ALL IN THE FAMILY: WEALTH, INEQUALITY AND CHARITABLE BEQUESTS IN VICTORIA

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ABSTRACT

Stratification of society and the creation and perpetuation of inequality has long provided a focus for sociological investigation. There is consequently a substantial body of research in areas of social, cultural and human capital and how each contributes to and sustains inequality. There is however a relative dearth of research into the extent to which inequality is perpetuated by way of the transfer of wealth through the family and inheritance. This paper provides benchmark data on understanding the influence of family on estate distributions and the extent to which the intergenerational transfer of wealth gives rise to wealth holders acting to redistribute portions of their estates to charitable causes. The paper examines data from 2006 Victorian probate files with recorded asset values in excess of $1.4 million, to assess transmission decisions by wealthy individuals. The results indicate that the estates of wealthy Victorians are distributed overwhelmingly to direct family members.

1 INTRODUCTION

Two recent pieces of research highlight the gap in sociological understanding of the role played by wealth in driving and sustaining inequality in social stratification. Kenworthy (2007) describes the growth of income inequality over the past two decades as “one of the more important developments in stratification in the past generation”. He commences his paper by lamenting the lack of contribution by sociologists to the explanation of this development and concludes by calling on sociologists to devote greater attention to the topic. Further research into the effects of income on stratification will in itself however be insufficient. A global study of personal wealth released in December 2006 found that wealth is highly concentrated in a small number of nations, as well as highly concentrated within those nations. This research found wealth is much more concentrated than income (Davies, Sandstrom et al. 2006). Consistent with the adage “capital begets capital” these findings highlight the potential for wealth and its transfer to make an even more fundamental contribution than income to the maintenance and transfer of inequality.

It is perhaps due to the relative lack of data on wealth and the difficulties in assessing wealth (physical and financial asset holding) at the level of individuals or families, that it is economists and those interested in the potential of private, philanthropic giving who have lead scholarly research in this field. In the US there has been a long tradition of philanthropy underpinned by an ideological antipathy to giving money to the Government, tax structures that encourage charitable giving, and social expectations that those who have wealth will contribute a share of that wealth back to the community (Ostrower 1995). While the philanthropic tradition in the US has been supported by organised research, in Australia there is a relative lack of data on and research into philanthropic behaviour. This paper draws upon the extant literature in an analysis of
unique Australian data to provide benchmark information on philanthropic giving and its contribution to wealth transfer decisions and inheritance.

2 DISCUSSION

2.1 WEALTH TRANSFER IN AUSTRALIA
The Australian data in the global wealth study referenced above (Davies, Sandstrom et al. 2006) identifies Australia as one of the elite wealthy nations. It notes that in 2002 this country constituted less than a third of one percent of the world's population and held nearly 1.1% of the world's net wealth (p 63). At a more micro level, private wealth in this country has now grown for fifteen consecutive years to around $361,000 per Australian at 30 June 2006 (Treasury 2007). The distribution however is far from even with the wealthiest 20% of households in 2003/04 accounting for 59% of total household net worth, averaging $1.4 million per household, and the poorest 20% accounting for 1% of total household net worth, averaging $23,000 per household (ABS 2006).

As a result, while the growth in private wealth and the aging population will see significant wealth transfer from one generation to another over the coming decades, the transfers will inevitably be unequal. Research indicates that in the US the commitment to giving back (redistribution) manifests itself in the level of charitable bequests by the wealthy from their estates (Ostrower 1995; Havens and Schervish 1999; CoPIU 2006). The nature and scale of contemporary practice in relation to charitable bequests in Australia is however largely unknown. The 2005 Giving Australia report (PMBCP 2005) observes there are no reliable estimates of charitable estate distributions made and concludes from household survey responses that less than 4.5% of the adult population of Australia have made a charitable provision in their Will. In the absence of charitable gifts from estates, data on lifetime giving indicates the trend of Australians to give to charitable causes has been increasing for several years and that wealthy Australians are more likely to give than their less affluent counterparts (PMBCP2005; McGregor-Lowndes and Marsden 2006).

In considering wealth and its distribution it is also important to note that older Australians are relatively wealthy given the strong correlation between age and wealth. Specifically, researchers have also shown (Harding, King et al. 2002; Kelly and Harding 2003) the share of total wealth currently held by older Australians is increasing, in part because as wealth takes time to accumulate, wealth generally increases with age (Kelly 2002). In addition, the average life expectancy for Australians means that most are elderly at the time of their death with the consequence that where they have surviving children, it is probable these children will not be economic dependants of their parents and will be beyond a stage in their career or the establishment of their own home where an inheritance would make a substantial impact on the quality of their lives.

2.2 CHARITABLE BEQUESTS
Charitable donations of money can be made during one’s life time (inter vivos) or by way of bequest from one’s deceased estate (post mortum). While there is an increasing body of research relating to monetary charitable giving in general (for reviews see for example Bendapudi, Singh et al. 1996; Sargeant 1999; Madden 2006; Sargeant and Woodliffe 2007) the majority remain focused on inter vivos giving. While a focus on inter vivos giving is important, it is also limited given the potential for post mortum giving to exacerbate or ameliorate inequality.

Contemporary research (Krauser 2007) observes that charitable bequests in the USA has remained stable while other forms of giving have increased. In terms of influences, counter-intuitively income was found to have no impact on the likelihood that an individual would name a charity in their will. The characteristics found most likely to lead to a charitable bequest include a desire to do good and a desire to meet the expectations
of others. Similarly, McGranahan (2000) found that the propensity to leave charitable bequests may be motivated by a desire for approval of others and in doing so to derive utility by way of being regarded as a generous and caring individual. In his exploration of what motivates charitable giving by the wealthy Schervish (1997) concludes that the wealthy who are charitable “invariably want to shape rather than merely support” their chosen cause/s, a characteristic common amongst those with an abundance of economic and social capital.

Religion has also been found to be significant to influencing giving in general and across cultures (see for example Everatt, Habib et al. 2005 South Africa; PMBCP 2005 Australia; Berger 2006 Canada; Brooks 2006 USA). Berger (2006) specifically reports that the higher giving rates by the “religiously affiliated” includes giving by way of charitable bequests. Research into the economic of charitable giving (Wilhelm 1996; Clotfelter 2002) demonstrates that influences include inter vivos giving, residence and gender along with both marital status and children. Sargeant, Hilton et al. (2006) in their work focus on less wealthy givers and postulate that motives at the end of life may well be different to those during life, and they identify a lack of family need as one of the key “legacy-specific” motives.

The need to be well regarded by others surfaces consistently. In an exploration of giving by wealthy New Yorkers, Ostrower (1995) finds that for wealthy donors the utility gained from giving often includes gaining the approval of a particular societal elite. In relation to bequests Ostrower found nearly 60% of the wealthy individuals interviewed had made provisions for philanthropy in their wills, and of those the average bequeathed to philanthropic purposes was a substantial 33%. In a UK study of attitudes of high net worth individuals Lloyd (2004) found that those who feel financially secure (a subjective judgment unrelated to actual levels of wealth) give more than those who do not. She also specifically reports on the challenges of wealth transfer planning and its implications for charitable bequests with many concerned with the question of how “to strike a balance between leaving an ‘appropriate’ amount for their children and for other, particularly charitable, purposes” (Lloyd 2006: 6). While such consideration of “appropriate” familial bequests may form part of the thinking of many wealthy families, it takes part against a backdrop of general expectations in the UK (Rowlingson 2006), the US (Coleman and Ganong 1998) and Australia (Preece 2000) to leave assets directly to family members.

On the issue of whether and how charitable bequest considerations by the wealthy translate into practice there is no Australian data. Using a sample of 2006 Victorian probate files, the analysis below focuses on how wealthy Victorians are giving effect to the distribution of their estates and to what extent the scale of available wealth results in post mortum charitable bequests.

### 2.3 DATA COLLECTION AND ANALYSIS

This research captured data from individual Victorian probate files processed by the Office of the Registrar of Probates. The information recorded in probate files includes a valuation of the deceased estate in terms of both Real Estate (property) and Personal Estate (including cash, insurance policies and shares). In most circumstances Superannuation is excluded as it does not form part of the estate. Probate files also include the Will of the deceased, where one exits, and a copy of the death certificate with basic biographical information including marital status and surviving children at the date of death.

A random sample was reviewed of 1,729 probate files processed in 2006, which is in excess of 10% of the number the Victorian Registry expected to process in the year. The files were overwhelmingly for individuals who had died in 2005 or 2006. All distributions made to an ostensibly charitable organisation or purpose were included as “charitable distributions”, down to $100 to the local church for prayers. The real estate data
provided in probate files does not distinguish between a family home and other real estate such as investment properties. For the purpose of investigating charitable giving from wealthy estates, the cut off point used was $1.4 million, the 2003/04 average net worth of the wealthiest 20% of Australian households (ABS 2006). A second stage of analysis was undertaken excluding intestate estates (without a Will) and all estates with a Will and a surviving spouse. This smaller data set involved a total of 1213 files.

2.3.1 WEALTHY ESTATE DISTRIBUTIONS AND CHARITABLE BEQUESTS
Of the 1729 files, 99 had a value of $1.4m or more. Of these, 18 or nearly one in five included a charitable bequest. The collective value of the 99 estates was $326 million of which a total $4.9 million or 1.51% was charitably bequeathed. This compares with 1.37% from estates valued at less than $1.4m. The data indicates that those with estates valued at more than $1.4m are giving no less and no more of a percentage of their estates to charity than their less affluent counterparts.

Of the 99 estates with a value in excess of $1.4M, the number with a surviving spouse was 25. In nearly two thirds of these wealthy estates with a surviving spouse (16 of the 25) the estate was bequeathed in full to the surviving spouse. One only of these 25 estates made a charitable distribution: $1,000 to the local church. With this single and minor exception (of $1,000) in all 25 estates, the entire value was left to direct family members (spouse, children, grandchildren and siblings), irrespective of any and all other considerations.

2.3.2 CHARITABLE BEQUESTS FROM WILLED ESTATES - NO SURVIVING SPOUSE
As detailed in Table I, of the 1213 Victorian Willed estates with no surviving spouse, 74 had an estate value of $1.4 million or more. Of these, 17 (23%) included a charitable bequest. The collective value of the 74 estates was $270 million of which a total $4.9 million or 1.82% was charitably bequeathed. This compares with 1.79% charitably bequeathed from the 1139 estates valued at less than $1.4m. Of the seven estates valued at more than $5m, two estates made a charitable distribution amounting to a combined total of $150,000. The largest estate valued in excess of $77m was distributed in full to direct family members (with no charitable distribution). The largest charitable distribution made was $2,485,000 which constituted a little over 75% of a (childless) estate.

The exclusion of estates with a surviving spouse makes no material difference to proportions of wealth bequeathed to charity. Victorians with estates valued at more than $1.4m are behaving in very similar ways to those with lesser value estates in passing on their assets to their family and bequesting or not bequesting a percentage of their estates to charity.

Of the 74, 17 had no surviving children and 10 of these did make a charitable bequest.

Table I: Charitable Distributions in 2006 Victorian Final* Estates

<table>
<thead>
<tr>
<th>Category of Estate by Value</th>
<th>No. of Estates</th>
<th>No. of charitable bequests</th>
<th>% of Estates making charitable bequests</th>
<th>Total Estate Value</th>
<th>Value of charitable bequests</th>
<th>Charitable bequests as % of Total Estates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $01.4M</td>
<td>1139</td>
<td>67</td>
<td>5.88%</td>
<td>$396.85M</td>
<td>$6.99M</td>
<td>1.76%</td>
</tr>
<tr>
<td>$1.4M -</td>
<td>28</td>
<td>6</td>
<td>21.43%</td>
<td>$46.02M</td>
<td>$1.92M</td>
<td>4.17%</td>
</tr>
</tbody>
</table>
$2.0M

| $2.0M - $5.0M | 39 | 9 | 23.08% | $106.72M | $2.85M | 2.67% |
| More than $5.0M | 7 | 2 | 28.57% | $117.16M | $0.15M | 0.13% |
| Total $1.4 to >$5M | 74 | 17 | 22.97% | $269.9M | $4.92M | 1.82% |

OVERALL TOTALS 1213 84 6.92% $836.6M $11.9M 1.42%

* excludes intestate estates and Willed estates with a surviving spouse

3 CONCLUSIONS

3.1 KEEPING IT ALL IN THE FAMILY

Of the 74 Willed estates valued at more than $1.4m and with no surviving spouse, 57 had children, of which 7 (just over 12%) made charitable bequests. These were universally small bequests and added up to a total value of just over of $102,000 or $0.1m. Of the 17 with no surviving child, 10 (nearly 60%) made charitable bequests, with a total value of $4.8m. As Table II below demonstrates, very few wealthy Victorians who are survived by children are distributing any portion of their estate to charity. Those survived by children who do make a charitable bequest, make small bequests both in terms of the percentage of their estates and the actual dollar amounts. Affluent Victorians who do not have surviving children are 5 times more likely to make a charitable bequest then their counterparts with children and they are likely to bequest larger proportions.

Table II: Distributions in 2006 Victorian Final* Estates valued at more than $1.4m – survived by a child or children

<table>
<thead>
<tr>
<th>Category of Estate</th>
<th>No. of Estates</th>
<th>No. making a charitable bequest</th>
<th>Charitable bequests total value</th>
</tr>
</thead>
<tbody>
<tr>
<td>With surviving child or children</td>
<td>57</td>
<td>7</td>
<td>$0.1m</td>
</tr>
<tr>
<td>Without surviving child or children</td>
<td>17</td>
<td>10</td>
<td>$4.8m</td>
</tr>
<tr>
<td>Totals</td>
<td>74</td>
<td>17</td>
<td>$4.9m</td>
</tr>
</tbody>
</table>

* excludes intestate and Willed estates with a surviving spouse

There are a number of caveats to be raised in relation to the data accessed for this research.

Age: Of these 74 final estates, 62 (83%) were born in or before 1930. Consequently, while the records are contemporary (processed in 2006), the sample represents a particular cohort born before World War II and many before World War I. Consequently it is not possible from this data to make generalisations about society as a whole. We cannot know from this data if younger members of wealthy households currently preparing or updating their Wills, are behaving in a similar manner.
Inter vivos giving: Probate data provides no insight into charitable giving by an individual during his or her lifetime, only charitable distributions made from the estate.

Representation of the wealthy: It is common in wealthy Australian households not to hold all assets in an individual’s name but via a separate legal entity such as a trust. Wealth and wealthy individuals may therefore be under-represented in probate data.

Recognising these limitations, the highest value Victorian estates in this sample, distributed the least of their estates outside the family to charitable causes. This is in contrast to the Havens and Schervish (1999) research in the USA, and in contrast to trends in inter vivos giving in Australia (McGregor-Lowndes and Marsden 2006). The vast majority of wealthy Victorians ($1.4m+) distribute their estate to their immediate family with no provision for charitable distribution, independently of factors such scale of wealth, religion or the age &/or need of recipient family members. This principle of distribution to immediate family as a matter of course, irrespective of age or apparent need is well exemplified by one Victorian estate with a total value in excess of $10 million where the entire estate was divided equally between the three children, all aged over 60. The eldest son and executor was a 71 year old retired barrister of Toorak.

The data in the sample collected presents a snapshot of a point in time. It reveals that for asset rich elderly Victorians in 2005/06, where a Will is made, the prevailing practice is to pass on the estate to the family. Where immediate family survives, Victorians distribute very little if any of their estates to charitable purposes. This research shows that having high levels of assets does not increase the likelihood of an estate making distributions beyond the family. To the contrary, in proportional terms the wealthiest Victorians distributed the least from their estates to charitable purposes. Wealthy estates with no surviving spouse or children are close to five times more likely to make a charitable distribution then their counterparts with children. Where estates with no children do make a charitable distribution, it is more likely to be a significant proportion of the estate.

The level of wealth involved in an estate and the maturity and lack of financial “dependency” of beneficiaries have had no apparent impact on the generation of wealth holders in question. Wealth and the capacity to make a charitable distribution are all but completely displaced by the social convention of leaving one’s estate to one’s family. It may be that wealthy individuals have been active in their charitable giving during their life times. It may be that they have already established charitable trusts prior to their death. What is clear from the data is that any propensity for increased inter vivos giving by wealthy Victorians has not translated into post mortum charitable distributions. Further research is required to understand why this is so.

It may well be that increasing wealth, the aging of Australian society, the higher profile of philanthropy, and the improved sophistication of charitable organisations in seeking financial support will individually and collectively contribute to significant changes to estate distribution and redistribution practices in the coming decades. This research highlights that considerable potential exists.

4 REFERENCES


