | $231,000 | $0.35 | $40,000 | $17.38 | $0.87 |
| Lackawanna | $14.81 | $180,000 | $15.54 | $189,000 | $3.26 | $40,000 | $163.24 | $8.16 |
| Lancaster | $37.52 | $219,000 | $46.43 | $271,000 | $7.18 | $42,000 | $359.15 | $17.96 |
| Lawrence | $6.29 | $176,000 | $6.51 | $183,000 | $1.39 | $39,000 | $69.48 | $3.47 |
| Lebanon | $8.28 | $179,000 | $9.39 | $203,000 | $1.67 | $36,000 | $83.62 | $4.18 |
| Lehigh | $28.10 | $238,000 | $33.67 | $285,000 | $5.51 | $47,000 | $275.64 | $13.78 |
| Luzerne | $21.69 | $175,000 | $23.07 | $186,000 | $4.75 | $38,000 | $237.54 | $11.88 |
| Lycoming | $8.44 | $187,000 | $9.12 | $202,000 | $1.73 | $38,000 | $86.50 | $4.32 |
| McKean | $2.51 | $150,000 | $2.50 | $149,000 | $0.52 | $31,000 | $26.08 | $1.30 |
| Mercer | $7.12 | $158,000 | $8.03 | $178,000 | $1.53 | $34,000 | $76.29 | $3.81 |
| Mifflin | $2.96 | $163,000 | $3.20 | $177,000 | $0.62 | $34,000 | $30.90 | $1.54 |
| Monroe | $10.94 | $201,000 | $16.65 | $306,000 | $1.71 | $31,000 | $85.30 | $4.27 |
| Montgomery | $101.93 | $355,000 | $119.11 | $414,000 | $18.96 | $66,000 | $947.90 | $47.40 |
| Montour | $1.44 | $213,000 | $1.50 | $222,000 | $0.30 | $44,000 | $14.97 | $0.75 |
| Northampton | $21.02 | $204,000 | $25.45 | $247,000 | $3.89 | $38,000 | $194.48 | $9.72 |
| Northumberland | $5.17 | $140,000 | $5.55 | $150,000 | $1.10 | $30,000 | $55.03 | $2.75 |
| Perry | $2.66 | $157,000 | $2.85 | $168,000 | $0.44 | $26,000 | $21.97 | $1.10 |
| Philadelphia | $91.51 | $173,000 | $100.45 | $189,000 | $17.39 | $33,000 | $869.53 | $43.48 |
| Pike | $4.72 | $231,000 | $6.83 | $335,000 | $0.78 | $38,000 | $38.78 | $1.94 |
| Potter | $1.33 | $194,000 | $1.30 | $191,000 | $0.27 | $39,000 | $13.45 | $0.67 |
| Schuylkill | $8.73 | $152,000 | $9.56 | $166,000 | $1.86 | $32,000 | $92.79 | $4.64 |
| Snyder | $2.43 | $182,000 | $2.73 | $204,000 | $0.45 | $34,000 | $22.74 | $1.14 |
| Somerset | $5.05 | $168,000 | $5.40 | $180,000 | $1.08 | $36,000 | $53.79 | $2.69 |
| Sullivan | $0.69 | $277,000 | $0.55 | $222,000 | $0.15 | $59,000 | $7.39 | $0.37 |
| Susquehanna | $3.05 | $187,000 | $4.80 | $294,000 | $0.51 | $31,000 | $25.34 | $1.27 |
| Tioga | $2.61 | $167,000 | $2.81 | $180,000 | $0.53 | $34,000 | $26.53 | $1.33 |
| Union | $2.23 | $186,000 | $2.74 | $229,000 | $0.41 | $34,000 | $20.32 | $1.02 |
| Venango | $3.15 | $145,000 | $3.24 | $149,000 | $0.64 | $30,000 | $32.17 | $1.61 |
| Warren | $2.65 | $159,000 | $2.56 | $153,000 | $0.55 | $33,000 | $27.58 | $1.38 |
| Washington | $14.98 | $185,000 | $16.73 | $206,000 | $3.03 | $37,000 | $151.72 | $7.59 |
| Wayne | $4.41 | $236,000 | $6.10 | $327,000 | $0.85 | $45,000 | $42.33 | $2.12 |
| Westmoreland | $25.89 | $176,000 | $29.25 | $199,000 | $5.33 | $36,000 | $266.31 | $13.32 |
| Wyoming | $1.81 | $171,000 | $1.68 | $158,000 | $0.35 | $33,000 | $17.57 | $0.88 |
| York | $28.89 | $188,000 | $36.51 | $237,000 | $5.10 | $33,000 | $254.83 | $12.74 |

nearly $483.44 million could be available annually (forever and in inflation-adjusted dollars) for community betterment projects throughout Pennsylvania.

Figures 9 through 16, shown on Pages 14 through 21, summarize the TOW findings for Pennsylvania and its counties. Figure 9 shows the current net worth (CNW) for 2005 in billions of dollars. Figure 10 shows the values measured "per household," or "PHH," to allow comparisons between the commonwealth as a whole and its counties. Figure 11 demonstrates the estimated TOW over the next 50 years (2005 to 2055) measured in real (inflation adjusted) dollars, and Figure 12 shows PHH values benchmarking the 50-year TOW with the number of households in 2005. Figure 13 illustrates a 10-year TOW estimate (2005 to 2015) and Figure 14 shows per household values (benchmarked to the number of households in 2005). Figure 15 shows how a conservative 5 percent of the 10-year TOW could be captured into community endowments and an estimate of the cumulative value of those endowments should they become reality. Finally, Figure 16 shows a conservative 5 percent payout, which allows the endowment to grow faster than inflation and provide a perpetual 5 percent payout over time: this value is the bottom line in what is possible with a TOW capture strategy. For example, if just 5 percent of the 10-year TOW statewide could be captured into community endowments, a remarkable $483.44 million in potential community betterment funding would be available annually in inflation proof funds over time.

In each of the maps, the counties are shaded to illustrate their relative position with respect to wealth potential across Pennsylvania.

Note: The 5% Captured estimates are based on 5 percent of the 10-year transfer of wealth being donated to a charitable endowment of any sort. The 5% Payout estimates are annual payments made as grants from these charitable endowments. The 5 percent payout assumes a total return to the endowment of some 8 percent, with the remaining 3 percent return added to the endowment to cover inflation.

## Pockets of the Creative Economy

One emerging path to economic diversification is described in Richard Florida's book *The Rise of the Creative Class*. Young, technologically savvy, and footloose professionals are attracted to communities with high amenities and telecommunications capacity. Their creative drive adds vitality and well-paying jobs in fast-growing companies to communities with the right characteristics. Florida looked at a Super Creative Core that includes scientists, engineers, architects, university professors, writers, artists, and entertainers, plus a broader set of creative professionals that includes high-tech workers, legal and health-care professionals, financial services, and business managers. Florida's work focused on metropolitan communities with robust cultural amenities, but USDA's David McGranahan and Timothy Wojan have shown that a rural analogue exists in very livable rural communities with rich natural amenities, as well as in edge communities on the urban fringe.

The specification of the exact set of statistical measures that describe creative communities is a topic of active research. For this TOW model, the researchers asked the technical advisory committee about its perceptions of where pockets of the creative economy might be emerging. The committee discussed university communities that attract large amounts of research dollars and produce both innovations and spin-off businesses. The committee also talked about industry research centers, towns that seem to be reaching a critical mass of technology firms, and high-amenity small communities that may be attracting export-oriented sole proprietors or "Lone Eagles." Adjustments were made in the TOW model to reflect the faster economic and population growth likely to occur in pockets of the creative economy.

## Correctional Facilities' Populations

There was one adjustment needed before using county populations to estimate current net worth. Some counties contain large numbers of group-quarter residents, especially within correctional facilities, who will not contribute to wealth formation. If left in, their presence may skew wealth estimates upward, particularly in rural counties with a large facility. For this analysis, prison populations, where present, were removed from the TOW models.

## Retirees and Seasonal Residents

In considering any scenario for the future of a community, it is important to include the role of part-year residents and retirees, since the process of re-location tends to occur on a continuum of action. For example, a family may become familiar with a new place as tourists. With time and familiarity, it may decide to purchase a second home, whether a modest cabin, rural acreage, or substantial home. It may begin by visiting the second home on weekends and holidays while raising a family. Upon retirement, the couple may decide to reside in the second home for several months a year, and may eventually even re-locate permanently.

The second home and re-location process creates opportunities and challenges for both receiving and sending communities. The sending community can appeal to hometown loyalty, and may receive bequests even after a resident has moved to another location. For receiving communities, such as resort areas, the challenge is to build a relationship with the family. Affinity to a new community grows as the time spent there grows, but there is little research on the nature of these changing loyalties. The researchers believe that loyalty to a hometown where wealth was generated may last a generation or longer.

The researchers assessed the presence of retirees and part-year residents in several ways. Population data on those 55 and older was used to reveal patterns of migration. They also examined data on the amount of dividends, interest, and rent received per household by county. These returns to assets are largely controlled by senior citizens and the ultra-rich. The researchers examined the number of vacation homes by county, looking for large numbers or places where vacation homes are increasing. Care must be taken here because homes in urban areas may show up as vacation homes, depending on which home is the legal primary residence.

## Growing Communities of Immigrants

America has always been a land of immigrants gravitating toward the promise of a better life. In assessing the impact of immigrant streams on wealth formation in a community, the technical advisory committee and researchers formed a consensus around the following premise: upon immigrating, the earnings of a head of household are often repatriated to the family in the native land until other family members are able to move to the United States. A further period of sacrifice occurs as the family puts their children through school, saves for a down payment on a home, and/or starts a business. During that time, immigrants may live in cramped or sub-standard quarters to minimize rent payments. The bottom line is a one-to-two generation lag in wealth formation, followed by a spurt in wealth as the immigrant family consolidates its position in America. The researchers adjusted the transfer of wealth model by looking for places of rapid growth in immigrants and adjusting the number of households downward, for purposes of estimating current net worth.

## 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. This analysis does not attempt to estimate the TOW potential associated with expatriates. For some larger and more urban communities where 70 percent to 80 percent 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.

Figure 9

Current Net Worth in 2005 (in billions)

**Pennsylvania's CNW total is $1.01 trillion**

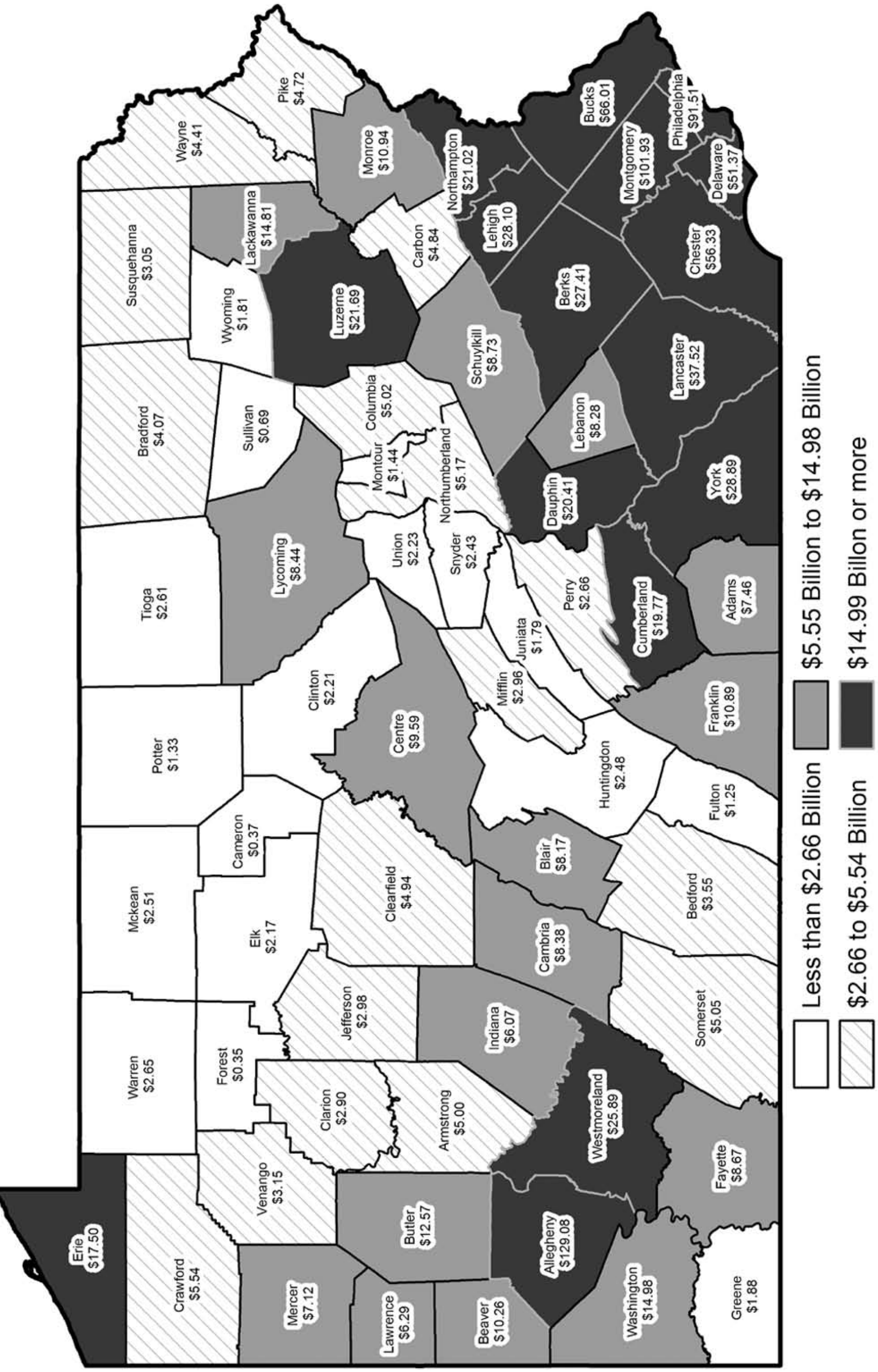
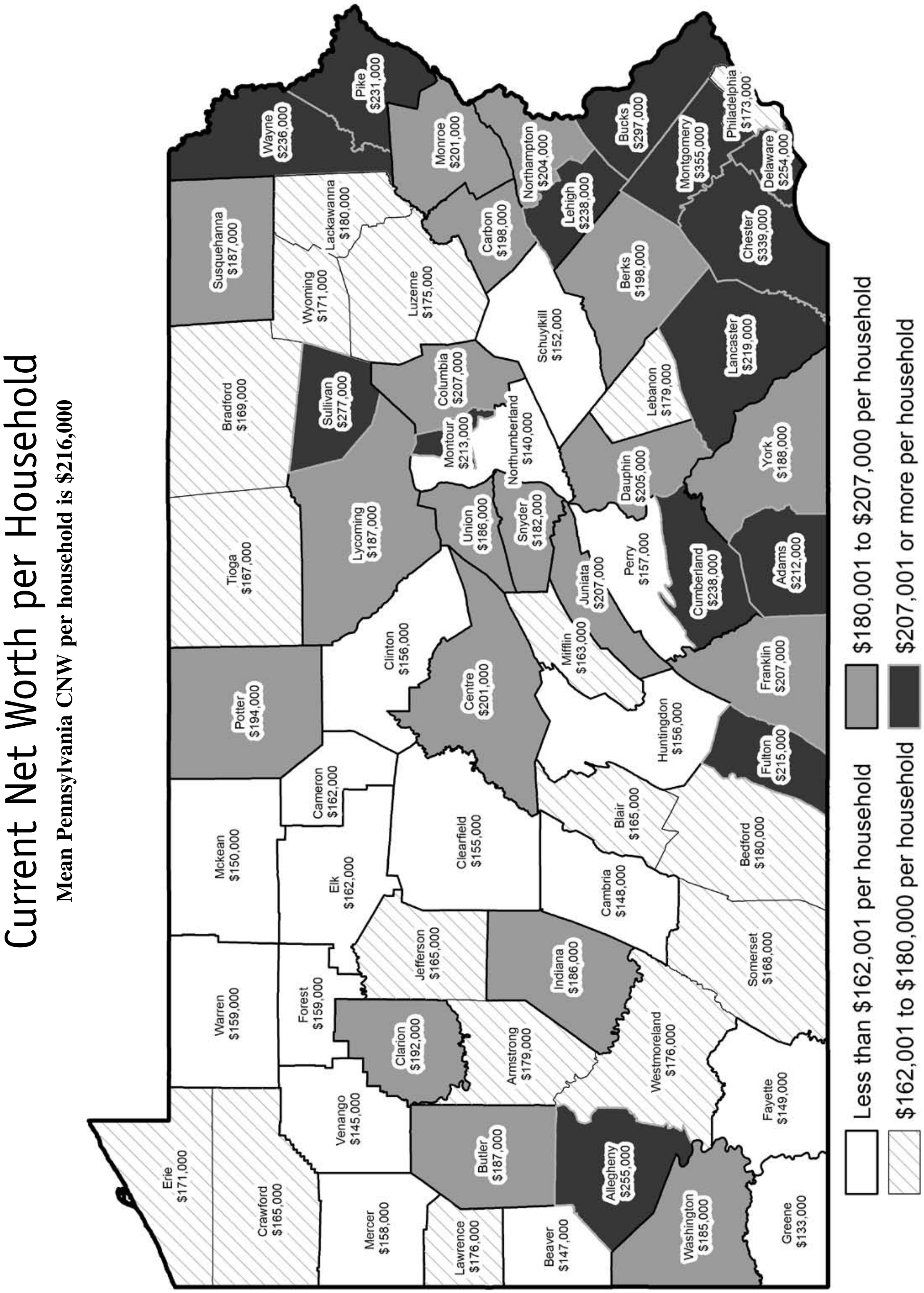


Figure 10



Current Net Worth per Household
Mean Pennsylvania CNW per household is $216,000
Erie $171,000
Crawford $165,000
Mercer $158,000
Lawrence $176,000
Beaver $147,000
Washington $185,000
Greene $133,000
Warren $159,000
Forest $159,000
Venango $145,000
Butler $187,000
Allegheny $255,000
Clarion $192,000
Armstrong $179,000
Westmoreland $176,000
Fayette $149,000
Mckean $150,000
Elk $162,000
Jefferson $165,000
Indiana $186,000
Somerset $168,000
Cameron $162,000
Clearfield $155,000
Cambria $148,000
Bedford $180,000
Potter $194,000
Clinton $156,000
Centre $201,000
Blair $165,000
Huntingdon $156,000
Fulton $215,000
Tioga $167,000
Lycoming $187,000
Union $186,000
Snyder $182,000
Mifflin $163,000
Juniata $207,000
Perry $157,000
Cumberland $238,000
Adams $212,000
Franklin $207,000
Bradford $169,000
Sullivan $277,000
Montour $213,000
Northumberland $140,000
Columbia $207,000
Dauphin $205,000
York $188,000
Lebanon $179,000
Lancaster $219,000
Susquehanna $187,000
Wyoming $171,000
Luzerne $175,000
Schuylkill $152,000
Berks $198,000
Chester $339,000
Lackawanna $180,000
Carbon $198,000
Lehigh $238,000
Delaware $254,000
Wayne $236,000
Monroe $201,000
Northampton $204,000
Montgomery $355,000
Pike $231,000
Bucks $297,000
Philadelphia $173,000
Less than $162,001 per household
$162,001 to $180,000 per household
$180,001 to $207,000 per household
$207,001 or more per household

Figure 11

# 50 Year TOW for 2005-2055 (in billions)

**Pennsylvania's 50 year TOW total is $1.17 trillion**

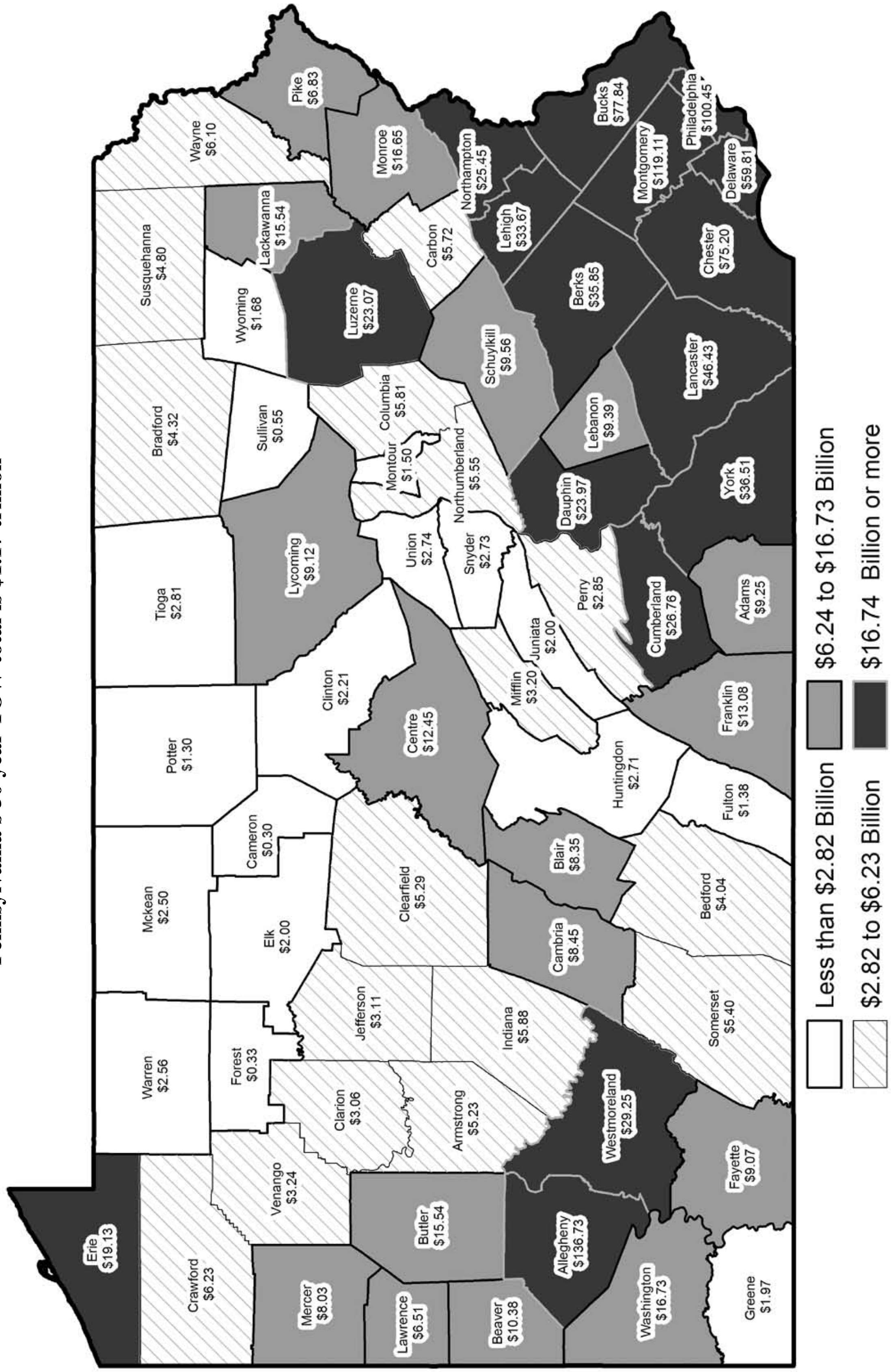


Figure 12

# 50 Year TOW per Household

**Mean Pennsylvania 50 year TOW per household is $251,000**

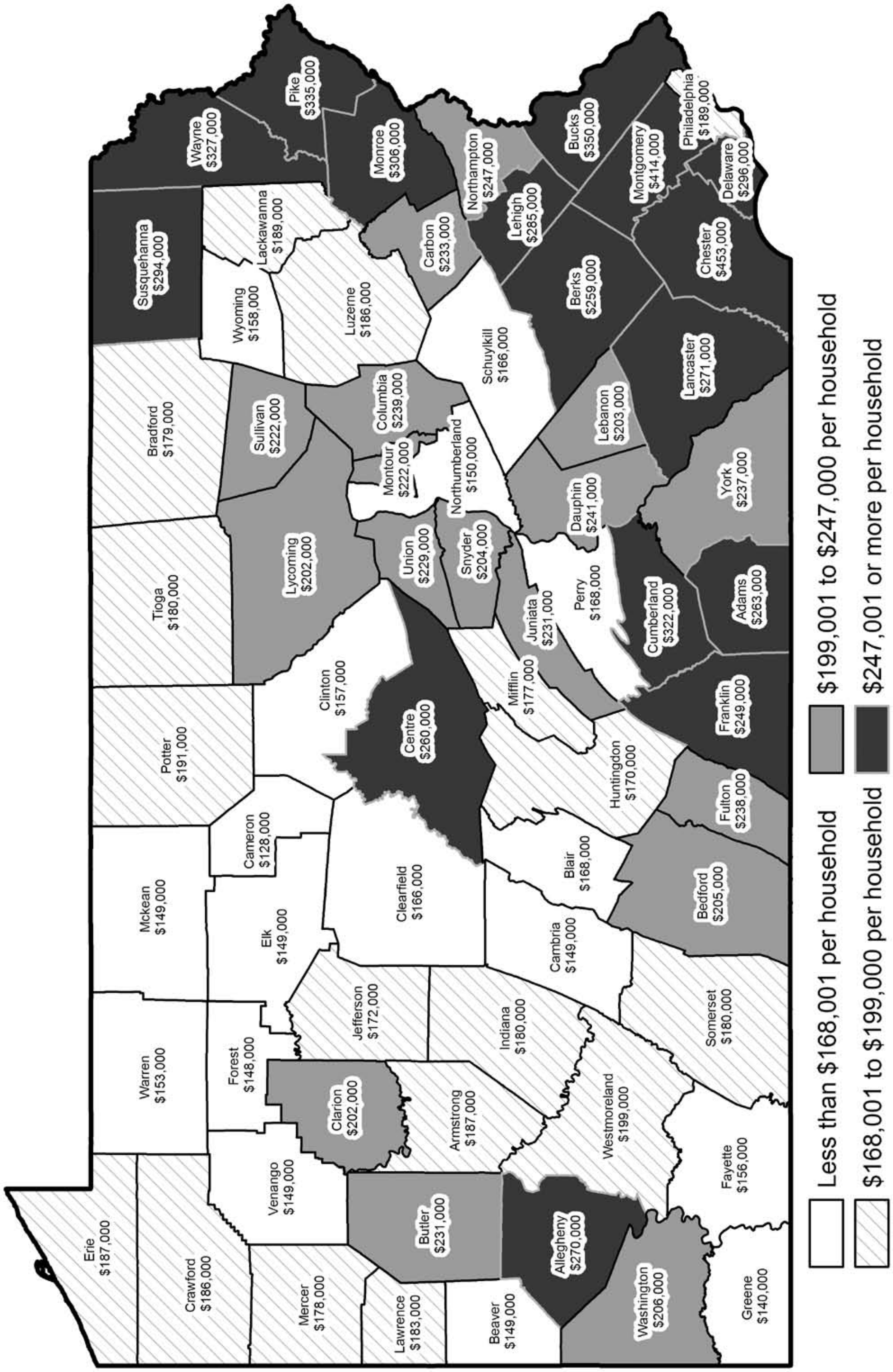


Figure 13

# 10 Year TOW for 2005-2055 (in billions)

**Pennsylvania's 10 year TOW total is $193.38 billion**

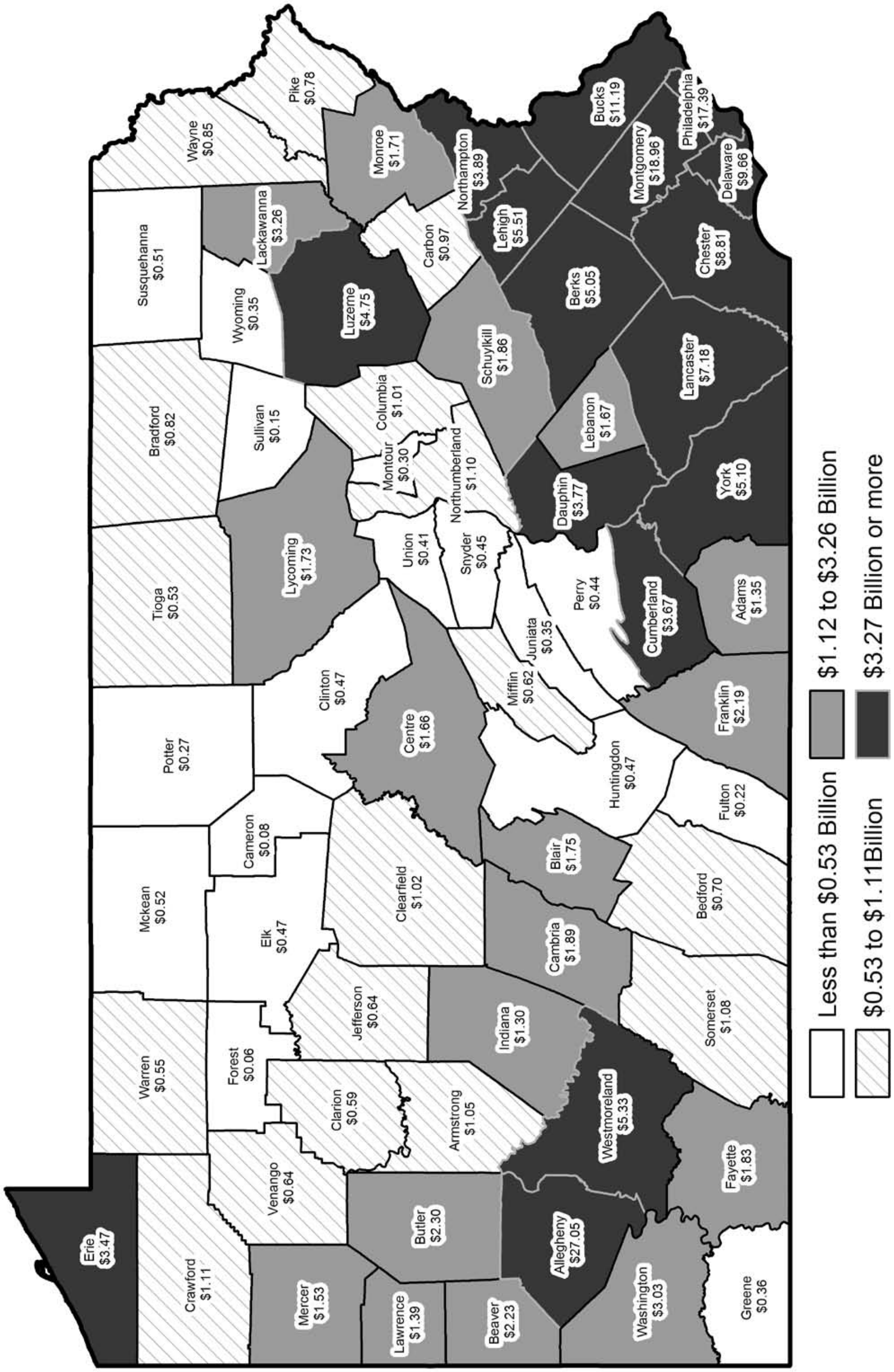


Figure 14

# 10 Year TOW per Household

**Mean Pennsylvania 10 year TOW per household is $42,000**

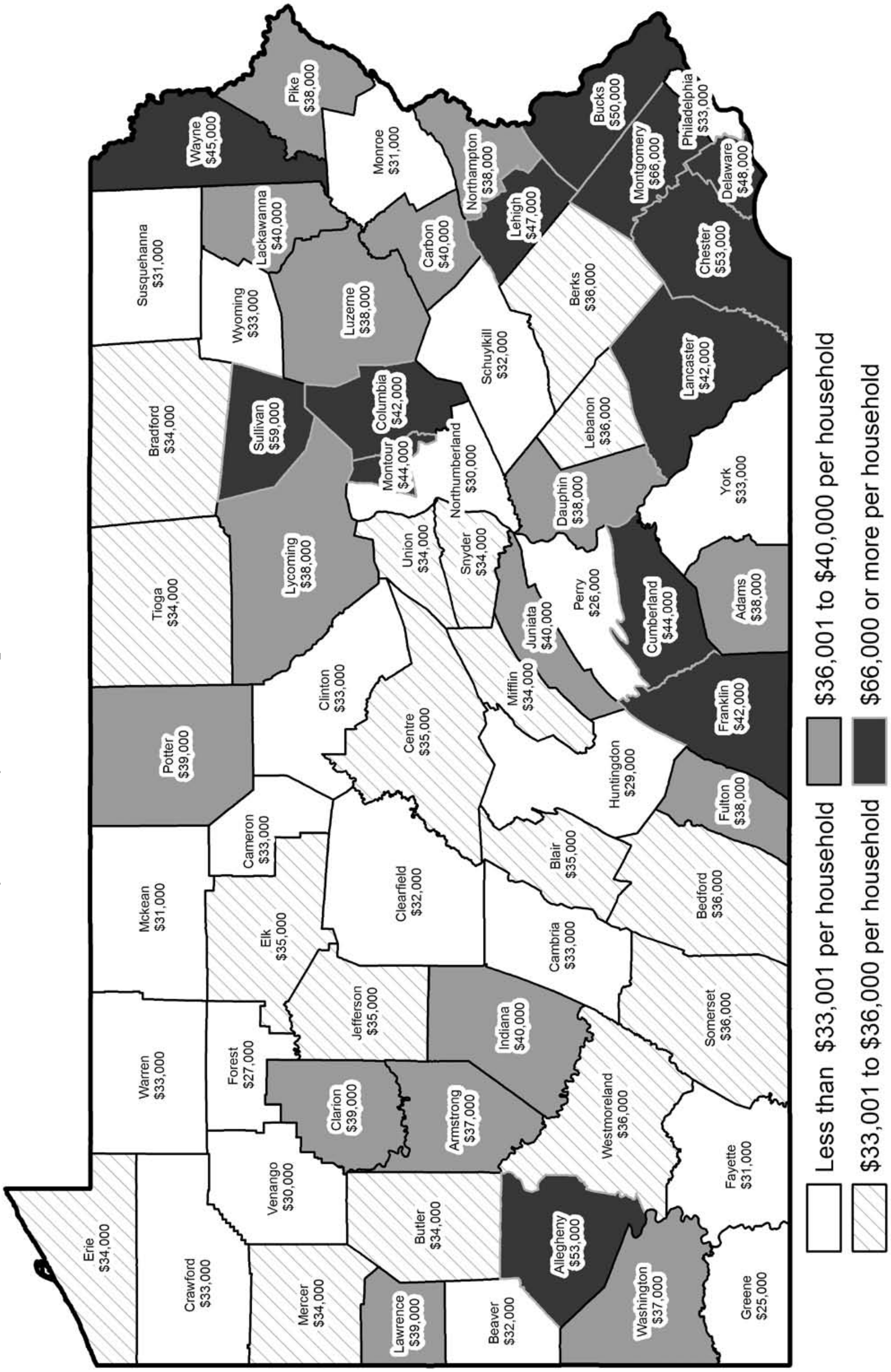


Figure 15

# 5% Capture of the 10 Year TOW (in millions)

**Pennsylvania's 5% capture total is $9.67 billion**

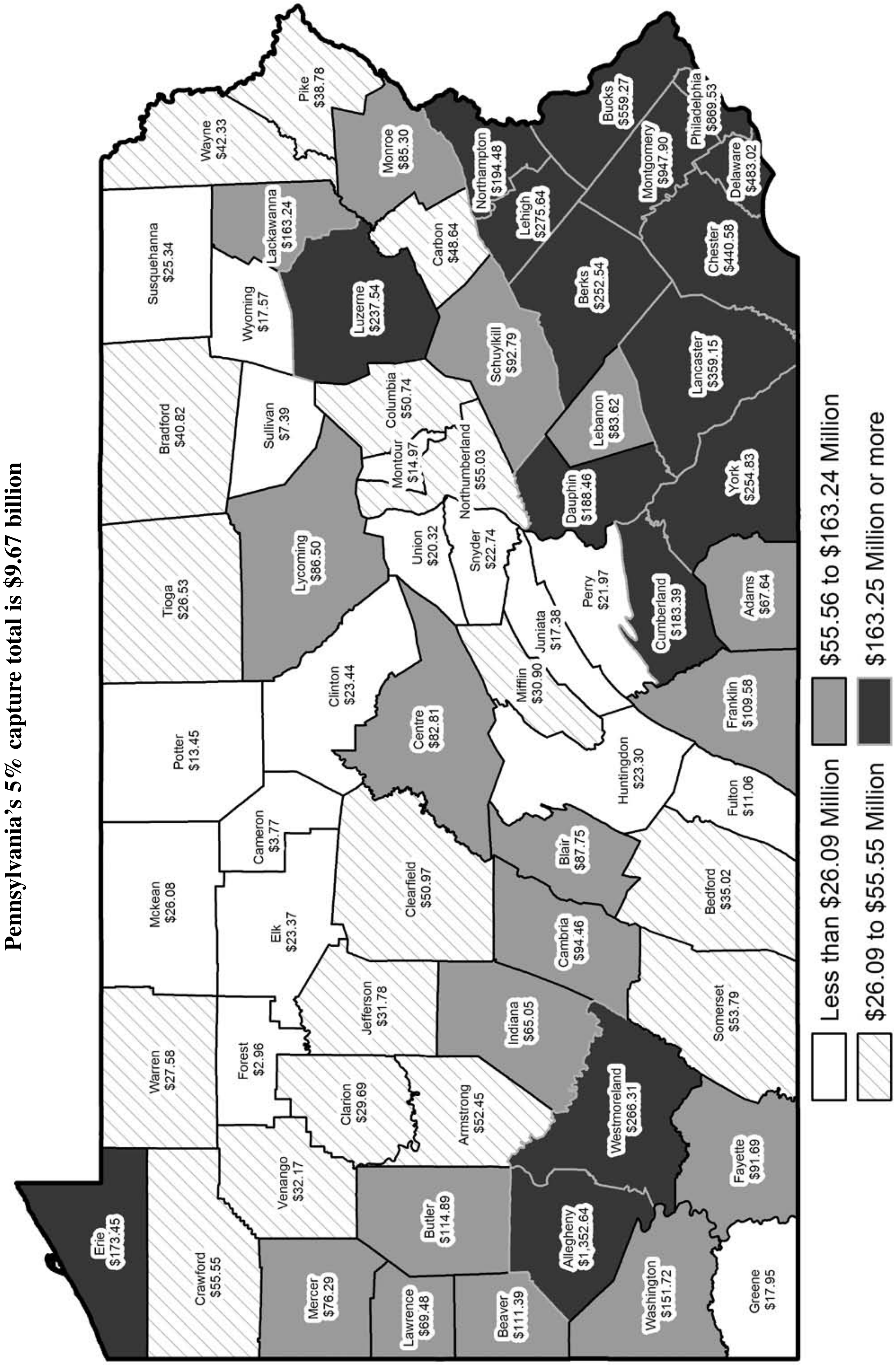
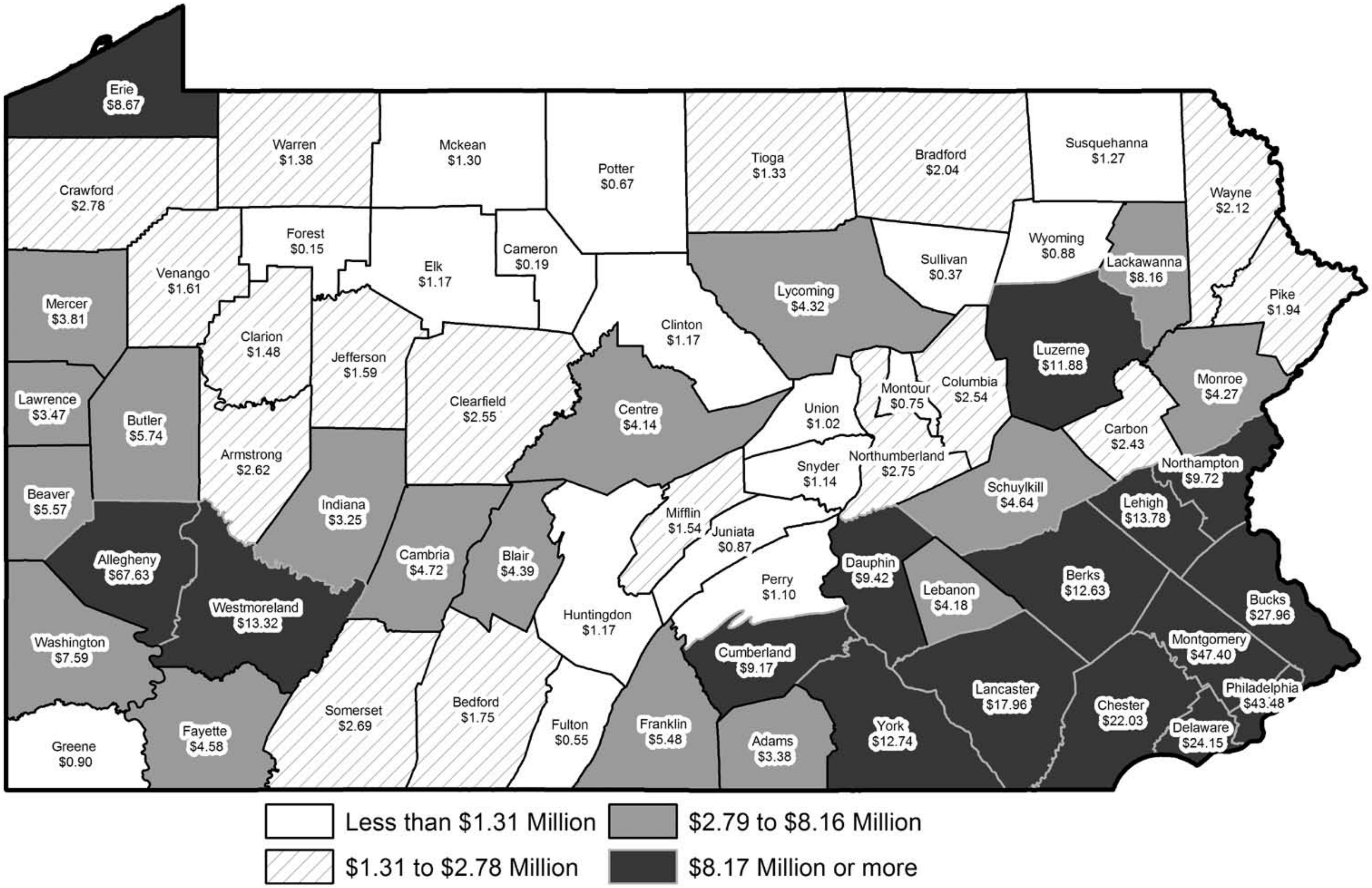


Figure 16

# 5% Payout from Assets Captured in the 10 Year TOW (in millions)

**Pennsylvania's 5% payout total is $483.44 million annually**



# HOW TO USE THIS RESEARCH

Some people may not enjoy discussing the topics of economics and finance. And this research, by its very nature, involves a great deal 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 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 also the ability to set donor development goals that can translate to endowment building and strategic grant making.

At times, the researchers are asked why they use the 5 percent TOW transfer number. Its origins are simple but powerful. When the researchers first explored this work with the Nebraska Community Foundation, a group of board members were pulled together to identify a possible great 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 percent?" What if our communities could make the case to donors so that just 5 percent of the available TOW opportunity could be captured? All agreed that this goal was reasonable and achievable, and the math was easy. As it turns out, they were right. The 5 percent provides people who care with a reasonable target to work towards. Today, communities are working towards their 5 percent goals with passion and effectiveness.


## Acknowledgements

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# METHODOLOGY

The RUPRI Center for Rural Entrepreneurship developed a methodology for creating scenarios for inter-generational wealth transfer for states and counties. In general, the researchers' goal is to generate conservative scenarios for the likely transfer of wealth opportunities at the state and county levels. The researchers reinforce the concept that the scenarios are projections, not predictions. These scenarios are also key assumptions shaped by experts on the technical advisory committee (TAC) formed by each state.

### Time Period for Analysis

This analysis covered the time 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.

The following summarizes the basic methodology for creating these scenarios.

**1) Establish base year for analysis.**

2005 was selected as the base year for this study, as it afforded the researchers considerable adjusted indicators necessary to establish state and county current net worth (CNW). The researchers considered 50 years of historical indicators (extending back to the post-World War II period) and projected estimates 50 years into future (2055). CNW estimates exclude personal assets, such as furniture, vehicles, art and collectibles, and defined-benefit pensions, which, according to U.S. Federal Reserve, provide lifetime income to 57 percent of Americans but may have no transferable value in an estate.

**2) Benchmark analysis to U.S. Federal Reserve's Flow of Funds Accounts of the United States.**

This report is the definitive national accounting of household current net worth in the U.S. on a year-to-year basis. All subsequent analyses are benchmarked to this national value.

**3) Employ national findings from 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 U.S. The most currently available report covers 2004. It provides detailed U.S. asset and liability holdings by key demographic characteristics, such as age of household, income of household, race, employment type, region, and housing type. The researchers match state and county demographic characteristics with key indicators from the Survey of Consumer Finances Report to estimate likely CNW for the state and its counties. Three estimates are generated — low, moderate and high CNW.

**4) Employ key indicators to customize estimates to the unique characteristics of each county and state.**

The 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. Estimates are also adjusted to eliminate institutional populations, such as prisons, military installations, and colleges.

**5) Consider additional customizing considerations to further refine the CNW estimates.**

These considerations include: (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, such as State Bureau of Land Management, Forest Service, and National Parks, Department of Defense installations; (d) effects of mineral/energy right holdings; (e) effects of tribal lands; (f) pockets of high corporate stock ownership and employee stock ownership plans; (g) pockets of the creative economy; (h) specific new economic developments, such as new plants, mines, power plants, highways, alternative energy, and water projects; (i) effects of the gaming industry; (j) effects of investment patterns and traditions of state residents; (k) effects of new immigrants and repatriation of earnings; and (l) areas of future population boom, bust, or plateau.

Many of these factors are also key considerations in building assumptions for the TOW projections. The technical advisory committee also helps to identify other unique circumstances that would impact the estimates of either CNW or TOW.

**6) Build a population model for the period of 2005 through 2055 and an economic forecasting model for each county and state.**

Employ existing and available state population forecasts and then build out the population forecasts through 2055. Typically, the estimates 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. The researchers employ these relationships along with the demographic and economic forecasts to project household CNW over time through 2055. Again, the researchers generate relatively conservative projections benchmarked to the mid-range CNW for the U.S. and the low TOW projection for the United States.

**7) Employ discounting method to reduce value of CNW projections to generate TOW estimate.**

Not all assets are equal with respect to TOW opportunity. Many assets will not be available for giveback either to heirs, charities or hometowns. The researchers employ a discounting methodology to reduce the value of the CNW projections to generate a TOW estimate that more closely represents the likely TOW opportunity for each county. Following are some examples of where CNW might be discounted:

(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 giveback standpoint, including defined benefit retirement programs or annuities. (d) Closely held assets including farms, ranches and family businesses. (e) Assets of lower income households that are likely to be consumed during retirement leaving limited estates available for giveback. This discounting can reduce gross CNW by 50 percent to 75 percent, depending on the demographics of households in a particular county. Again, the discounting allows the researchers to estimate TOW that is truly available for potential giveback.

**8) Estimate the timing of TOW release.**

The researchers employ projected deaths as the primary indicator of TOW release. The demographic projections estimate the number of deaths throughout the analysis time frame and these percentages are used to estimate TOW release.

**9) Engage the TAC.**

To ensure they have captured all material considerations, the researchers engage a TAC of experts in each state to review findings and assumptions, and to advise researchers on key factors in the scenario process. Other experts are often consulted to ensure that the researchers have adequately addressed unique issues specific to particular county settings.

**10) Generate state CNW and TOW estimates by aggregating the findings for all the counties within the state.**

These values are once again benchmarked to the U.S. and to other states to ensure comparability.

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