



Will Power

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WHAT INHERITANCE?

W.C. Fields used to say, “Thrift is a great virtue, particularly in an ancestor”. Economists have long predicted that a massive intergenerational wealth transfer would occur over the next two decades. It was estimated that trillions of dollars were going to be passed down from the “greatest generation” to the “baby boomers”. This presumed transfer of wealth was supposed to negate boomers’ dismal savings rates and high spending, allowing for a comfortable retirement.

Now the experts wonder whether those predictions were accurate. First the technology stock bubble and now the real estate bubble have lowered net worth statements. The American Association of Retired Persons (AARP) states in a recently published report that no great wealth transfer will happen.

Nuggets of information from that report include:

- 81% of baby boomers have never received an inheritance;
- Less than 15% of boomers ever expect to get an inheritance, down from 29% in 1989;
- About 40% of distributed wealth goes for taxes, fees, and charity;
- The wealthiest 7% of estates account for half of the money passed through inheritance; the remaining 93% account for the other half.

What’s changed? Where did all that wealth go? Where is it going? According to AARP, the explanations include a variety of factors. First off, retirees are living longer, with the average life expectancy of 78 years. This longevity increases the likelihood of rapidly escalating health care costs eating into savings. Mark Zandi, chief economist at Moody’s Economy.com says, medical spending is “going to be the dominant theme of the next quarter-century. It’s going to pervade everything, including the size of inheritances”.

Active retirees don’t settle for the front porch rocking chair. Instead, they are spending their cash on the upkeep of second homes, cruises, private club memberships, golf outings, exotic travel vacations and luxury goods and services. Extinction of traditional pensions and more reliance on self-controlled 401(k)-type plans result in smaller nest eggs. Smaller inheritances will also result from the growing use of “reverse mortgages,” which consume the inherited value of that traditional bastion of middle-class wealth, the family homestead. The AARP report also notes that the average estate is passed down to 3.3 children and grandchildren, in addition to bequests to charities, and other intended transfers. A shrinking pie is being carved into quite a few pieces.

Add all of the above to the fact that boomers are having children later in life, which means many are still paying for college education at a time when earlier generations were socking away cash for retirement, and you come out with what should be boomers’ lower retirement expectations. AARP’s recommendations for inheritance-challenged boomers: (1) long-term care insurance, and (2) “save, save, and save”. A corollary to that might be for boomers to fund long-term care for their parents as a means of preserving family wealth.

To read the AARP report for yourself, here’s the link:
http://assets.aarp.org/rgcenter/econ/dd139_inherit.pdf

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