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Transforming Wealth

Study of wealthy Americans

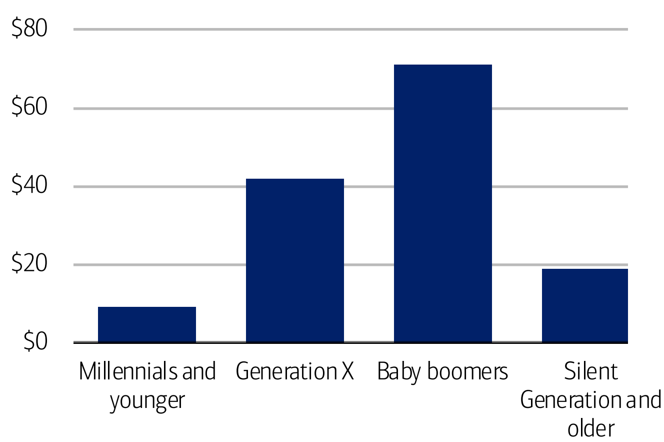
12 October 2022

Key takeaways

- We're in the midst of a historic generational transfer of wealth: $84 trillion is expected to pass primarily from baby boomers to Generation X and millennials through 2045. Of that, $73 trillion will transfer to heirs while $12 trillion will go to philanthropy. With this historic wealth transfer on the horizon, the 2022 Bank of America Private Bank Study of Wealthy Americans uncovers an array of differences in the ways that older and younger generations look at questions related to wealth, including philanthropy, investment choices, legacy and estate planning, and even art.
- Three quarters of investors age 42 and below (Gen Z and millennial respondents) showed skepticism around traditional assets. Instead, they're driving demand for alternative assets including cryptocurrencies and private equity, and 73% of this same group have adopted ownership of sustainable investments.
- When it comes to philanthropy, approaches between generations may differ. Over three quarters (76%) of all survey respondents prefer to establish their own philanthropic identity, differentiated from their family, but of respondents that are actively philanthropic, half currently support the same causes as their parents.
- While communication is key and increasingly important to each new generation, conversation gaps are present – 68% of parents surveyed say they have talked with their children about their family's wealth, but only 51% believe their children are well prepared to inherit.

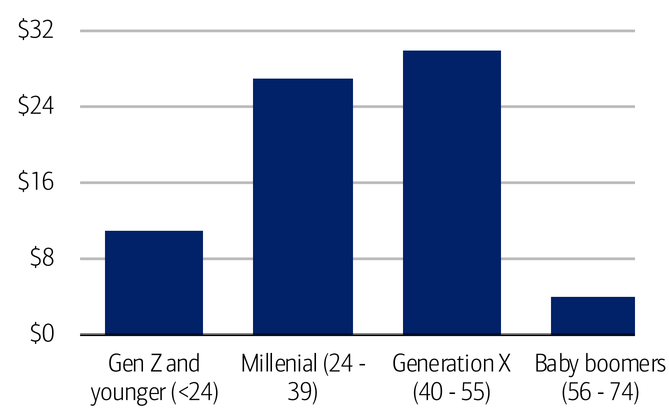
As influence and control over a considerable amount of US wealth continues to shift – $84 trillion is expected to pass primarily from the baby boomers to Gen X and millennials through 2045, as seen in exhibits 1 and 2 – the 2022 Bank of America Private Bank Study of Wealthy Americans ("the Study") explores different perspectives of wealth based on varying generations, genders, racial identities and wealth "journeys," and how such viewpoints could have significant implications for individuals, families, business owners, charitable organizations, the markets and the economy as a whole.

Exhibit 1: Total wealth by generation ($, trillion)
Baby boomers hold the majority of wealth.



Source: Federal Reserve Board: Distribution of Wealth in the US, Q4 2021
2022 Bank of America Private Bank Study of Wealthy Americans

Exhibit 2: Estimated wealth to be inherited by generation through 2045 ($, trillion)
Through 2045, wealth is expected to shift primarily to Gen X and Millennials.



Source: Cerulli Associates: The Cerulli Report US High-Net-Worth and Ultra-High-Net-Worth Markets 2021
2022 Bank of America Private Bank Study of Wealthy Americans

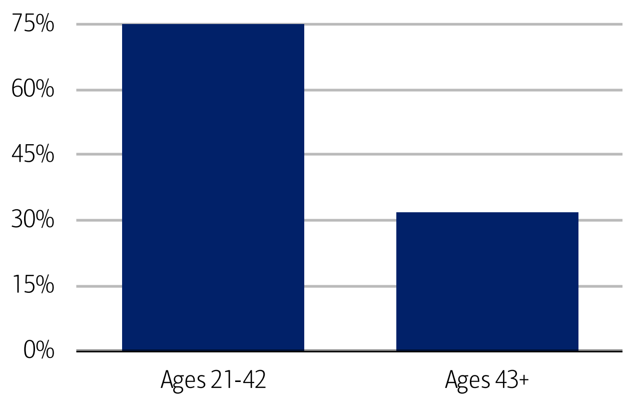
Younger generations are driving demand for alternative investment strategies

The Study found that a lack of confidence in traditional investments has inspired the use of alternatives, particularly in the younger generations (Gen Z and millennials). As shown in Exhibit 3, 75% of investors between the ages of 21 and 42 do not think it's possible to achieve above-average returns solely with traditional stocks and bonds, compared to 32% of investors over the age of 43 (Gen X, baby boomers and members of the silent generation). So if the younger cohorts aren't confident in stocks, where do they see opportunity? Approximately 80% are looking to alternative investments, such as private equity, commodities, real estate, and other tangible assets. They allocate three times more of their investment portfolios to alternative strategies (16%) and half as much to stocks (25%) than older investors (5% and 55%, respectively).

Investors over the age of 43 maintain that US equities offer the best opportunity for growth in the future, while younger investors think the greatest growth opportunities lie somewhere in the transformative digital asset space. Just over a quarter of younger investors (29%) said cryptocurrency presents a leading opportunity to create wealth and 15% of respondents age 21 to 42 have cryptocurrencies in their portfolios. But while overall usage is low, younger people are 7.5 times more likely to hold crypto in their portfolios and five times more likely to say they understand it quite well (Exhibit 4).

Exhibit 3: Respondents who agree that "it is not possible to achieve above-average returns solely with traditional stocks and bonds" (%)

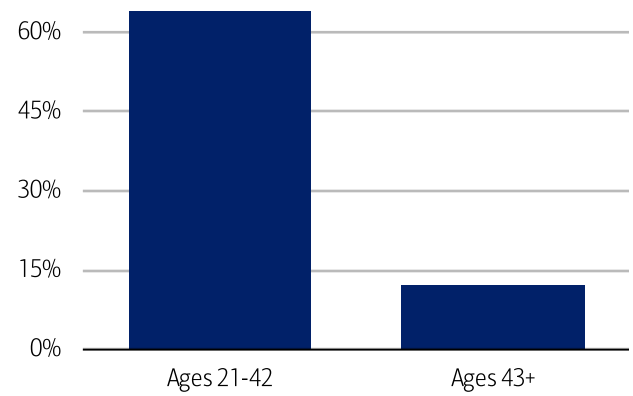
Younger investors hold less stocks and bonds than older investors.



Source: 2022 Bank of America Private Bank Study of Wealthy Americans

Exhibit 4: Respondents who understand crypto quite well (%)

Younger investors are more confident in their understanding of crypto.



Source: 2022 Bank of America Private Bank Study of Wealthy Americans

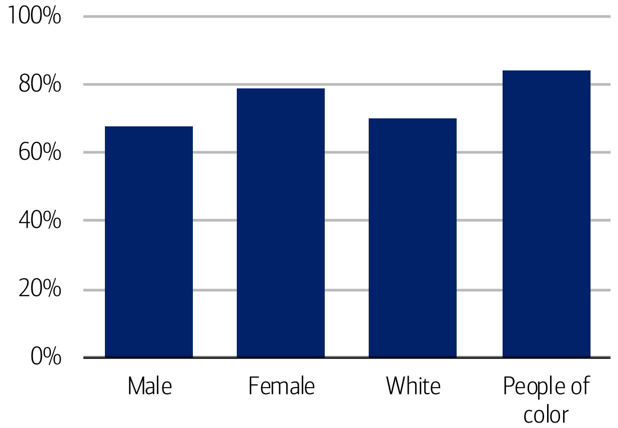
Sustainable investing is on the rise

The tenor around sustainable investments (also known as ESG investments) among wealthy people is upbeat, even as such investments continue to face persistent questions around their ability to deliver financial performance while having a meaningful impact. Ownership of sustainable investments has doubled since 2018, from 12% to 26% of wealthy people. Nearly three-quarters (73%) of millennials compared to 21% of older respondents use sustainable investments, which 72% of all survey respondents agree can make a positive impact in the world.

But while the idea that sustainable investing can have a positive impact on society, the sentiment is more commonly held among women (79% versus 68% of men) and among diverse respondents (84% versus 70% of white respondents) (Exhibit 5). The same groups are the most likely to consider sustainable investments for their portfolios, say they understand sustainable investing quite well, and say they have reviewed their portfolios for sustainability impact on their own (Exhibit 6). On the other hand, just 15% of baby boomers say they understand sustainable investing well, and 24% don't know whether they own them or not, suggesting an opportunity for more education and more meaningful dialogue about sustainable investing strategies.

Exhibit 5: Respondents who agree that sustainable investing can have a positive impact on society (%)

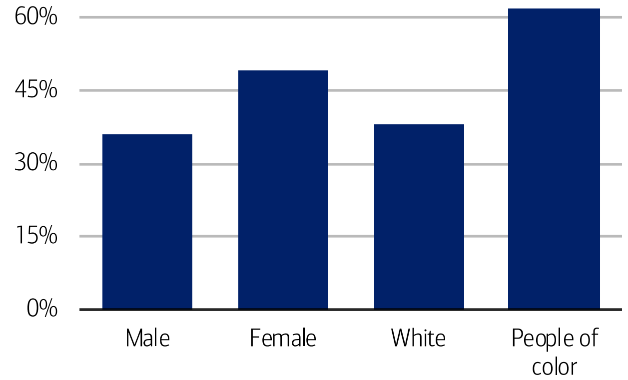
Women and people of color are more likely to think sustainable investing can have a positive impact.



Source: 2022 Bank of America Private Bank Study of Wealthy Americans

Exhibit 6: Respondents who make a tangible effort to invest in companies with leading environmental or social practices (%)

White and male respondents make less of a tangible effort to invest in companies with strong ESG practices.



Source: 2022 Bank of America Private Bank Study of Wealthy Americans

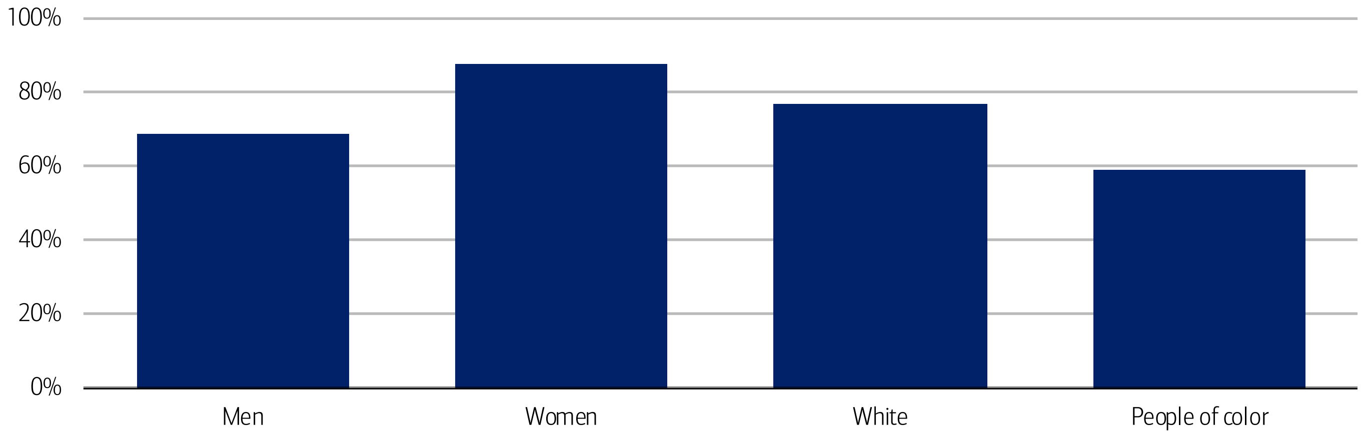
Philanthropy: Different paths to a better world

While individuals are looking to have a positive impact on the world, it is clear that priorities and approaches vary. When making charitable giving decisions, 76% of respondents, including 88% of women, prefer to establish their own philanthropic identity apart from their family, which could be why just half (51%) of all current donors support the same causes as their parents (Exhibit 7). The Study went a step further and found that younger generations are far more likely to gift through a structured vehicle, including a donor-advised fund (30%), charitable trust (51%), and/or family foundation (14%) than older generations (15%, 14%, and 4%, respectively).

Also according to the Study, 82% of parents who are philanthropically engaged believe that they and their children share the same philanthropic vision and goals. However, just 41% of the older generation thinks the next generation's philanthropic efforts will be as equally effective as their own. On the flip side, the younger generations are more optimistic about their ability to achieve philanthropic goals – 87% believe their giving will be more effective than earlier generations.

Exhibit 7: Respondents who prefer to establish their own philanthropic identity differentiated from their family (%)

The majority of respondents aim to distinguish their philanthropic identity from family tradition.



Source: 2022 Bank of America Private Bank Study of Wealthy Americans

A new generation of art collectors

Life stage and generational preferences influence differences in approach when it comes to art collecting, according to the Study. While most art owners collect for the aesthetic value (63%) and only a small number plan to sell it quickly for profit (9%), art is a dynamic market. In fact, 66% of younger respondents collect art as compared to only 23% of older respondents. Still, art isn't just for the young; eight in 10 art collectors say they're likely to buy a valuable work of art – 60% of art collectors have purchased a piece in the past 12 months and a near equal number (58%) plan to sell a valuable work in the next 12 months.

When it comes to buying art, younger respondents and diverse populations indicated much higher interest in purchasing art from diverse artists. In fact, diverse art buyers and collectors are two to four times more likely to show enthusiasm for racial or gender diversity in artists compared with white respondents.

Family dynamics and planning complexities

The Study found that when it comes to estate planning, respondents have both personal and family challenges to solve for. Approximately 68% of parents surveyed say they have talked with their children about their family's wealth, including how much money the next generation stands to inherit, however on average, parents don't initiate conversations about family wealth and the transfer of wealth until their children are at least 27 years old. With that said, only 51% of parents think their children are well prepared to handle family money or any inheritance they stand to receive.

Also according to findings, most wealthy people have undertaken some kind of estate planning – establishing wills (80%), health directives and powers of attorney (68% and 65%), and forming revocable living trusts or other types of trusts (58% with at least one trust). The highest wealth group ($10M+) is much more likely to have an irrevocable trust, charitable trust or digital asset trust, and to have prenuptial agreements and private foundations. That said, 58% of respondents have limited or no understanding of trusts. Among those without a trust, the younger generation is more inclined to consider using them in their estate plans (91%) than older generations (56%).

Contributors

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Sources

2022 Bank of America Private Bank Study of Wealthy Americans

Study of Wealthy Americans Methodology

Escalent, an independent market research company, conducted an online survey on behalf of Bank of America from May-June 2022. The survey consisted of 1,052 high-net-worth (HNW) respondents throughout the U.S. Respondents in the study were over the age of 21 with at least $3 million in investable assets, excluding primary residence. The margin of error is +/- 3, reported at a 95% confidence level. The respondents are a nationally representative sample of the U.S. high-net-worth population and not necessarily clients of Bank of America or its wealth and investment management businesses.

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