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# Who is the One Percent?

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**Abstract**

This paper explores the topic of the wealthiest one percent of Americans, in terms of net economic wealth. I have observed many generalizations of this group from school, work, media, and so forth, thus, I will be approaching the topic from a statistical standpoint to gain a deeper understanding of the role that these Americans play in our society. The goal of this paper is to inform the reader, through the presentation and discussion of available data used to define this group. To accomplish this, I will be covering several topics. First, I will discuss who the one percent is and why they matter. I believe that the first step in any situation should be to gain a good understanding of the information. In this section I hope to outline who the one percent is, based on statistical data, and why this group is at the center of so much discussion today in the United States of America. Second, I will discuss the two primary modes of measuring wealth: annual income and net worth. Third, I will explain the analytical methods used to present information. In this section the main discussion will be the difference between using a mean (average) amount and a median (middle) amount to present information, and which provides a more meaningful representation of the typical member of the one percent. Fourth, I will address the statistical qualifications for members of the one percent, including the lower cutoff amount and the average amount of wealth for individuals in this group. Fifth, I will describe sources of the wealth of the one percent. Finally, I will explain the tax burden of the one percent. In this section I discuss effective v. average tax rate calculations, corporate taxation, forms of taxation in addition to income tax, and more. Through this process it is not my intent to form the reader's opinions, but rather present the facts and allow them to create their own opinions.

*Keywords: One Percent, 1%, Net Worth, Wealth*

## Introduction

The intent for this paper is to present a factual framework to better understand the wealthiest one percent of Americans, a group of people who seem to be at the center of so much discussion. My goal is to inform the reader and hopefully provide a more complete view of the statistical data used to define this group. I believe when better informed, we can hold more educated and relevant opinions. In the following sections I hope to raise, as well as answer, a few questions. In the end, my hope is not to form your opinion, but rather to help build a better foundation for understanding the fundamental characteristics of America's one percent.

## What Is the One Percent?

First, I think that it is important to answer the question, "What Is the One Percent?" The first question that I had when I heard the term, "one percent," used to describe a group of people was, "What is this number's significance?" For example, is there any reason why the figure one percent is used, as opposed to five percent or one-half of one percent? What I found in my research is that the top one percent is typically where we find a steep jump between normal wealth and significant wealth in America, and therefore it attempts to identify the individuals at the very top of the economic spectrum who seem to be financially disassociated with the rest of the populous.

This percentage has been used for many years as the figurative cut-off point by academic studies that focus on the "wealthy elite." In this paper, I will be exclusively focusing on the one percent in the United States of America, as opposed to globally. The same trends would hold true in many other parts of the world, but I will be narrowing the discussion to the United States. As will be observed in the following sections, the question “Who Is the One Percent?” gets more complicated as we begin to delve deeper into the discussion.

## Income vs. Net Worth

The next topic is the metric used to quantify the relative wealth of individuals to society as a whole. There are two common measurements that we scholastically study in the United States pertaining to the measurement of individual wealth: annual income and net worth.

Annual income is the total amount of pretax income that an individual earns in a twelve-month period. For many, annual income is a common standard of measurement due to the simplicity and accessibility of the information. Most people in the United States are required to file a Form 1040, individual income tax return, which reports income amounts earned during the previous calendar year. The fact that most everyone files a Form 1040 makes finding annual income a simple task as opposed to other methods.

In contrast, net worth is an accumulation of all of an individual’s assets minus liabilities. Included in this amount are liquid assets such as cash and investments, long-term assets including home(s) and vehicles, and business assets. Net worth is much tougher to calculate, as it takes multiple factors into consideration. For this reason, many people do not use net worth as a method of everyday measurement when it comes to wealth in America.

Both methods of measurement are used in the United States, but they often yield significantly different results. Like most anything, both have advantages and disadvantages. For the purpose of this study, however, I decided to discuss the one percent of Americans based on net worth. I believe that this will give us a better snapshot of the true economic elite in the United States.

**Why Net Worth?**

So, why use net worth as the basis of measurement? My reasoning is simple; income is not always an effective indicator of actual wealth. Proof of this statement can be found in a study done by Pablo Torre from Sports Illustrated in 2009 which shows that about 78% of National Football League (NFL) players are bankrupt or under financial stress within two years of retiring. Similarly, 60% of National Basketball Association (NBA) players are bankrupt within five years of retirement (Torre, 2009). These are just a couple of careers or revenue streams, but I believe that it serves as an illustration to my previous statement. Though this is not the common situation for the majority of high income earners, it illustrates that annual income does not always correlate to an individual's wealth at a point in time for one reason or another.

To put it in simpler terms, net worth can show a broader and steadier picture of wealth in America compared to annual income. If we only looked at income, there would be much more turnover, from year to year, in the composition of the highest income earners in the United States, which would potentially skew results for the goal of this study. Net worth typically provides a more holistic view of an individual's financial wellbeing relative to annual income. For this reason, my research is based on net worth. This should provide a more consistent group of individuals and a more accurate description of the true wealth in the United States of America.

**Accuracy of Net Worth**

Though net worth is a more meaningful basis of measurement than annual income for this study, there are still many factors that make it challenging to quantify an individual's relative wealth. For example, let's say that two individuals each have a net worth of $10 million dollars. Now, let's assume that individual "A" inherited the $10 million, and he/she invests it all in stock market mutual funds. This would be considered a short-term or “liquid” asset that is very readily accessible. In another scenario, let’s say that individual “B” owns a business worth approximately $10 million, but all of his/her funds are wrapped up in equity inside the business. This is a long-term investment that is much less liquid than the previous example.

Therefore, similar amounts of net worth do not necessarily allow us to compare apples to apples. With this said, we will still focus on total net worth without adjustments for liquidity, tax burdens, early withdrawal penalties, unrealized gains, etc. However, based on the previous example, it should be noted that similar levels of net worth across individuals can represent very different situations. Throughout the paper, the statistics reported represent the one percent as a whole, even though the composition of an individual’s net worth may be different from other people included in the group.

## Methods for Measurement

There are multiple methods of breaking down and analyzing the data, causing some confusion or misunderstanding when using the information. The main area that I will be discussing in this section is the difference between mean and median data. The interpretation of data is nearly as important as the data itself, and I want to be certain to interpret it correctly. In the following sections I will be talking more about the best methods of measurement for this specific study.

### Mean Is Not Always Informative

One example of a poor method for analyzing data on the one percent is using mean to describe an “average” person, also known as “mean.” Despite the cliché, “average” is not always an accurate representation of a typical person in a group. To calculate the average wealth of a group under this method, the sum of the individual amounts is divided by the total number of people. Based on data from a study conducted by New York University economics professor Edward N. Wolff (See Appendix A), the mean net worth of the one percent in 2010 was approximately $16.4 million dollars. If interpreted incorrectly, this number has the potential to be very deceiving. The concern is that a simple mathematical average does not always reveal the disbursement of wealth throughout a group.

To create a scenario that helps to illustrate this concept more effectively, let’s assume that we have five millionaires, each with a net worth of $100 million, $50 million, $20 million, $10 million, and $1 million, respectively. By any method of measurement, millionaire one is significantly more wealthy than millionaire two, millionaire two is significantly more wealthy than millionaire three, and so on. The concern comes in the next step, when we calculate the mean net worth of a millionaire in this study to be $36.2 million. I think that we would all agree that this amount does not represent a meaningful measure of the wealth of any of the five millionaires in this example. In the next section I will discuss an alternative to using the mean.

**Median Is Often More Informative**

In this case, a more meaningful representation of the distribution of the one percent is median. Per the Merriam-Webster Dictionary, median is the middle value in a series of values, arranged from smallest to largest. According to standard wealth distribution curves (See Appendix B), there is a large majority of observations that fall within the low range of net worth within the dataset. For this reason, using the mean is often not the best method largely due to the left skewed distribution of wealth in the United States economy.

To illustrate this point, let’s refer to the same five millionaires discussed in the previous section, this time measured by median rather than mean. Millionaire three is the third value in the series, which makes $20 million of net worth the median measurement. In this case, the median provides a more meaningful representation of the net worth of the individual group members except for millionaire one, who is the outlier in the data set. To visualize, millionaire one would be located on the far right of the wealth distribution curve.

To build on this example, we can use actual information for the population of the United States of America as our dataset. According to Global Wealth Databook (2015), the average American net worth is approximately $301 thousand. My first reaction was probably the same as yours; this amount does not seem to fairly represent the typical American. The same research shows that the median net worth in America is only about $45 thousand, which is significantly less than the mean. Based on my experiences, the second amount more fairly describes a typical American. All of the figures used in this example can be viewed in Appendix C.

You may be wondering, “Why are these amounts so different?” The answer is quite simple. When the majority of the distribution falls to the left side of the dataset, the few outliers on the right side skew the mean significantly. Therefore, the median may be a more insightful measurement to describe the typical member of a group, depending on the distribution of that group. Switching thoughts, the same is true in regards to the top one percent of individual net worth in America. Although the amounts are significantly larger for the top one percent, the distribution of the observations is similar.

## Qualifications for the One Percent

Now that we know the basis for quantifying the one percent, another question is, “What qualifications must be met for an individual to be considered in the top one percent?” The answer to this question can be complicated by dollar values changing over time as a result of inflation and a global economy. Following, I will address the requirements for being in the one percent.

As we saw in the previous examples, mean is not always an accurate description of the majority of people in a group when the distribution of observations is skewed. In the same way, the idea that the typical individual in the one percent has a net worth of $16.4 million (Wolff, 2010) is potentially misleading. In another study conducted by Professor Edward N. Wolff (Wolff, 2010), the people at the low end of the one percent have a net worth between $8 and $9 million. In the same study, the median net worth of a member of the one percent is closer to $11 million than the previously stated mean estimate of $16.4 million. As discussed in the previous sections, the median of this group is the more relevant number due to the outlying observations of the wealthiest individuals skewing the mean figures. In reality, the difference between $11 million and $16.4 million may not resonate in the minds of the average American due to the large dollar amounts. Although both amounts represent significant wealth, I wanted to illustrate the facts in a way that most meaningfully describes the typical member of the one percent.

## Source of Wealth

There is a common public perception that the individuals comprising the one percent received their wealth through privilege and family ties. In many cases, generational wealth transfer is the main source of an individual’s net worth, but I would like to present some additional data. The following statistics were published in the book “The Millionaire Next Door,” (Stanley/Danko, 1996).

**Statistics of Millionaires**

American millionaires:

- Only 19 percent receive any income or wealth of any kind from a trust fund or an estate.
- Fewer than 20 percent inherited 10 percent or more of their wealth.
- More than half never received as much as $1 in inheritance.
- Fewer than 25 percent ever received "an act of kindness" of $10,000 or more from their parents, grandparents, or other relatives.
- Ninety-one percent never received, as a gift, as much as $1 of the ownership of a family business.
- Nearly half never received any college tuition from their parents or other relatives.
- Fewer than 10 percent believe they will ever receive an inheritance in the future.

As stated at the beginning of the paper, I do not want to shape your opinion but rather provide you with the information necessary to form your own educated opinion. With that said, I believe that these statistics reveal a slightly different picture than the common public perception may indicate. A large majority of these individuals did not inherit much, if any, of their wealth. In fact, over one-half never received any form of inheritance or tuition assistance. Like anything else, there are anomalies in the data. Of course there are those who are born into wealth and those who are given exorbitant amounts of wealth due to family ties. Regardless, the facts show that this is not the background of a large majority of millionaires in the United States of America. Many of them were given very little and created a significant portion of their own wealth.

## Tax Burden

In addition to generational wealth, another hot topic of conversation in America today is that economically wealthy individuals are not pulling their fair weight in society, in proportion to others. Next, I would like to take a look at the tax burden of the one percent and examine the underlying principles behind the taxation of the wealthy in America.

### Effective Tax Rate of the One Percent

To fully understand this section, we must first define an effective tax rate. According to Investopedia, "The effective tax rate is the average rate at which an individual or corporation is taxed. The effective tax rate for individuals is the average rate at which their earned income is taxed." To simplify this, effective tax rate can be calculated by total tax expense divided by total income, including interest, dividends, capital gains, etc. This provides a percentage that represents the income tax an individual actually paid over a specific period of time, based on the total income that he/she earned in that same period. The rate is based on total income, instead of taxable income.

You may have heard that Warren Buffet pays less in taxes than his secretary, on a percentage basis, according an op-ed article that he wrote in the New York Times (Buffet, 2011). You may have also heard that Mitt Romney's tax rate is significantly less than the national average based on tax returns that he released, for the years 2010 (Internal Revenue Service, 2010) and 2011 (Internal Revenue Service, 2011), during his presidential campaign. Why do these billionaires pay such a low tax rate in comparison to the rest of America? Is this practice unfair to lower income Americans? These are questions that will be addressed in this section.

Per a CNN Money article (Sahadi, 2014), the effective income tax rate for the one percent is about 23.5%. This percentage peaked at almost 27% in 2001, according to the same source. Based on related statistics this seems to be an accurate figure, although computing the actual effective tax rate for the one percent in America is relatively difficult as a result of confidentiality laws on tax information. With that said, most data that is available for public use consists of taxable income, which can be significantly less than total income. Amounts such as interest on municipal bonds, life insurance proceeds, qualified scholarships, etc., are generally not taxable when applicable conditions are met under the U.S. tax code, and are therefore not included in an individual's taxable income.

As a side note I would like to clarify that income tax is not the only form of taxation in America; therefore, the amount of income tax alone may not provide a meaningful reflection of the total tax burden of the one percent. In addition to income tax, the one percent commonly faces a unified estate and gift tax at the federal level. Estate taxes are generally imposed on the right of individuals to transfer wealth at the time of their death (Estate Tax, 2016). In addition, a gift tax is generally imposed on an individual donor who transfers property to another while the donor receives nothing, or less than full value, in return (Gift Tax, 2016). A gift tax is applicable whether or not the donor intends the transfer to be a gift, but an annual exclusion of $14,000 per recipient for calendar years 2013-2017 eliminates relatively small gifts from the gift tax base (What's New - Estate and Gift Tax, 2016). Although a unified credit results in estates and lifetime gifts being taxed only when their combined value exceeds $5.45 million in 2016, the excess is subject to tax rates as high as 40%.

## Corporate Taxation

Another factor that needs to be included in the conversation of personal wealth is corporate taxation. In the case of Mr. Buffet, the rates being reported do not consider corporate taxation. Buffet owns almost 35% of Berkshire Hathaway, Inc., which had net earnings of $24.083 billion in 2015 (Berkshire Hathaway, Inc., 2016), in addition to multiple other corporations. This brings another aspect into the conversation. In the United States, the income generated by a corporation is generally subject to corporate tax before any distributions are ever made to the shareholders in the form of a dividend. When such a dividend is distributed to an individual shareholder, the money is taxed again on the individual's Form 1040. Although long-term capital gains and qualified dividends are eligible to be taxed at a relatively low, preferential tax rate compared to ordinary income, this creates an effective "double tax" on the earnings of corporations that do not file an election to be treated as a pass-through entity, commonly referred to as an S corporation.

To illustrate, for Mr. Buffet to receive a dividend distribution of $100 from Berkshire Hathaway, the corporation must earn approximately $150. After the corporate income tax rate of about 35%, the company has a tax liability of approximately $50. The after-tax corporate income of approximately $100 will represent taxable dividend income when received by an individual shareholder. Due to the effect of double taxation, the true, total effective tax rate on corporate earnings distributed as a dividend to individual shareholders is closer to 50%. Although individuals currently pay a relatively low tax rate on qualified dividend income reported on their Form 1040, the built-in double taxation of corporate profits reduces the after-tax funds available at the individual level. At this point, political differences in opinion take over. Some may see this double taxation as an unfair tax on corporate earnings, while others may see it as a necessary progressive tax that requires the wealthy to carry a larger weight in society due to their ability to do so. I would like to reiterate that I do not want to form opinions for you, only explain the data relating to the conversation.

**Average Tax Rate of the One Percent**

In previous sections, I addressed some of the issues regarding effective tax rates. I would now like to discuss average tax rates. An average tax rate is a commonly reported statistic provided by the IRS, for one main reason: accessibility. Average tax rate is very similar to effective tax rate, except the equation is total tax expense divided by taxable income, rather than total income. Unlike the equation for calculating effective tax rate, both amounts used to calculate an average tax rate can be found on the individual's Form 1040 return, making it easier to confirm the percentage through reliable IRS data.

If we look at the one percent as a whole, we see that the average tax rate for the group is around 22.8% (See Appendix D), which is higher than any other group of people in the country. The discussion changes, however, when we start looking at the top 0.1%, 0.001%, and 0.0001% of wealth. As you can see in each of these categories (See Appendix E), the average tax rate begins to fall to 17.6%. I previously discussed why this occurs, due to a lower tax rate on long-term capital gains and qualified dividends. These few individuals are anomalies from the one percent in total. There is a significant difference between an individual at the bottom end of the one percent and an individual at the top end of the one percent. The few outliers at the very top seem to be the topic of much discussion, although they often do not provide a meaningful representation of the one percent as a whole.

## Difference in Opinion

In conclusion, people maintain different perspectives on wealth and the relationship of taxation to the distribution of that wealth. At the end of the day, the topic of the economic elite in the United States can be polarizing and often comes down to personal beliefs and ideals more than anything else. One individual may see the world through a very different lens than another, but I believe that we will only be able to effectively address the issues at hand with mutual respect and understanding. What I hope to have communicated in this paper is how data and statistical analysis is used to define the wealthiest Americans, which helps promote better awareness, meaningful discussions, and well-formed opinions.

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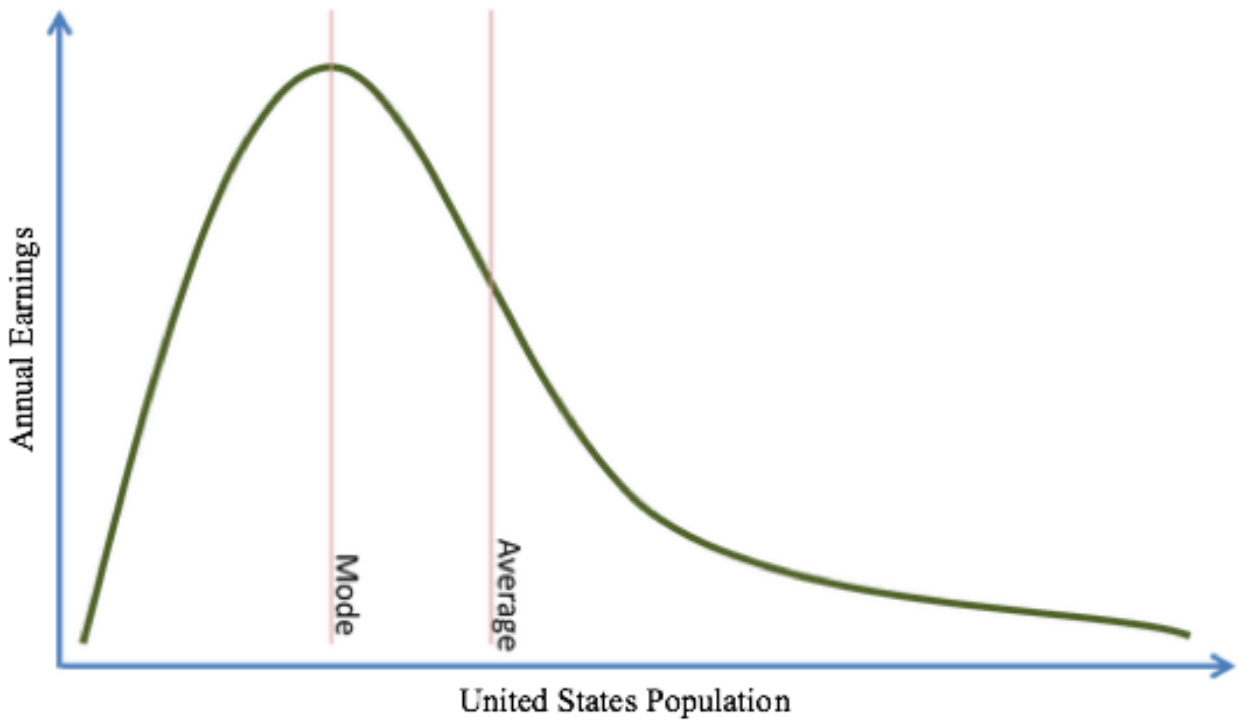
## Appendix A

**Table 4. Mean Wealth Holdings and Income by Wealth or Income Class, 1983-2010**
**(In thousands, 2010 dollars)**

| Variable | Top 1.0% | Next 4.0% | Next 5.0% | Next 10.0% | Top 20.0% | 4th 20.0% | 3rd 20.0% | Bottom 40.0% | All |
|---|---|---|---|---|---|---|---|---|---|
| A. Net Worth | | | | | | | | | |
| 1983 | 9,599 | 1,588 | 690.5 | 372.9 | 1,156.5 | 178.7 | 74.2 | 6.3 | 284.4 |
| 2010 | 16,439.4 | 3,192.5 | 1,263.4 | 567.0 | 2,061.6 | 216.9 | 61.0 | (10.6) | 463.8 |
| % change | 71.3 | 101.1 | 83.0 | 52.1 | 78.3 | 21.4 | -17.9 | -269.7 | 63.1 |
| % of gain[a] | 38.1 | 35.8 | 16.0 | 10.8 | 100.7 | 4.3 | -1.5 | -3.8 | 100.0 |
| B. Non-home Wealth | | | | | | | | | |
| 1983 | 8,276 | 1,212 | 473.5 | 212.3 | 880.7 | 76.2 | 16.4 | (4.2) | 193.0 |
| 2010 | 15,171.6 | 2,661.6 | 949.8 | 378.5 | 1,719.8 | 100.7 | 12.2 | (14.8) | 360.7 |
| % change | 83.3 | 119.6 | 100.6 | 78.3 | 95.3 | 32.1 | -25.7 | -- | 86.9 |
| % of gain[a] | 41.1 | 34.6 | 14.2 | 9.9 | 99.8 | 2.9 | -0.5 | -2.5 | 100.0 |
| C. Income | | | | | | | | | |
| 1982 | 827.1 | 213.7 | 132.7 | 99.6 | 167.1 | 69.7 | 45.6 | 19.9 | 64.4 |
| 2009 | 1,318.2 | 317.2 | 164.0 | 112.0 | 226.2 | 72.0 | 41.7 | 17.3 | 76.9 |
| % change | 59.4 | 48.4 | 23.6 | 12.5 | 35.4 | 3.3 | -8.4 | -12.9 | 19.3 |
| % of gain[a] | 39.4 | 41.6 | 12.7 | 10.1 | 103.7 | 3.6 | -3.1 | -4.1 | 100.0 |

Mean wealth holdings and income by wealth or income class, 1983-2010
Source: (Wolff, 2010)

**Appendix B**




Standard Distribution Curve
Source: (Ensley, 2010)

**Appendix C**


Mean v. Median Net Worth by Country
Source: (FinancialSamurai.com, 2010)

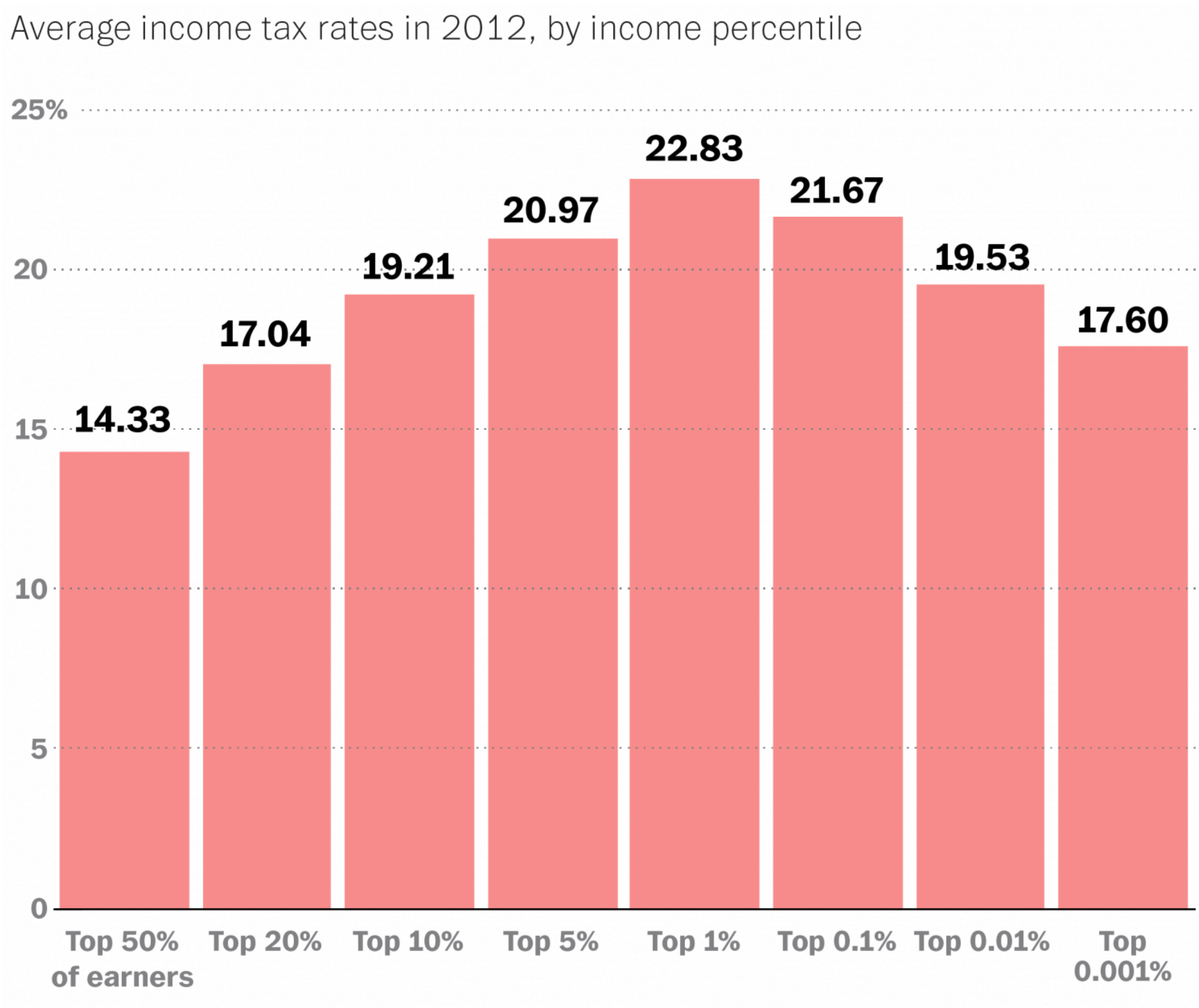
## Appendix D

**Table 1. Summary of Federal Income Tax Data, 2012**

| | Number of Returns* | AGI ($ millions) | Income Taxes Paid ($ millions) | Group's Share of Total AGI (IRS) | Group's Share of Income Taxes | Income Split Point | Average Tax Rate |
|---|---|---|---|---|---|---|---|
| All Taxpayers | 136,080,353 | 9,041,744 | 1,184,978 | 100.0% | 100.0% | | |
| Top 1% | 1,360,804 | 1,976,738 | 451,328 | 21.9% | 38.1% | > $434,682 | 22.8% |
| 1-5% | 5,443,214 | 1,354,206 | 247,215 | 15.0% | 20.9% | | 18.3% |
| Top 5% | 6,804,018 | 3,330,944 | 698,543 | 36.8% | 58.9% | > $175,817 | 21.0% |
| 5-10% | 6,804,017 | 996,955 | 132,902 | 11.0% | 11.2% | | 13.3% |
| Top 10% | 13,608,035 | 4,327,899 | 831,445 | 47.9% | 70.2% | > $125,195 | 19.2% |
| 10-25% | 20,412,053 | 1,933,778 | 192,601 | 21.4% | 16.3% | | 10.0% |
| Top 25% | 34,020,088 | 6,261,677 | 1,024,046 | 69.3% | 86.4% | > $73,354 | 16.4% |
| 25-50% | 34,020,089 | 1,776,123 | 128,017 | 19.6% | 10.8% | | 7.2% |
| Top 50% | 68,040,177 | 8,037,800 | 1,152,063 | 88.9% | 97.2% | > $36,055 | 14.3% |
| Bottom 50% | 68,040,177 | 1,003,944 | 32,915 | 11.1% | 2.8% | < $36,055 | 3.3% |

Summary of Federal Income Tax Data, 2012
Source: (Pomerleau & Lundeen, 2014)

**Appendix E**




Average income tax rates in 2012, by income percentile
Source: (Ingraham, 2015)