Center for Rural Entrepreneurship

energizing entrepreneurial communities

Philanthropic Opportunity Profile

United States

A Look at Wealth & Philanthropy in the Nation



March 2, 2016

Center for Rural Entrepreneurship

Introduction

The Center for Rural Entrepreneurship believes in **empowering research** – making data-driven decisions about economic development to be more strategic and, ultimately, create the kinds of economic development outcomes and long-term community prosperity you desire. We work hard to build tools and resources that communities can use to access and understand data and turn that raw information into knowledge you can apply in your community. This **Philanthropic Opportunity Profile** was prepared for our national Community Development Philanthropy audience.

America's Transfer of Wealth Opportunity

In 1999, Boston College catalyzed an ongoing conversation about philanthropic opportunity in America with the release of Millionaires in the Millennium. The Boston College study estimated that over a 50-year period, $41 trillion in household wealth would pass from one generation to the next. The report highlighted the opportunity for increased philanthropic giving that this massive transfer of wealth could support. Since 2001, the Center for Rural Entrepreneurship has completed over 60 Transfer of Wealth Opportunity Studies (TOW), ranging from our first study of rural Nebraska to Los Angeles, Brooklyn and a wide range of communities across the U.S. Since Boston College did not update the 1999 study, in 2011 the Center for Rural Entrepreneurship updated U.S. Transfer of Wealth opportunity scenarios for our book. We estimated that, between 2010 and 2060, a remarkable $75 trillion in household wealth will transfer from one generation to the next. If just 5% of this potential was gifted for philanthropic purposes, an amazing $3.75 trillion in new endowments could be created – the equivalent of nearly 100 new Gates Foundations.

Why Philanthropy?

For any community or nation to thrive, it must continually invest in education, health care, economic development and other community amenities. Traditional sources of funding (e.g., local taxes, federal and state funding, and support from local businesses), have been under increasing pressure, particularly since the Great Recession. The Center's experience suggests that the greatest underdeveloped financial resource you can mobilize to support community building is philanthropic giving. Community-based philanthropy is a way for the community to invest and have some "skin" in the economic development game. It is also a community engagement tool, providing opportunities for *all* community members to give back according to their means. Across the U.S., there are examples of the power of community-based philanthropy to drive community betterment, including young parents creating an endowment to support quality pre-school education and successful entrepreneurs endowing programs to encourage and support up-and-coming entrepreneurs, including youth. To encourage community philanthropy, however, you need to begin by helping the community to recognize that they have wealth to give and to dream about the community they could create by using that philanthropic capacity wisely.

The U.S. Philanthropic Opportunity Profile

This **Philanthropic Opportunity Profile** draws on secondary research to describe the opportunity for increasing philanthropy in support of sustainable community betterment for the U.S. as a whole. While the Center continues to prepare comprehensive **Transfer of Wealth Opportunity Analysis** for states and regions as requested, this type of Profile provides a more readily accessible alternative for estimating TOW potential and enables us to offer more timely views of the Nation's philanthropic potential than we have been able to do in the past. This Profile is useful as a benchmark if you choose to look more closely at the philanthropic potential in your particular community or region.

Estimating Philanthropic Potential

The starting point for understanding philanthropic potential is to understand wealth holding. Since the 1980s, the U.S. Federal Reserve Board has commissioned an extensive research effort, *Survey of Consumer Finances*, to gain insights into household income and net worth. Based on the data series produced by this research, we have identified relationships between several household characteristics and household net worth. The key wealth drivers in any community include:

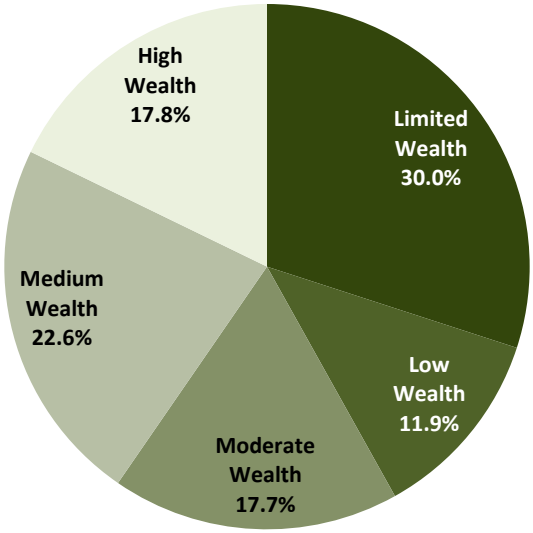
- **Age.** Wealth accumulation follows a pretty standard pattern over time, increasing gradually as we build skills and a career, peaking at retirement and then declining as we drawn down accumulated wealth in retirement.
- **Educational attainment.** Your level of education matters in terms of accumulating wealth over time. Average net worth of households with a college degree is twice as much as the national average.
- **Income.** There is a strong positive correlation between household income and average net worth. Average net worth increases rapidly once household income reaches $100,000, based on 2010 research.
- **Share of dividends, interest and rent (DIR) income in total.** Passive income, from dividends, interest and rent, is used as a proxy for wealth holding. As the share of income from dividends and interest increases, so does average net worth.
- **Work status (Self-employment).** On average, those who are self-employed or in a partnership tend to have higher average wealth holdings than those working for someone else – another reason why entrepreneurship is an important development strategy.
- **Occupation type.** Households headed by a person with a managerial occupation tend to have higher average net worth than other households – on average, twice the net worth of the average household.
- **Housing value.** As housing values increase – an important component of wealth holding – so does the average net worth of the household.

The next section provides insights into these wealth drivers for the U.S. as a whole. This national level information provides an excellent point of comparison for your community or region.

Household Wealth Profile of the United States

Every community has a unique household wealth profile. Using 2015 information from Esri, we created the following **Household Wealth Profile** for the United States as a whole.

Figure 1. 2015 Distribution of Wealth by Households, United States

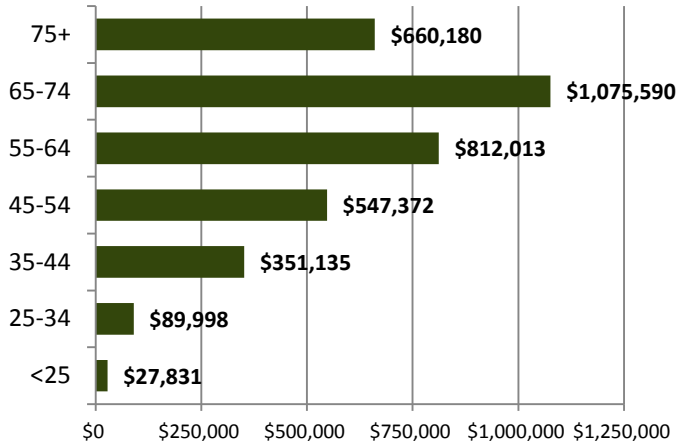


Wealth Status. The pie chart (Figure 1) illustrates the household distribution of wealth for the Nation in 2015. Over 40% of the Nation's households have limited or low wealth, suggesting limited capacity for giving back. At the same time, another 40% of households have medium or high wealth, a potential asset for the Nation's communities. Developing a robust philanthropic engagement strategy, including reaching out to smaller donors with more limited resources, can create sustainable resources to help your community create a more prosperous future for present and future generations.

Household Wealth and Age. As described earlier in this profile, households tend to go through a wealth creation cycle over time. Early on, we have little wealth as we are learning and growing into work and career. Often, we are spending more than we are making as we buy that first car or first home and begin to have children. However, once our children are raised, we tend to earn more as our careers advance. This transformation allows us to accumulate assets and build an estate (i.e., household current net worth – assets minus liabilities). Retirement years, for most of us, represent the peak of our wealth, and as we age, we spend down or give away our estate.

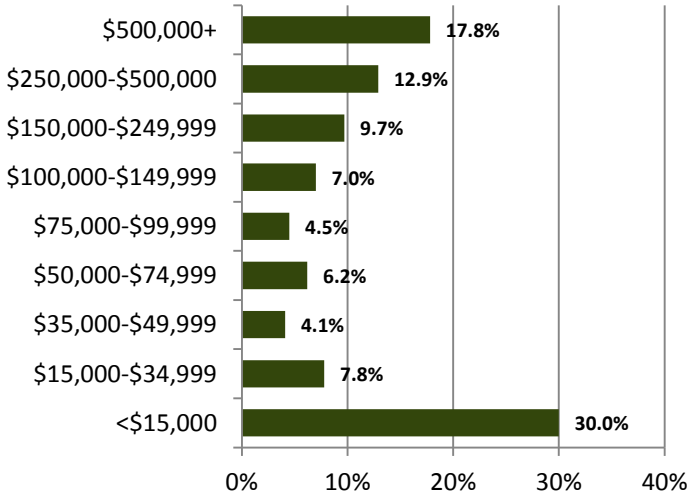
Figure 2 shows average household current net worth (CNW) by age cohort for the United States. As you would expect, wealth is concentrated among retirement age households (over 65 years old). However, there is some wealth in the middle-age cohorts (45-64 years old), suggesting the opportunity to engage younger residents in conversations about philanthropy well before they reach retirement age. In fact, residents in these age groups may be highly motivated to make a difference and have a passion, such as entrepreneurship or youth engagement, that they would be willing to support. Since each generation brings a different set of attitudes and values to "giving back", it is important to engage and understand what motivates philanthropy among younger residents.

Figure 2. 2015 Average Household Current Net Worth by Age Cohort



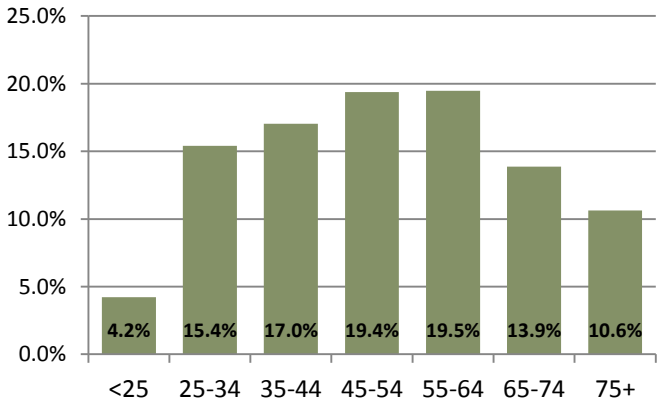
Your community's demographic profile can have an important impact on its wealth profile. For example, many rural communities struggle to retain younger adults (20 to 35 year olds) who are just beginning to create wealth ***and*** older wealthier residents (65 and older) who are moving to communities with more appropriate senior amenities (e.g., housing, health care) or following children and grandchildren who have left their hometowns. When a community loses older residents, their accumulated wealth typically leaves with them, a leakage of critical community philanthropic potential.

Figure 4. 2015 Households by Average Current Net Worth, United States



Households by Age. Figure 3 shows the Nation's current profile of households by age cohort. As we see in many communities, the Nation's population is older, with almost half the households headed by someone over the age of 55. However, about a third of the households are younger, in the early stages of wealth formation (25-44). While we tend to think of older residents as having the most philanthropic potential, both these groups should be engaged at the community level in a discussion about philanthropy and its ability to influence the future prospects of the Nation and its communities.

Figure 3. 2015 Age Profile for United States



Households by Average Current Net Worth. Household wealth holding is dependent upon the wealth drivers discussed on page 2 – e.g., age, educational attainment, business ownership. We know that some of these drivers vary widely across the U.S. While the result is that 30% of households have limited wealth, 7.8% of the Nation's households have more than $500,000 in current net worth. The average estate for this group is of over $2.6 million. Imagine if this group of residents gave just 1% of their wealth holdings to philanthropic institutions across the country; over $565 million could be placed into endowments that would be able to generate $25.4 million annually for community betterment grant making.

United States' Philanthropic Potential

Our comprehensive TOW analysis provides much more detailed and accurate estimates of the Nation's philanthropic potential, as described earlier. This **Philanthropic Opportunity Profile** provides a reasonable estimate of philanthropic potential in the U.S. based on available secondary data. Using 2015 proprietary research from Esri, Table 1 describes the Nation's **Transfer of Wealth Opportunity**.

Table 1. United States, 10-Year Transfer of Wealth Opportunity

2015 Household Current Net Worth	=	**$67.4 trillion**
1% Gifted Back to Philanthropy	=	**$674 billion in Philanthropic Endowments**
4.5% Annual Payout	=	**$30.3 billion annually for Community Betterment**
A Decade of Giving	=	**$303 billion for Community Betterment**

It is important to note that with accepted and sound endowment management practices, these funds would be inflation protected to ensure annual purchasing power.

Imagine how $300 billion over the next 10 years could improve our Nation. This enhanced capacity could be used to leverage other funding (e.g., government or other grants), support improvements in recreational facilities and natural resources, increase strategic investments in economic development initiatives, improve public facilities, expand programs for youth, and increase amenities and services for elders.

At the national level, these numbers are hard to grasp. Yes, you can see the potential but turning that potential into reality seems like a very tall task. The beauty of understanding your community's specific philanthropic potential – and making a commitment to capture some portion of the Transfer of Wealth Opportunity into an endowment – is that YOUR Community decides how these funds are spent to improve quality of life and advance prosperity within your hometown.

The Power of Endowments

Across the U.S., there is a growing **Community Development Philanthropy** movement. Communities large and small – rural and urban – are establishing foundations, working with legacy donors and growing community endowments capable of supporting community betterment projects and economic prosperity strategies over time. Creating permanent community endowments is a powerful community building resource. It is a way to achieve a community's dreams.

What could happen in the U.S. if we were successful in making the case to donors and achieving a 1% giveback goal? Table 2 provides an **endowment illustration** based on the Nation's transfer of wealth opportunity. Recognizing that such an aggressive goal is not achievable in a single year, we assume for the purposes of this example that 1% of the Nation's TOW Opportunity, **$674 billion,** was gifted in 2015. Over 20 years, these gifts would grow to over **$1.2 trillion** and nearly **$870 billion** could be granted to support investments in community betterment and building a more prosperous nation. This example demonstrates the power of compound interest and permanent endowments, assuming a fairly standard 7.5% annual investment return and a 4.5% average annual payout rate.

Table 2. Endowment Building Example for United States

Year	Beginning Endowment Principal	Annual Earnings	Annual Grants	Ending Endowment Principal
2015	$674,123,244,077	$50,559,243,306	$30,335,545,983	$694,346,941,399
2016	$694,346,941,399	$52,076,020,605	$31,245,612,363	$715,177,349,641
2017	$715,177,349,641	$53,638,301,223	$32,182,980,734	$736,632,670,130
2018	$736,632,670,130	$55,247,450,260	$33,148,470,156	$758,731,650,234
2019	$758,731,650,234	$56,904,873,768	$34,142,924,261	$781,493,599,741
2020	$781,493,599,741	$58,612,019,981	$35,167,211,988	$804,938,407,733
2021	$804,938,407,733	$60,370,380,580	$36,222,228,348	$829,086,559,965
2022	$829,086,559,965	$62,181,491,997	$37,308,895,198	$853,959,156,764
2023	$853,959,156,764	$64,046,936,757	$38,428,162,054	$879,577,931,467
2024	$879,577,931,467	$65,968,344,860	$39,581,006,916	$905,965,269,411
2025	$905,965,269,411	$67,947,395,206	$40,768,437,123	$933,144,227,493
2026	$933,144,227,493	$69,985,817,062	$41,991,490,237	$961,138,554,318
2027	$961,138,554,318	$72,085,391,574	$43,251,234,944	$989,972,710,948
2028	$989,972,710,948	$74,247,953,321	$44,548,771,993	$1,019,671,892,276
2029	$1,019,671,892,276	$76,475,391,921	$45,885,235,152	$1,050,262,049,044
2030	$1,050,262,049,044	$78,769,653,678	$47,261,792,207	$1,081,769,910,516
2031	$1,081,769,910,516	$81,132,743,289	$48,679,645,973	$1,114,223,007,831
2032	$1,114,223,007,831	$83,566,725,587	$50,140,035,352	$1,147,649,698,066
2033	$1,147,649,698,066	$86,073,727,355	$51,644,236,413	$1,182,079,189,008
2034	$1,182,079,189,008	$88,655,939,176	$53,193,563,505	$1,217,541,564,678
2035	$1,217,541,564,678	$91,315,617,351	$54,789,370,411	$1,254,067,811,619
Total Grants			**$869,916,851,313**	

Using this U.S. Philanthropic Opportunity Profile

We offer this **U.S. Philanthropic Opportunity Profile** as a way to begin to think about the power of philanthropy. The conversation you might have about philanthropy in your community or region is likely to be very different from one at the national level. Depending upon where you live, your community may look very different from the U.S. as a whole. You may live in a high wealth community like Telluride, Colorado or in a Midwestern community struggling to deal with population loss following a plant closure. Based on our work across the U.S., we believe that every community has some untapped potential for increased philanthropy.

We encourage you to share this U.S. profile with a diverse group of community stakeholders and residents. You might consider the value of looking at these trends within your own community (see below). You can bring the philanthropic opportunity home for people by using the numbers from your community's specific **Philanthropic Opportunity Profile** in the **Dream Exercise** (see instructions in the box below). The numbers shared in Table 1 for the U.S. are big numbers. Even smaller communities find their comparable numbers startling. It is sometimes difficult to imagine such a significant level of financial resources, especially in a community that has been struggling for some time. The dream exercise helps people move into more creative, appreciative space – to consider what ***might be possible***, given these new resources.

You can use your Profile as a call to action. But, remember that the numbers in any Profile are drawn from secondary data. You should dig deeper and use your own knowledge of the community to help create a deeper understanding of the potential for community philanthropy. Consider creating a community philanthropy team that could work with a local foundation, financial advisors, bankers and others in the community to better understand wealth holding. Remember that there is giving potential at all levels so you should also bring a broad group of community residents together to begin to talk about the potential for community philanthropy. And, continue to connect philanthropic potential to the dreams and development opportunities in your community. Our experience tells us that people will give back to the community – with their time, talent ***and*** treasure – when they see an opportunity to connect their passions with the community's pathway to prosperity.

*To obtain your own customized **Philanthropic Opportunity Profile**, please complete and submit the interest form found on our website, http://www.energizingentrepreneurs.org/solutions/get-started/interest-form.html.*

Dream Exercise

There never seems to be enough money to do the things we want to build a stronger community. But, let's dream a bit! Assume we're successful in capturing the philanthropic opportunity in our Nation. Over the next decade, we will have $30 billion ***annually*** for strategic grant making in the Nation. How would you suggest we invest these funds? Take some time to think on your own and then we'll share back as a group.

Reading Library

We have selected a number of resources that we recommend in our Reading Library related to philanthropy:

- *Transfer of Wealth in Rural America – Understanding the Potential, Realizing the Opportunity and Creating Wealth for the Future* (Don Macke, Deborah Markley and Ahmet Binerer, Center for Rural Entrepreneurship, 2011.)
- A Different Vision of Rural Philanthropy from Nebraska's Jeff Yost (Rick Cohen, Non-Profit Quarterly, March 12, 2015.)
- *Community Capitalism – Lessons from Kalamazoo and Beyond* (Ron Kitchens with Daniel Gross and Heather Smith, AuthorHouse, 2008.
- *Why Philanthropy Matters* (Zoltan J. Acs, Princeton University Press, 2013.)
- *Here for Good – Community Foundations and the Challenges of the 21st Century* (Terry Mazany and David C. Perry Editors, M. E. Sharpe, Inc., 2014.)
- *Give a Little – How Your Small Donations Can Transform Our World* (Wendy Smith, Hyperion, 2009.)
- *Mapping the New World of American Philanthropy – Causes and Consequences of the Transfer of Wealth* (Susan U. Raymond and Mary Beth Martins, John Wiley & Sons, Inc., 2007.)
- *Relationship Shift – Revolutionary Fundraising* (Michael Bassoff and Steve Chandler, Robert E. Reed Publishers, 2001.)

Other Center Resources

These additional **Empowering Research** tools can help you better understand your community and economy, the first step toward creating a vision and optimal prosperity plan.

More Philanthropic Opportunity Resources

- Donor Opportunity analysis
- Transfer of Wealth Opportunity analysis
- Philanthropic Sector analysis
- Charitable Giving analysis

Development Opportunity Profile brings together a range of secondary data so that you understand the regional context and the population, employment and income trends for your community. We also identify the primary drivers of your community's economic success so you'll be in a better position to focus in on your community's genuine development opportunities.

More Development Opportunity Resources

- Economic Diversity *report*
- Economic Cluster report
- Manufacturing sector report
- Tourism sector report
- Agriculture sector report
- Community conversation report

Generational Diversity Profile will help you understand generational change, some of the differences across the generations and potential impacts on community leadership, philanthropy and development.

More Generational Diversity Resources

- Generational Diversity analysis
- Generational Scenario analysis

We can also help you share this research with key stakeholders in your community through webinars, workshops and other types of engagements.

- Consultations
- Webinars
- Toolkits
- Keynotes
- Customized workshops and training institutes
- Coaching support
- Community-based projects and initiatives

To learn more, go to the **Get Started** page on our website. Or visit our **Store** for books and other resources.

About the Center

The Center for Rural Entrepreneurship's mission is to help community leaders build a prosperous future by supporting and empowering business, social and civic entrepreneurs. With our roots and hearts in rural America, we help communities of all sizes and interests by bringing *empowering research* together with *effective community engagement* to advance *community-driven strategies* for prosperity.

Our **Solution Area Teams** – Entrepreneurial Communities; Community Development Philanthropy; New Generation Partnerships – empower community leaders to find their own answers to the economic development challenges and opportunities they face.

To learn more about the Center, go to www.energizingentrepreneurs.org.

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Our Team



Don Macke is Co-Founder and Director of the Entrepreneurial Communities solution area. Through this work, Don helps communities and regions throughout North America grow entrepreneur-focused economic development strategies. He works with a group of strategic partners across the country to deliver customized economic development solutions.



Deborah Markley is Co-Founder and Managing Director of the Center. Deb guides the Center's measurement and research agendas, including development and implementation of tools for measuring success, practice-driven research, and evaluation of model entrepreneurship development systems and initiatives in rural places.



Ann Chaffin is Senior Associate for Marketing Communications with the Center. Ann heads the Center's Communications team and is responsible for overseeing and branding all content the Center distributes and keeping communications current and professional for each of our solution areas.



Dana Williams is Project Associate with the Center. Dana provides management assistance and operational support across the Center, including providing executive assistance to each of the Center's solution areas and has been actively engaged in product development, supporting the creation of a number of online toolkits.

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