



**Wealth Transfer in
North Dakota:
A Call to Action -
Investing in our Future**

5 Key Strategic Planning Questions

Vision

What do we aspire to be?

Strategic Issues

What are the most important challenges we will face in the foreseeable future?

Strategies

What are the most important things we need to do in order to be what we aspire to be?

Tactics and Action Plans

How do we intend to accomplish our strategies?

Measurement

How will we know how we are doing?

Impact Institute

To provide nonprofit organizations with technical assistance and other educational resources to measurably improve their organizational and fundraising effectiveness.

www.impactgiveback.org



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This report is based on a study prepared for Impact Foundation by John J. Havens and Paul G. Schervish of Boston College's Center on Wealth and Philanthropy.

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[Paul G. Schervish](#) is a professor of sociology and director of the Center on Wealth and Philanthropy at Boston College. He received his bachelor's degree in literature from the University of Detroit, a master's in sociology from Northwestern University, a master's of divinity from the Jesuit School of Theology at Berkeley and a doctorate in sociology from the University of Wisconsin.

North Dakota Wealth Transfer Study

In the spring of 2005, Impact Foundation's Institute for Innovation and Effectiveness commissioned John J. Havens and Paul G. Schervish, researchers at Boston College's Center on Wealth and Philanthropy, to apply their research methods to study North Dakota's wealth transfer for 2001-2055. The Institute is dedicated to building long-term efficiency and effectiveness of non-profit organizations by measurably improving organizational and fundraising capacity.

A report summarizing the study's findings is presented to the public in this document. It is hoped that this report will encourage donors to develop carefully designed more effective charitable plans in order to achieve a greater societal impact. Impact will widely disseminate the findings of this report to inspire donors, their advisors and non-profit organizations to facilitate the use of more effective and tax-efficient charitable plans which reduce estate taxes and fees - thus increasing opportunities to transfer more wealth to family, other heirs and charity. Likewise, we hope the findings will create a wave of renewed energy among the state's donors and non-profits, inspiring them to generate greater financial support to expand and improve services and ultimately the quality of life for North Dakotans. This report will be broadly disseminated in an effort to better inform our state's citizens, community and business leaders and elected officials.

U.S. Wealth Transfer:

Through hard work, an entrepreneurial spirit and blessed with the freedom to achieve, North Dakotans and Americans have enjoyed a standard of living and amassed fortunes beyond most of the world's countries. Nationwide, by the year 2052, an estimated \$41 to \$136 trillion will change hands as Americans pass their accumulated assets from one generation to the next. The wide ranging estimate is based upon three real growth factors (inflation adjusted): 2% - \$41 trillion, 3% - \$73 trillion, and 4% - \$136 trillion.

Assuming the 3% growth scenario and a total U.S. wealth transfer of \$73 trillion (in 1998 dollars):

- ◆ \$40 trillion is projected to be transferred to family and other heirs
- ◆ \$12 trillion will be given to charitable organizations
- ◆ \$18 trillion will transfer to government in the form of estate taxes
- ◆ \$3 trillion will be spent on estate fees (debt, burial costs, and legal/probate fees)

Study Background:

This windfall was projected in "*Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*," an authoritative 1999 report by John J. Havens and Paul G. Schervish. After reviewing their research model, the downturn in financial markets and challenges to their estimates, in 2001 the authors released, "*Why the \$41 Trillion Wealth Transfer is Still Valid: A Review of Challenges and Questions*," which reaffirmed their previous conclusion. In 2004, Havens and Schervish developed a methodology that allows them to produce wealth transfer estimates for states and large metropolitan areas.

Study Highlights -

**In 2001,
North Dakota
contained 261,570
households owning
an aggregate
amount of
household wealth
valued at
\$92.4 billion**

**North Dakota
contains
approximately
1,000 households
with net worth
averaging \$26
million per
household**

North Dakota's \$20 million+ households exist at twice the proportional rate than the Nation

During 2001-2055, 213,400 final estates will occur in North Dakota - approximately 130,000 final decedents will be women

Havens and Schervish's unique Wealth Transfer Microsimulation Model (WTMM) was developed and is housed at Boston College's Center on Wealth and Philanthropy (CWP). Prior to applying the WTMM, it is necessary to first estimate the distributions of wealth and wealth by age of head of household. The procedure to estimate these distributions is based on data from the Survey of Consumer Finances (SCF) sponsored by the Board of Governor's of the Federal Reserve and the demographic supplement of the Current Population Survey (CPS), jointly conducted by the Bureau of Census and the Bureau of Labor Statistics. The procedure requires that both databases share a common year. The demographic supplement of the CPS is collected in March, annually; but the most recent survey data from the SCF was collected in 2001. Consequently, the most recent year for which base data is available is 2001 – the base year of this analysis.

North Dakota Wealth Transfer

The North Dakota Wealth Transfer Study provides two sets of estimates for households in North Dakota in 2001 – current status of household wealth and the projected wealth transfer. The first set consists of the estimated distribution of household wealth and its distribution by age of head of household. The second set estimates the total wealth transfer and the potential distribution of this transfer among family, other heirs, charity, government (estate taxes), and estate settlement fees.

A real growth rate of 3% has been applied to all statistical projections presented in this report. In their 2001 article, "*Why the \$41 Trillion Wealth Transfer Estimate is Still Valid: A Review of Challenges and Questions*," Havens and Schervish cite actual historical growth rates which support the reasonableness of the 3% growth estimate.

Since 1950 (from 1950 through 2001), a period of both booms and busts which included nine recessions:

- ◆ the gross domestic product of the United States grew at an average rate of 3.39% per year in inflation adjusted real terms
- ◆ the value of household wealth grew at an annual real rate of 3.34%
- ◆ the value of all corporate stocks and mutual funds owned by households grew at a real rate of 4.47%

Given these historic growth rates, a 3% real growth estimate has been applied to all statistical projections in this report as a "reasonable" estimate of future growth.

WEALTH DISTRIBUTIONS

Throughout this document, household wealth is defined as household net worth, that is, the market value of all assets owned by members of the household minus the value of all debt. Throughout the North Dakota Wealth Transfer Study Report, all dollars are measured in 2005 constant (inflation adjusted) dollars, which means the values presented here represent 2005 buying power. For example, a transfer of \$200,000 to an heir in 2055 will have the same 2005 buying power as a transfer of \$200,000 in 2005, although by 2055 the \$200,000 will have a nominal value closer to \$1 million (assuming a 3 percent average annual inflation rate).

Distribution of Household Wealth by Net Worth

In 2001, North Dakota had a larger percentage of households (92.6%) with positive net worth as compared with the Nation (89.6%). Conversely, the proportion of North Dakota households with net debt is 29% lower than that of the Nation - (7.4%) of households in North Dakota in net debt as compared to the Nation (10.4%).

In 2001, there were approximately 11,600 households in North Dakota with net worth of \$1 million-plus, representing 4.4% of all households in the state, yet these households accounted for 60.2% of all household wealth in the state.

Even more dramatically, North Dakota's \$5 million-plus net worth households (0.99% of all households in the state) own 41.7% of the state's household wealth. Though North Dakota contains a smaller proportion of \$1 million net worth households (4.4% in North Dakota vs. 6.7% in the Nation), the average net worth of these households exceeds the national average by 36% (\$4.79 million in North Dakota vs. \$3.52 million in the Nation). (See, Figures 1 and 1(a) - Average Net Worth \$1M+ Households)

North Dakota's \$20 million-plus net worth households exist at twice the proportional rate of the Nation (0.25% of North Dakota households vs. 0.12% of households in the Nation). The study authors concluded that North Dakota, in 2001, contained about one thousand households with substantial wealth, averaging \$26 million per household.

The distribution of wealth is important for two reasons. First, combined with rates of growth in household wealth, it determines over time the amount of wealth to be transferred at the death of the householders. Second, wealthy individuals tend to distribute a disproportionately larger portion of their estates to charitable bequests. (See, Figure 2 - Percent of Estates Bequeathed to Charity) The North Dakota distribution of wealth implies that very wealthy households will generate a potentially large value of charitable bequests during the period from 2001-2055.

Figure 1

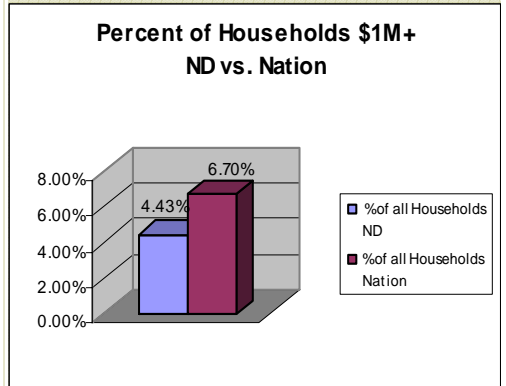


Figure 1(a)

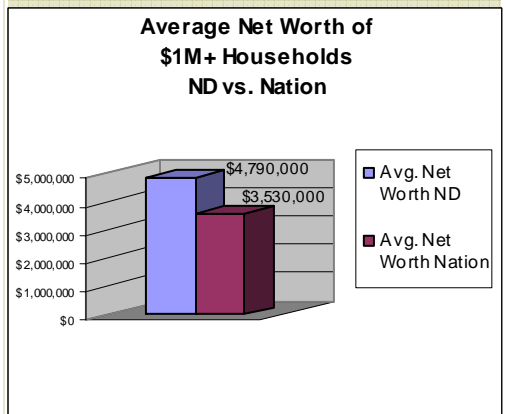


Figure 2

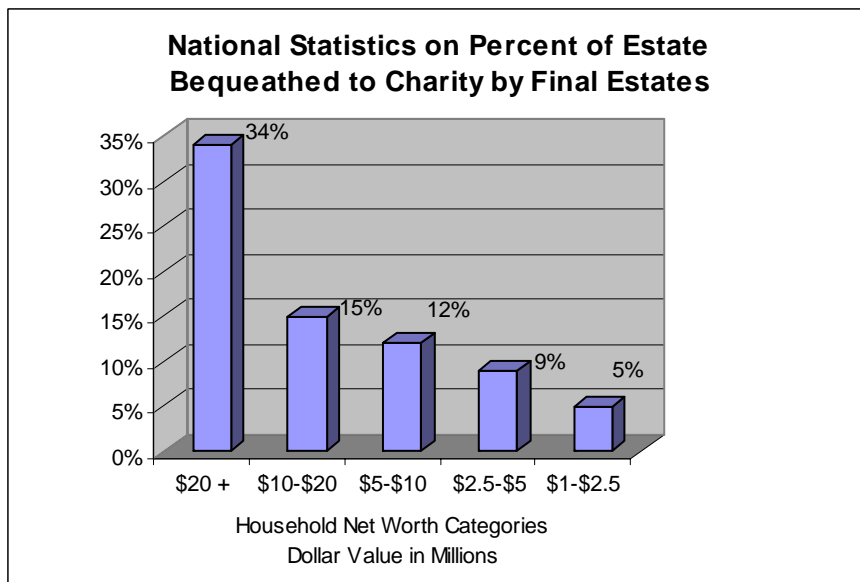
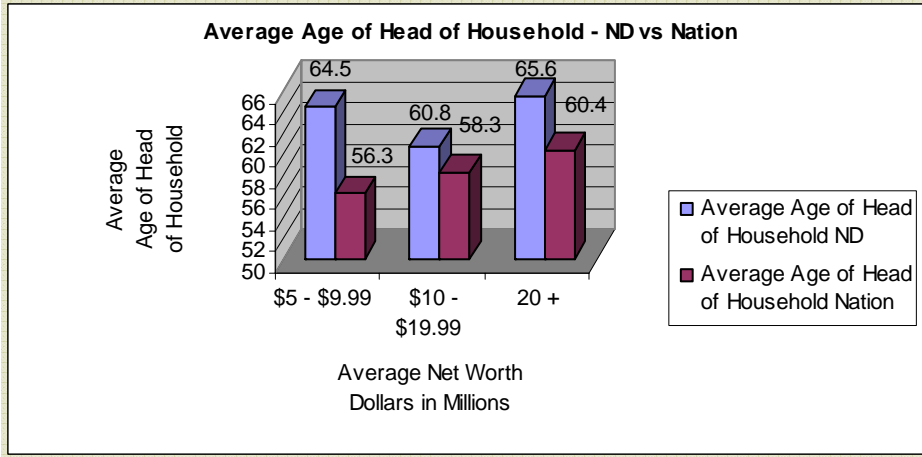


Figure 3



North Dakotans age 60+ own 51% of household wealth compared to 41% owned nationally by those age 60+

Distribution of Household Wealth by Age

North Dakota household wealth is concentrated among disproportionately older owners when compared to that of the Nation. North Dakotans age 60+ own 51% of the state’s household wealth compared to 41% of the Nation’s wealth owned by those age 60+. North Dakota householders with \$5 million-plus net worth are significantly older than their national counterparts. (See, Figure 3 – Average age of Head of Household, ND vs. Nation)

WEALTH TRANSFER ESTIMATES

Final Estate Value and Distribution

The estimates of wealth transfer are derived by compiling the value of final estates. A final estate is an estate without a surviving spouse. After the number and value of final estates are estimated, the study uses historical patterns to distribute the estate’s value to family and heirs, charitable bequests, government (in the form of federal estate taxes), and estate fees (outstanding debt, burial costs, and legal/probate fees).

In North Dakota, Havens and Schervish estimate that approximately 213,400 final estates will occur during 2001-2055. Of the 213,400 final estates - about 130,000 of final decedents will be women, 80,000 will be men and 3,000 will involve two spouses who die in the same year. These final estates will be valued at \$205.7 billion at the time of death assuming a real growth rate of 3%. If historical patterns hold, \$103.7 billion will be transferred to family, \$39.5 billion to charity, \$55.3 billion to government in the form of estate taxes, and \$7.2 billion will be expended on estate fees. Most of the potential charitable bequests (97.4% of the total \$39.5 billion) will be generated by the final estates valued at \$1 million or more.

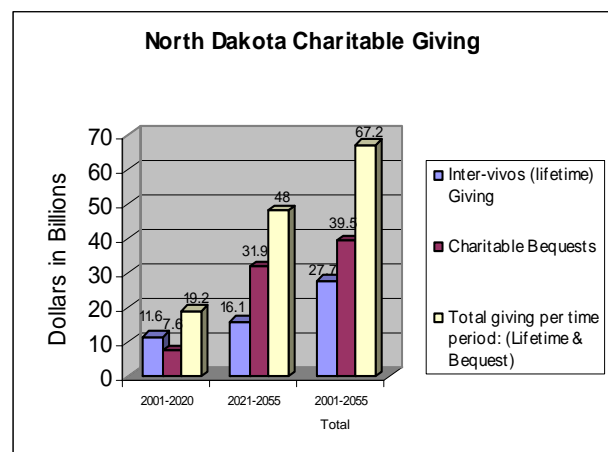
Inter vivos (Lifetime Giving) and Charitable Bequests

Inter vivos gifts (gifts from donors made during their lifetime), which includes charitable gifts from all donors irrespective of household wealth category, are projected at \$27.7 billion during 2001-2055. During the first twenty years (2001-2020), lifetime charitable gifts will account for \$11.6 billion, while in the last 35 years of the period (2021-2055), \$16.1 billion in lifetime charitable gifts are anticipated. (See, Figure 4 - ND Charitable Giving 2001-2055)

Charitable bequests, gifts contributed to charitable organizations through a donor’s will, are projected to be \$39.5 billion during 2001-2055. A total of \$7.6 billion in charitable bequests is projected for the period’s first twenty years (2001-2020). The last 35 years of the period (2021-2055), charitable bequests are projected at \$31.9 billion.

Remarkably, North Dakota’s donors will make total charitable contributions of \$67.2 billion from 2001-2055, \$39.5 billion anticipated from charitable bequests, \$27.7 billion contributed during donors’ lifetimes.

Figure 4



Timing of the Transfer

The average age of North Dakota’s household wealth owners is older than their national counterparts. Age demographics point to a greater proportion of North Dakota’s wealth transfer occurring sooner rather than later in the 2001-2055 wealth transfer period. It is estimated that \$37.6 billion, 18% of the total \$205.7 billion of North Dakota’s household wealth will transfer during the initial 20 years (2001-2020) of the study’s 55-year time span. Obviously, a portion of that transfer has already occurred. Havens and Schervish project 60,000 final estates in North Dakota during the period 2001-2020. (See, Figure 5 - ND Wealth Transfer)

Transferred Wealth – North Dakota vs. Nation

North Dakotans are expected to transfer a greater percentage of their final estates to government in the form of estate taxes and less to family and other heirs than their national counterparts. (See, Figures 6 and 6a - Total Wealth Transfer: ND and Nation)

◆ **Estate Taxes Consume More Wealth in North Dakota**

Estate taxes are projected to consume 27% or \$55.3 billion of North Dakota’s total wealth transfer of \$205.7 billion. This outpaces estate tax wealth erosion for the Nation: 25%, or \$18 trillion of \$73 trillion total, 2001-2055.

◆ **The Nation Transfers More Wealth to Family and Heirs**

The Nation is projected to transfer a greater percentage of wealth: 55%, or \$40 trillion of \$73 trillion, to family and other heirs than North Dakotans: 50%, or \$104 billion of \$205.7 billion.

◆ **North Dakotans Transfer More Wealth to Charity**

North Dakota’s final estates are projected to be more generous towards charity: 19%, or \$39.5 billion of \$205.7 billion, than their counterparts in the Nation: 16%, or \$12 trillion of \$73 trillion.

North Dakota Wealth Transfer Study Implications

With the state’s charitable giving from both lifetime gifts and charitable bequests projected at \$67.2 billion during 2001-2055, North Dakota’s non-profit organizations must prepare themselves to efficiently accommodate both lifetime and bequest giving scenarios.

Non-profits need access to highly effective services and resources to develop their organizational and financial capacity to implement and sustain donors’ charitable visions in a highly efficient manner.

Non-profit organizations demonstrating innovative, effective processes and the ability to leverage resources for greater outcomes will elevate donor confidence that their vision and the societal impact will be maximized. Superior performing organizations produce better results – maximizing donor impact.

Figure 5

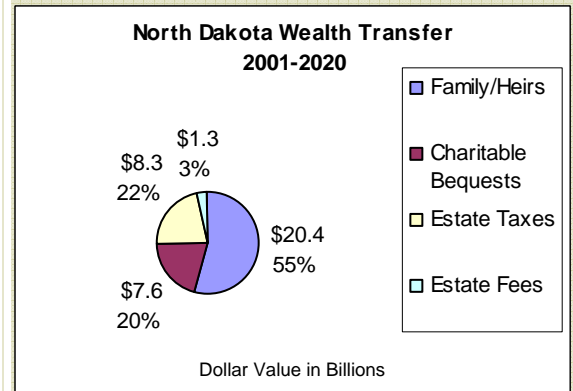


Figure 6

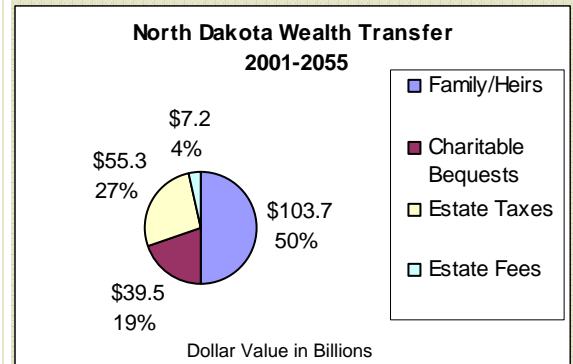
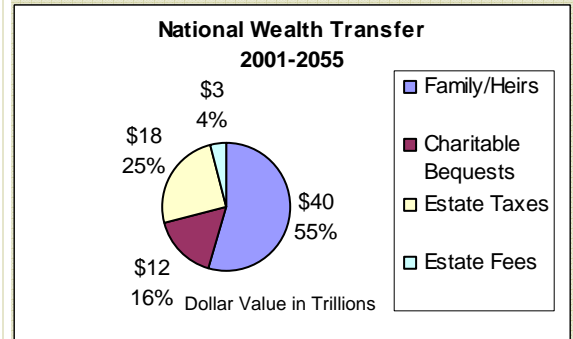


Figure 6a



From 2001 through 2055, North Dakota households will transfer \$205.7 billion from their estates to family and other heirs, charity, estate taxes and estate fees

North Dakotans will give \$67.2 billion to charity between 2001 and 2055 - \$39.5 billion will be given as charitable bequests, \$27.7 billion will be given by donors during their lifetimes

A CALL TO ACTION

To provide education for donors and their advisors to minimize the tax liability of transferred wealth

The projected wealth transfer to charity in North Dakota is a tremendous opportunity for the state's non-profit, charitable organizations to assist donors and their legal/tax/financial advisors in making a greater societal impact through more tax efficient, effective charitable planning. Carefully designed fully-integrated charitable, annual financial, and estate (and when applicable, business succession) plans will maximize wealth transfer to a donor's priorities: family, other heirs, and charity, while minimizing the erosion of family wealth and charitable gifting caused by avoidable estate taxes and fees.

Impact Foundation will lead the way by partnering with other stakeholders to sponsor and support highly effective education and training opportunities for donors and their legal/tax/financial advisors throughout North Dakota. During the 55-year period (2001-2055), every 1% of unnecessary estate tax recaptured by North Dakota's donors through tax-efficient planning will result in an estimated additional \$553 million which, at the donor's discretion, can be directed to family, other heirs, and charity for community investments. Impact is committed to working with donors and their advisors to minimize North Dakota's capital outflow due to estate taxes. If, through effective tax-efficient planning, North Dakotans are able to redirect between 5% to 10% of the estimated estate tax liability from 2001-2055, there will be an additional \$2.765 to \$5.53 billion available for their families, other heirs, and selected charities.

To assist donors in creating innovative entrepreneurial strategies designed to maximize societal impact

Impact will help donors to develop a customized strategy that reflects their long-term charitable aspirations and accomplishes it in a highly leveraged and measurable fashion. Building a strategy for achieving optimal outcomes within the donor's priority areas of charitable interest will produce a much greater societal impact whether the donor chooses to develop new, or enhance existing community initiatives aimed at improving health, economic development, education and training, faith-based partnerships, arts and culture, and/or other important areas.

It is our hope that donors will be empowered and inspired to lend their own abilities and talents to initiatives to create even greater rates of return on their charitable investments. Combining donors' financial capacity and charitable aspirations with carefully designed strategies will mobilize, to the greatest extent possible, community initiatives impacting our region.

To improve non-profit organizational effectiveness and efficiency - maximizing societal outcomes

Through its Institute for Innovation and Effectiveness, Impact provides donor supported non-profit organizations with resources to measurably improve their organizational and fundraising effectiveness. The Institute is supported by grants from Dakota Medical Foundation, Alex Stern Family Foundation, Dakota Certified Development Corporation, and other donors interested in Impact's entrepreneurial approach to producing long-term measurable results for its donor partners. The Institute provides consulting and other resources to non-profits to improve their effectiveness and efficiency in achieving important societal outcomes.

Non-profits participating in Institute programs are guided through a series of exercises designed to assess current status and design a plan for measurably greater long-term organizational results. This commitment to long-term performance and accountability will build both Impact's and their supported non-profit's organizational and financial capacity to better achieve desired outcomes. The Institute instructs non-profits on the effective integration of efficient fundraising systems tied to defined organizational outcomes with plans designed to optimize long-term financial capacity and sustainability resulting in a more positive impact for the people served.

To lead donor-driven initiatives and connect donors with superior performing non-profit organizations

Impact exists to connect entrepreneurial donors with superior performing non-profit organizations that demonstrate the efficiency and effectiveness to produce measurably greater societal outcomes. For Impact, a donor’s desire to achieve their optimal charitable vision is paramount. Consequently, Impact will lead important donor-driven initiatives and assist in reviewing and assessing all non-profit organization options that fit the donor’s vision and standards for efficiency and effectiveness.

To leverage donor resources through fundraising and innovative partnerships

Impact leverages resources to take a donor’s charitable strategy beyond what they may originally envision. Impact, through grants from Dakota Medical Foundation, Alex Stern Family Foundation, and Dakota Certified Development Corporation, supports a professional staff dedicated to securing additional resources and establishing innovative partnerships, thereby expanding the reach of the donor’s resources in order to produce a greater societal impact.

PREPARED FOR THE INTERGENERATIONAL TRANSFER OF WEALTH

Impact is excited to assist donors and non-profit organizations in the coming decades to maximize the societal impact powered by the unprecedented benevolence of charitably-minded North Dakotans - projected to contribute \$67.2 billion to charities from 2001-2055 through lifetime gifts and charitable bequests. Certainly, this tremendous transfer of wealth to charity presents an unprecedented opportunity for government officials, business and non-profit leaders to join forces in developing transformative community initiatives.

Donors witnessing the potential created by investing in more efficient and effective non-profits will be inspired to be more generous. More non-profits will position themselves to become superior performers, creating an awareness that measurably greater societal outcomes can be achieved. Donor confidence will rise to unprecedented levels. Donor’s charitable investments in our communities will reach new heights, measurably improving the quality of life for North Dakotans.

A BRIGHT FUTURE FOR NORTH DAKOTA

The findings of the North Dakota Wealth Transfer Study can become a baseline for engaging our communities and its stakeholders to do more. North Dakota and the outlying region is rich in heritage, fertile soil, natural resources, an unequalled work ethic, and is beginning to recognize the huge financial reserves that have been created by our hard working and industrious people.

As North Dakota becomes more complex economically, organizations such as Impact Foundation stand ready to assist our communities to address the opportunities at hand. As Havens and Schervish stated in the technical report of the North Dakota Wealth Transfer Study, “North Dakota is a state with a future. Its sense of community, natural resources, economic development prospects, and growing leadership among financial and philanthropic professionals make North Dakota a state that has both capacity and moral compass about how to use its financial and human resources for transformative purposes.”

**From 2001-2020,
North Dakotans
will transfer \$19.2
billion to charity -
\$7.6 billion by
charitable bequest,
\$11.6 given by
donors during their
lifetime**

North Dakota Wealth Transfer Study

Conducted by the Center on Wealth and Philanthropy
at Boston College

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SEI Investments

SEI INVESTMENTS



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