FK&L

Family Wealth Series - Post # 7
Prince Charles Effect

In Post #6, I introduced the idea of a life-long process of transferring family values, wealth and control, while simultaneously educating future generations and positively supporting their growth. This approach compliments the ever extending life expectancy of the affluent.

Prince Charles Effect

Life expectancy for the affluent is nearing 100 years in the United States. The average life expectancy presently stands at 81.2 years for females and 76.4 years for males (based on 2012 data as reported by the Centers for Disease Control and Prevention's National Center for Health Statistics). However, the statistics for the wealthy are substantially better: 91.9 years for females and 88.8 years for males.[1] Other reports show a 13 to 15 year life expectancy edge for the affluent.[2] According to census data, the over 85 age group is the fastest growing demographic in the US. Surviving baby boomers will be over age 85 by 2050.[3]

This means that wealth holders must plan for their own financial security with a longer time horizon. Some companies are now offering individually prepared longevity analyses to enable individuals to better plan for their future needs, as well as engage in estate and wealth transfer planning. This may provide some individuals with greater confidence than just relying on age based tables.[4]

This actuarial data also means that children are often in their 70s before inheriting wealth from parents at their passing. This is analogous to Prince Charles, age 68, waiting to inherit the throne from his mother, Queen Elizabeth II, age 91! Millennial Tweet: “Wait, what? No inheritance for me until my parents die – at age 100 or more?” Thoughtful family wealth planning should take account of this increasing life expectancy.

---

[1] *See* Max Ehrenfreund, The stunning — and expanding — gap in life expectancy between the rich and the poor, The Washington Post (Sept. 18, 2015).
[2] *See* Ben Steverman, The Rich Are Living Longer and Taking More From Taxpayers, Bloomberg (April, 24, 2017); Rich Americans Live Up To 15 Years Longer Than Poor Peers, Studies Find, The Guardian (April 6, 2017); Peter Dizikes, New Study Shows Rich, Poor Have Huge Mortality Gap in U.S., MIT News (April 11, 2016).
[3] Ortman, Velkoff & Hogan, An Aging Nation: The Older Population in the United States, Current Population Reports (May 2014).
[4] Jamie L. Mendelsohn, Longevity Throws a Wild Card in Even the Best-Laid Plans, J. Fin. Serv. Prof. (May 2017).

A benefit of transferring wealth that's intended for family during the lifetime of the parents (as proposed in Post #6) is that it will be available sooner to the children and more remote descendants – perhaps through irrevocable trusts, designed as the parents deem appropriate. This enables at least a portion of the family wealth to be available to assist the descendants in their quest for fulfillment before they retire from that effort. This likely also reduces the negative energy associated with a prolonged anticipation of inheriting wealth upon death, as well as mitigates the possibility of a cliff event (as noted in Post #6).

Moreover, there is a connection between the Prince Charles Effect and the concern over the growing income and wealth inequality. The connection intersects with that unfortunate limited inheritance idea. From 1980 to 2012, the richest one percent's share of national income grew from about 8% to 20% and the bottom fiftieth percent's share of national income declined from about 18% to 12%.[5] The richest 85 individuals hold as much wealth as the poorest half of the world's population.[6] This economic disparity is more pronounced in the United States than other first world countries.[7] The predictable end result of this trend, based on historical precedent, is pitchforks for the super-rich, plutocrats and crony capitalists – think the French Revolution![8]

But it's not just an economic disparity. It's much more fundamental than that. It's life itself. The statistics noted earlier indicate that affluent individuals have, on average, a 15 year life expectancy advantage. Among the reasons for this advantage: the affluent individual is likely better educated, lives in a city, does not smoke, is not overweight and has access to good health care – i.e., is not one of the millions of Americans who cannot afford health care or health care coverage. Imagine this wealthy individual eating organic, when choice is available (and not stressing over the cost difference), driving safe cars, and on and on.

Economic inequality is also driving an education disparity. In the quest to educate America's children, social class is becoming a barrier.[9] Parents from lower economic rungs simply cannot keep up with their wealthy counterparts in providing quality preschool, tutors, private schools, enrichment, etc., and the chasm is widening.[10] Commentator Chrystia Freeland observed that as

---

[5] *See* C. Freeland, The Rise of the New Global Super-Rich, TED Talk (June 2013); N. Hanauer, Beware, Fellow Plutocrats, The Pitchforks are Coming, TED Talk (August 2014).
[6] L. Shin, The 85 Richest People In The World Have As Much Wealth As The 3.5 Billion Poorest, Forbes (January 23, 2014).
[7] *See* T. Piketty, New Thoughts on Capital in the Twenty-First Century, TED Talks (June 2014).
[8] *See* Hanauer, *supra* note 5; E. Sherman, 7 Billionaires Worried About Income Inequality, Fortune (November 28, 2015).
[9] R. Reeves, Stop Pretending You're Not Rich, New York Times (June 10, 2017).
[10] *See* E. Porter, Education Gap Between Rich and Poor is Growing Wider, New York Times (September 22, 2015). *See also*, R. Wilkinson, How Economic Inequality Harms Societies, TED Talks (July 2011).

economic inequity increases, social mobility decreases.[11] There are more children from families with annual incomes in the top 1% now attending the nation's top schools than from families comprising the entire bottom 60% of the income scale.[12]

Growing economic inequity is a fact. It makes preserving family wealth more critical to each future generation, otherwise they will be at a competitive disadvantage. Limited inheritance is an especially risky approach at a time when income and wealth inequity has limited social mobility. There's also the point that being on the short side of this economic divide risks life itself.

The concerns raised here about the Prince Charles Effect and economic inequity argue for keeping family wealth and beginning a thoughtful transition of this inheritance during the wealth holder's lifetime.

Future posts will flesh out other benefits of this positive and inclusive continuum of transition.

Richard Franklin
rfranklin@fkl-law.com
Twitter @richsfranklin

[11] *See supra* note 5.
[12] Aisch, Buchanan, Cox, Quealy, Some Colleges Have More Students from the Top 1 Percent Than the Bottom 60. Find Yours., New York Times (Jan. 18, 2017); *see also*, M. Zinshteyn, The Growing College Degree Wealth Gap, The Atlantic (April 25, 2016)(only 4% of students at the top schools are from the lowest socioeconomic rung).