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REPORT

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THE MILLION DOLLAR BE-QUESTION

Inheritances, gifts, and their implications for generational living standards

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Executive Summary

It is becoming increasingly evident that the 20th century promise of generation-on-generation living standards improvements is under threat today. In a range of areas, millennials (born 1981-2000) are falling behind their predecessors at the same age. Nowhere is this reversal of generational progress clearer than in relation to home ownership and wider wealth accumulation. Millennials are currently half as likely to own their own home at age 30 as the baby boomers (born 1946-65) were, and all cohorts born after 1955 are accumulating less wealth than their predecessors at the same age had. Wealth means houses, pensions and financial assets to rely on over lifetimes and particularly in retirement. In this light, **the reversal of cohort-on-cohort wealth progress sits at the heart of concerns about the generational living standards divide**.

An obvious rejoinder to these concerns is that all the assets held by members of older generations will not disappear at the end of their lives. Those that aren't used for personal consumption are generally passed down to descendants in the form of inheritances and gifts. Indeed, **there are a number of reasons to believe that future intergenerational wealth transfers will provide a major boost to the living standards of today's younger generations**.

The older population's expectations for leaving bequests suggest that **the total value of inheritances is set to double over the next two decades** – peaking in 2035 – as the generally high-wealth baby boomers progress through old age. Millennials are most likely to have baby boomers as parents, so they are the group that will increasingly benefit from this coming inheritance boom.

In addition, fast-rising home ownership rates for the baby boomers and the silent generation (born 1926-45) before them mean that, as well as bigger total inheritances each year, **a greater share of young people today are likely to benefit from inheritances than did in the past**. With home-ownership rates now around 75 per cent among the baby boomers, most millennials might expect to get a share of a parental home eventually.

So inheritances and gifts clearly have a large and important role to play in boosting the wealth of younger generations. But **the extent to which wealth transfers down generations within families will address home ownership gaps or affect wealth inequality levels among young adults remain open questions**. It is these questions that this report – the 13th for the Intergenerational Commission – seeks to answer. As well as synthesising and updating past research on inheritances and gifts to-date and expectations for the future, we construct a dataset that directly links young adults and their parents in order to assess potential future wealth transfers.

Inheritances and gifts to-date

Hand-in-hand with the growth of wealth in recent decades has come the growth of inheritances – **the real value of estates passing on death has more than doubled over the past 20 years**. While adults receive bequests from a range of different givers, two-thirds of money inherited flows directly from parents to their children.

The relationship of these inheritances to recipients' income and wealth levels is nuanced:

- We find that in relation to both income and wealth, the incidence and value of inheritances are higher for those with higher economic resources than lower resources. For example, **the highest-income fifth of 40-59 year olds inherited nearly three times as much as the bottom 20 per cent did in the two years to 2012-14** – figures of £5,900 and £2,400 per adult in the population respectively. As such, inheritances have to-date increased *absolute* differences in income and wealth.

- However, inheritances are more equally spread across the current income and wealth distributions than income and wealth themselves. **As a proportion of current incomes, inheritances in the two years to 2012-14 were twice as important for the lowest-income fifth of 40-59 year old as across the rest of the distribution**. And as a proportion of the *lifetime* income of 65-80 year olds, lifetime inheritances were higher for those with the lowest lifetime incomes than in the middle of the lifetime income distribution (the share at the top was highest). So inheritances to-date have played a role in spreading wealth.

- These effects for the lowest-income, or least-wealthy, households have resulted from a minority getting large sums in inheritances, rather than most low-resource households benefiting from intergenerational wealth transfers in a big way: **only 32 per cent of the one-fifth of 65-80 year olds with the lowest lifetime incomes ever received an inheritance**. So this wealth-spreading effect of inheritances doesn't reach the majority of those with low economic resources.

- The effects of inheritances on *relative* inequality levels are complex given these factors, as well as any behavioural responses to expecting or getting an inheritance that are hard to capture. Overall, it appears that inheritances have had a negligible or mildly inequality-increasing effect on wealth and lifetime incomes.

Receipt of gifts – the other major form of intergenerational wealth transfer – happens when adults are younger and appears more closely related to expensive life stages and economic need. Due to both a higher likelihood of receiving one and higher average values**, gifts are largest for those with the highest incomes. However as a proportion of income they are more than twice as large for the bottom 20 per cent as the top 20 per cent**, the result of a minority of low-income households receiving proportionally large gifts. Overall, gift giving shifts the timing of intergenerational wealth transfers compared to inheritances, but doesn't appear to substantially affect the distribution.

The future of intergenerational wealth transfers

Our dataset directly linking 20-35 year olds (roughly the oldest three-quarters of the millennial generation) to their parents, even when they are no longer living with them, allows us to compare incomes and property wealth levels. This means we can estimate the impact that the future transfer of this property wealth might have on home ownership rates and wealth inequality.

We find evidence supporting the conclusion that future intergenerational wealth transfers will provide a major boost to many young adults' living standards and wealth accumulation. Past analysis of inheritance expectations has shown that **as well as rising overall, the incidence of inheritances may be somewhat more equal in future than it has been to-date for older cohorts**. Across all cohorts born between the 1930s and 1970s, expectations (or the actualities) of receiving an inheritance are around 30 percentage points higher in the top fifth of incomes that at the bottom. But coupled with higher expectations across income levels in each successive cohort, this means that the relative difference between expectations for those with high and low incomes is lower in younger cohorts. Strikingly, more than half of the bottom 20 per cent of those born on the 1970s expect to receive (or have already received) an inheritance.

In line with these findings, our new analysis shows that **more than half (55 per cent) of the lowest-income 20 per cent of 20-35 year olds have at least one parent with property wealth** that they might expect to get a share of one day. This points to a higher incidence of intergenerational wealth transfers for those with low resources in future than in the past. And **although absolute per-sibling parental property wealth levels are 3.8 times as high for the highest-income fifth of 20-35 year olds compared to the bottom 20 per cent, they are less unequal than incomes themselves** (which are 6.6 times as high at the top as at the bottom).

So there are a number of reasons for optimism regarding future intergenerational wealth transfers to today's young adults. However, these **future wealth transfers are no silver bullet for addressing young adults' much lower home ownership rates and slower wealth accumulation**:

- **Nearly half (46 per cent) of non-home owning 20-35 year olds have parents who don't own either**, suggesting they may never receive the kind of transfer that would support them to own themselves. By contrast, **83 per cent of millennial home owners have a parent who also owns their own home**.

- Even those who can expect to get a share of parental property wealth will get it far later than is optimal. Because of the challenges of releasing wealth from properties that are being lived in, it's reasonable to expect that these assets will mainly be passed down in inheritances rather than gifts. Based on their parents' life expectancies, **we estimate that the most common age at which 20-35 year olds inherit will be 61**. This means that wealth boosts will come not at the expensive child-rearing stage when a larger home is more necessary, but when they are approaching retirement.

- While it's possible they might reduce *relative* wealth differences by providing a welcome boost to many who have built up little or no wealth, **future intergenerational transfers look set to vastly increase *absolute* wealth gaps between millennials. 20-35 year olds with property wealth of their own of £200,000 or more have average parental property wealth of £195,000 per sibling, while millennials who don't own their own home have average per-sibling parental property wealth of just £85,000**. The immediate transfer of all parental property wealth to children would result in a near-doubling of the absolute difference between the top fifth and bottom fifth of the 20-35 year old gross property wealth distribution. Growing absolute wealth gaps will make it harder still for individuals to earn their way towards being wealthy, as opposed to getting there on the basis of what their parents had.

- Reforms currently underway mean that **inheritance tax will do increasingly little to reduce these absolute gaps in millennials' property inheritances**.

The new housing allowance – which once it is fully implemented in 2020 will mean that up to £500,000 per adult can be passed on tax free – could halve the average tax burden on 20-35 year old parental property wealth, if inherited at current levels.

- **'Assortative mating' is likely to amplify these absolute gaps in individuals' future wealth transfers at the household level.** People tend to couple up with those who have similar inheritance expectations to their own. Adults aged under 50 who are in couples and expect to get no inheritance themselves have partners with an average expected future inheritance of £25,000. By contrast, those who themselves expect to inherit more than £500,000 in future have partners with an average expected future inheritance of £190,000.

Intergenerational wealth transfers as a solution to the generational living standards divide?

The conclusions from the analysis in this report are clear. Patterns of intergenerational wealth transfer to-date and expectations that they will be both larger overall and more common for future cohorts suggest that inheritances and gifts will provide a major boost to today's young adults. However, future intergenerational wealth transfers are by no means the solution to the low home ownership rates and wealth accumulation challenges today's younger generation faces. Many younger non-home owners look set to get no property inheritance; those who do will likely receive it too late to support them during the expensive family-raising years; and future property wealth transfers are expected to vastly increase absolute wealth gaps.

On this basis, **there is a need to assess how policy can support wealth accumulation within younger generations and temper the role of intergenerational family transfers in driving up absolute wealth gaps**. Areas for consideration include how the timing of wealth transfers can be brought forward (for example via equity release and downsizing); the redistributive role of inheritance taxation; and the broader 'social inheritance' – including infrastructure, national debt and the condition of the environment – that today's generations bequeath to tomorrow's.

With the overall value of intergenerational wealth transfers set to grow rapidly over coming decades, now is the right time to be thinking about these issues. As such, forthcoming policy papers for the Intergenerational Commission will consider these and other policy areas in forming recommendations for a renewal of the intergenerational contract in Britain.

Section 1

Introduction

Previous research for the Intergenerational Commission has detailed the challenges that younger generations are facing in a range of areas, not least getting into home ownership and building up wealth. But the overall growth in wealth in Britain in recent decades and its concentration in older cohorts provide reasons to believe that future intergenerational transfers of wealth – in the form of gifts and inheritances – will greatly improve millennials' housing and wealth prospects. The total value of bequests is expect to double over the next 20 years as the baby boomers reach the end of lives, and high levels of home ownership within this older generation suggest that inheriting some of this wealth will be a more common phenomenon than in the past.

Despite these reasons for optimism, the extent to which future intergenerational transfers will address the home ownership gap or reduce levels of wealth inequality for younger generations remain open question. With answering these questions the main tasks of this report, in this introductory section we briefly recount Britain's recent wealth story and the implications for future wealth transfers.

Britain has a big generational living standards challenge, with home ownership and wider wealth accumulation among the starkest divides

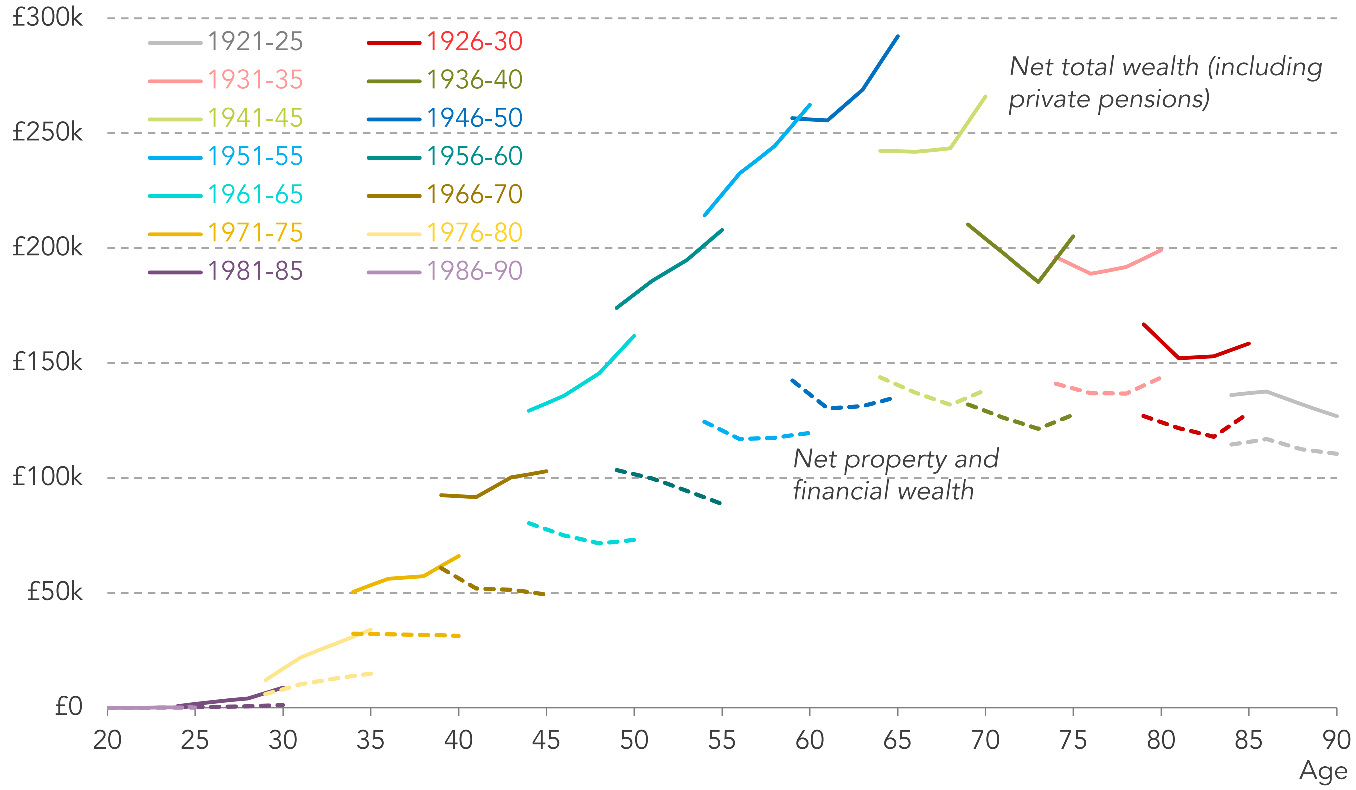
Previous analysis for the Intergenerational Commission has shown that the commonly-accepted promise that each generation should have a higher standard of living than predecessors is under threat in a range of areas. Millennials (the generation born 1981-2000) have earnings that are no higher than those born 10 or 15 years before them had at the same age.[1] Starker still is the home ownership picture: millennials are currently half as likely to own their own home at age 30 as the baby boomers (born 1946-65) were.[2] And our analysis of trend in wealth – of which these houses form a major part alongside private pensions and financial assets – shows that older cohorts have done better than younger ones, as set out in Figure 1.

1 L Gardiner & P Gregg, *Study, work, progress, repeat? How and why pay and progression outcomes have differed across cohorts*, Resolution Foundation, February 2017

2 A Corlett & L Judge, *Home affront: Housing across the generations*, Resolution Foundation, September 2017

Figure 1: **Median family total net wealth and net property and financial wealth per adult, by cohort: 2006-08–2012-14, GB**

CPIH-adjusted to 2017 prices



Notes: Total net wealth includes net property wealth, net financial wealth and private pension wealth.

Source: RF analysis of ONS, *Wealth and Assets Survey*

Turning first to net total wealth[3] – the solid lines in Figure 1 – as well as expected life-cycle effects (with wealth accumulated during working age and the run down in retirement) we see a pattern of older cohorts holding more wealth than their predecessors did when they were the same age. For example, the 1946-50 cohort had one-fifth (21 per cent) more wealth at age 65 than the 1941-45 cohort did. But for all cohorts born after 1955 the opposite is true, with wealth levels lower than what predecessors had when they were the same age. For example, those born 1981-85 had half (48 per cent) of what the 1976-80 cohort had at age 30.

As well as total net wealth which includes private pensions, the dashed lines in Figure 1 show generational trends in the accumulation and decumulation of what is often termed 'marketable' wealth – net property and net financial assets. We focus on this because it is these elements that can most easily be transferred to others during lifetimes or at death: private pension wealth is restricted in the saving phase, and its transfer during retirement or at death (to those other than partners) is also constrained, although

3 We exclude physical wealth from our generational analysis, because of concerns about how these assets are valued in the survey: respondents are asked about the replacement value of their physical assets, which is generally much higher than its marketable value. For more information, see: R Crawford, D Innes & C O'Dea, *The Evolution of Wealth in Great Britain: 2006-08 to 2010-12*, Institute for Fiscal Studies, November 2015

increasingly less so.[4] Excluding pension wealth makes clear the role that pensions have played in wealth accumulation patterns for older cohorts. When looking just at net property and financial wealth, cohort-on-cohort wealth progress has gone into reverse for all cohorts born after 1945 (however the relative gaps remain much greater for younger cohorts).

A fundamental conclusion from Britain's housing and broader wealth stories in the 21st century is therefore that the established pattern of cohort-on-cohort progress has been reversed, with members of the millennial generation pegged back furthest. Wealth is essential to supporting lifetime living standards and particularly those in retirement, so this outcome sits at the heart of the growing perception that Britain's intergenerational contract is under threat.

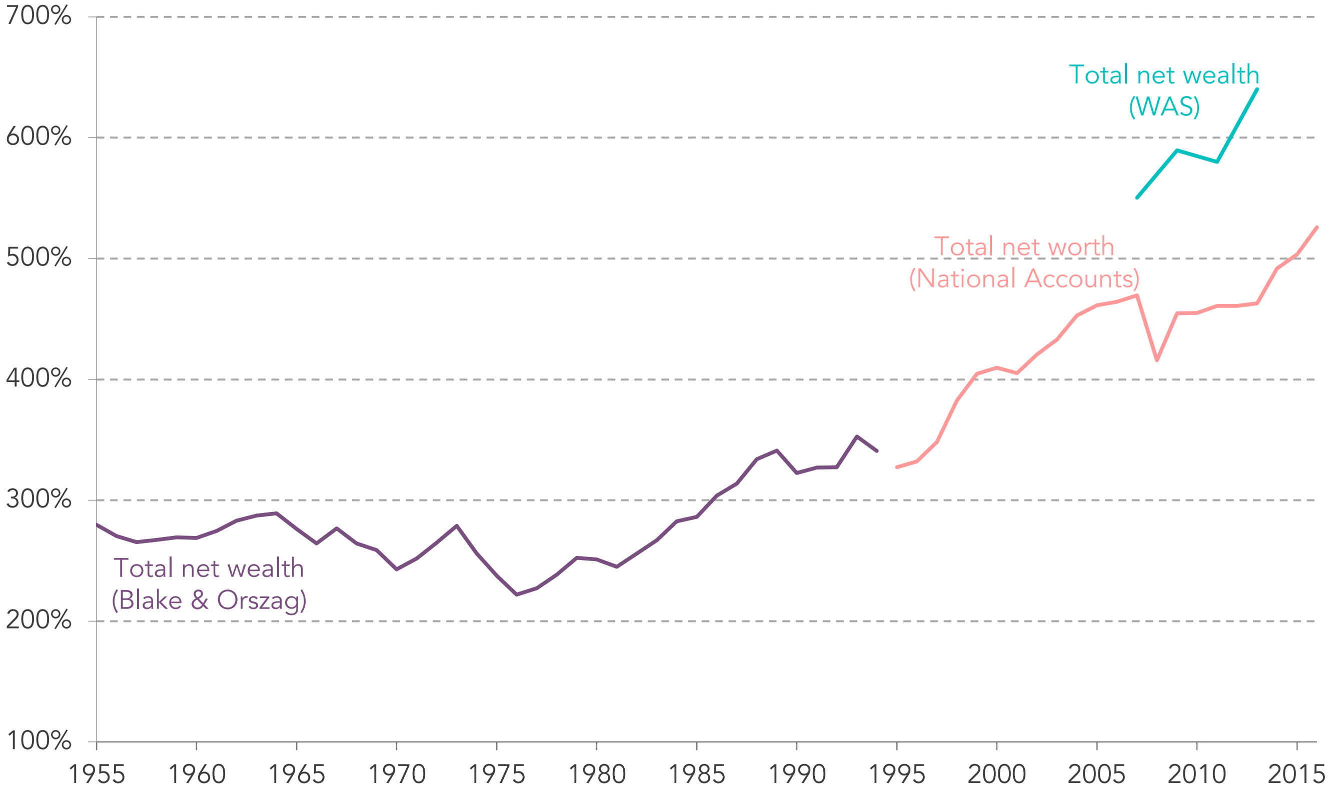
The coming baby bust suggests that accumulated wealth will boost millennial living standards in coming decades

Of course, we shouldn't see older cohorts who have done comparatively well in terms of building up wealth as existing on one side of a generational divide. People live their lives as families across generations, and the transfer of this wealth as members of older cohorts age – particularly in bequests when they die – provides potential reasons for optimism regarding younger cohorts' housing and wealth prospects.

The first reason for thinking that intergenerational family transfers will play an important role for younger generations is that there is just a lot more wealth around to be handed down. The evolving pattern of household wealth since 1955 is shown in Figure 2.

4 The move towards greater pension freedoms and changes to how pensions are taxed at death increase the scope for transferring pension wealth to others. And of course, income from pension pots can be gifted or saved in other asset classes for the purpose of future gifts or bequests.

Figure 2: **Aggregate household wealth as a proportion of GDP: 1955-2016, GB/UK**



Notes: Wealth measures cover net property wealth, net financial wealth, private pension wealth and physical wealth. Blake & Orszag and National Accounts measures, and GDP data, cover the UK; the WAS measure covers Great Britain.

Source: D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', *Applied Financial Economics* 9, 1999; ONS, *UK National Accounts*; ONS, *Wealth and Assets Survey*

We find that between 1955 and 1980, total net wealth consistently averaged around 2.6 times total GDP, before climbing through the 1980s to reach 3.2 times GDP by 1990. Switching to different datasets after this point produces slightly different estimates of the total value of wealth, but there is a consistent picture after 1995 of wealth rising as a share of GDP. The *Wealth and Assets Survey* (WAS) – the most complete and up-to-date source – valued aggregate wealth at 5.5 times GDP by 2006-08, a figure that had risen to 6.4 times GDP by 2012-14.

Second, and related to this first point, substantial amounts of this accumulated wealth are not consumed during people's lifetimes. This is highlighted by the lack of any apparent decrease in net property and financial wealth across older age cohorts in Figure 1 – the median net family property and financial wealth per adult of 90 year olds is very similar to that of 60 year olds in the latest data.

As our previous study of wealth demonstrated, these patterns partly reflect compositional effects (wealthier adults tend to live longer); the death of partners boosting per-adult measures of wealth; and the 'passive' effect of house price growth.[5] But even excluding these effects we found that far less is actively decumulated than if wealth's

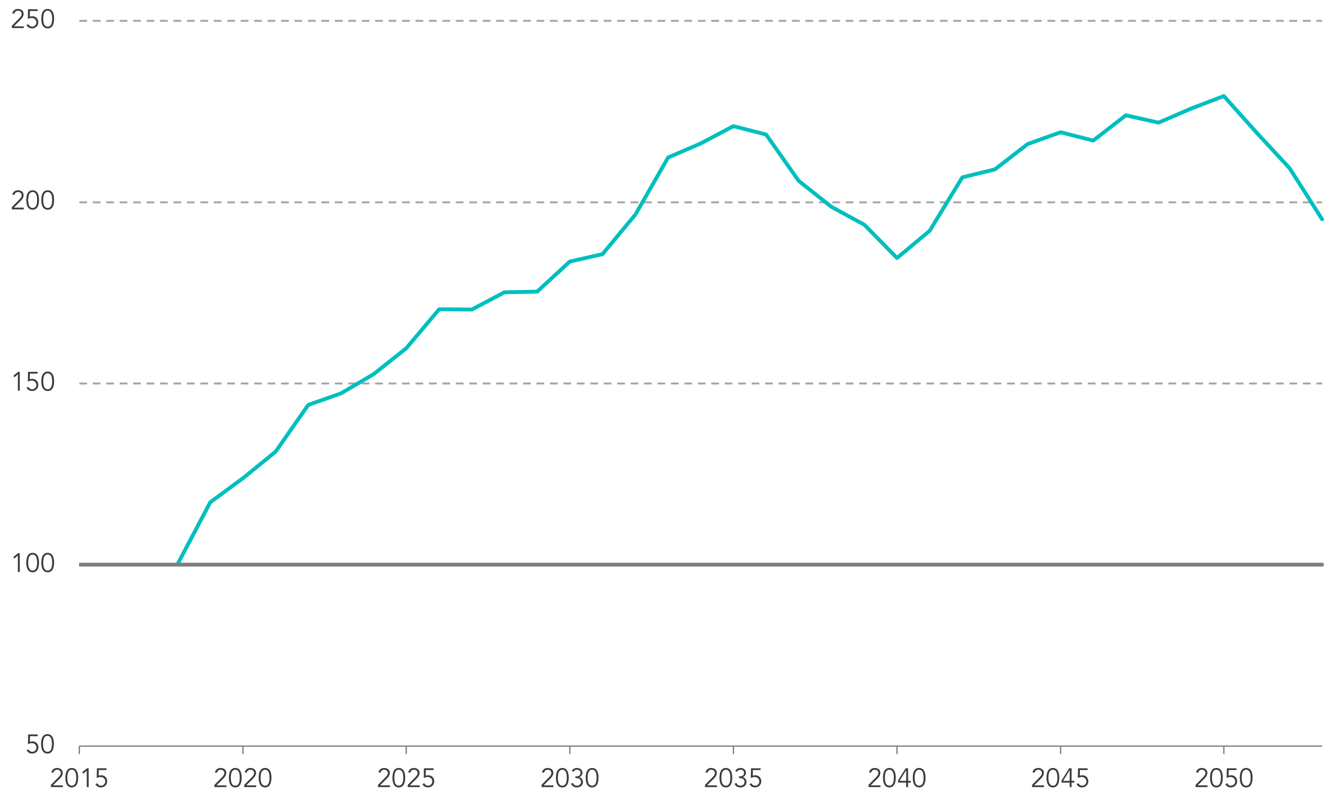
5 C D'Arcy & L Gardiner, *The generation of wealth: Asset accumulation across and within cohorts*, Resolution Foundation, June 2017

only purpose was to support lifetime living standards, and another study has similarly found sub-optimally high levels of asset accumulation by the 1940s cohort from a lifetime consumption perspective.[6] As well as structural and practical challenges to releasing value from main residences – the biggest single wealth component for most people – the suggestion is that bequest motives may be driving these limited decumulation behaviours.

The third reason for optimism regarding younger cohorts' wealth prospects is that these bequest motives are reflected in older adults' expectations of leaving inheritances in future. Based on the latest mortality projections, in Figure 3 we apportion the bequest expectations of adults in England aged 50 and over to the year in which they and their partner (if they have one) are expected to both be deceased.

Figure 3: **Index of total expected future bequests of adults aged over 50, by estimated year of bequest: 2014-15, England**

Current prices, 2018=100



Notes: To project the *value* of future bequests, we estimate a distribution of bequests based on adults' responses to questions asking them to estimate the likelihood of they (and their partner, if applicable) leaving a combined bequest within certain banded ranges. In coupled families, we take the average of each individual's estimate. To estimate the *timing* future bequests, we apply the distribution of 2016-based cohort mortality rates (estimated separately for each age and sex). For coupled families, the bequest falls in the year in which the second adult is expected to die (in other words, we exclude bequests to spouses and partners). We do not deflate expected bequests, meaning we assume that responses are based on the cash value of the bequest at the time of bequeathing, rather than in contemporaneous prices. This chart should not be interpreted as a projection of the value of all estates passing at death. This is principally because in years to come a growing share of total bequests will come from those current aged under 50, who are not captured in this dataset – their inclusion would be likely to increase the level of total future bequests towards the end of our projection period.

Source: RF analysis using UCL et al., *English Longitudinal Study of Ageing*; ONS, Life *Tables*

6 R Crawford & C O'Dea, *Retirement sorted? The adequacy and optimality of wealth among the near-retired*, Institute for Fiscal Studies, September 2014

We find that the total value of bequests is expected to more than double over the next two decades, peaking in 2035. This is partly driven by demographics: in 2035 surviving members of the 1947 cohort that marked the early baby boomer birth peak will be 88. But it also reflects the fact that the younger 50-plus cohorts have higher average bequest expectations than older ones,[7] unsurprising given the baby boomers (now aged 53-72) currently own more than half (54 per cent) of Britain's wealth. Millennials are most likely to have baby boomers as parents – 69 per cent of millennials' parents are baby boomers, with most of the rest in generation X (born 1966-80) – so they are the group that will increasingly benefit from this coming inheritance boom.

The final reason why we might be optimistic about the role that future intergenerational wealth transfers can play for millennials is that there are good reasons to think that inheriting will be a common phenomenon in future, more so than it has been in the past. Most obviously, the big increases in home ownership for the silent generation (born 1926-45) and the baby boomers suggest that a greater share of older generations will have something to pass on to their descendants. With home-ownership rates now around 75 per cent among the baby boomers,[8] most millennials might be expecting to get a share of a parental home eventually.

So a number of factors provide reasons to be positive about the future path of intergenerational family transfers of wealth:

- The sheer size of wealth;
- The limited extent to which older cohorts run it down in later life;
- The expectation that bequests will rise rapidly in coming decades; and,
- The prospect that these will be widely spread given high home ownership rates in older generations.

The key question, however, is whether these transfers will be a sufficient solution to the home ownership challenges that younger generations are facing. Relatedly, for those concerned about intra-cohort or wider social inequalities, a key consideration is the effect that intergenerational wealth transfers will have on the distribution of incomes and wealth within younger cohorts. This concern represents the fundamental link between the growing focus on intergenerational differences in resource allocation – of which the Commission this report is for forms a major part – and the longer-standing focus on poverty and inequality writ large in Britain.

The scope of this report

To address these questions, this report considers the recent and future incidence and distribution of intergenerational family transfers. It does so partly by synthesising and updating past analysis of outcomes to-date, and of future expectations for bequests at death. In addition, we advance this literature with new analysis of a dataset that directly links millennials and their parents (even when they are not living with them – the limitation of most household survey data), to assess how the younger generation's current income and property wealth relates to that of their parents, and when they might expect to inherit.

7 A Ross, J Lloyd & M Weinhardt, *The Age of Inheritance*, National Centre for Social Research, May 2008

8 A Corlett & L Judge, *Home affront: Housing across the generations*, Resolution Foundation, September 2017

The remainder of this report is set out over three sections, as follows:

- **Section 2** explores **inheritances and intergenerational gift-giving to-date**, bringing together the findings of past analysis of this topic and updating these using the latest data.
- **Section 3** considers the possible **future distribution of intergenerational family transfers within younger generations**, based on their expectations, and a direct assessment of their parents' current property wealth.
- **Section 4** provides **concluding remarks**, including reflecting on the implications of this analysis for policy.

Section 2

Inheritances and gifts to-date

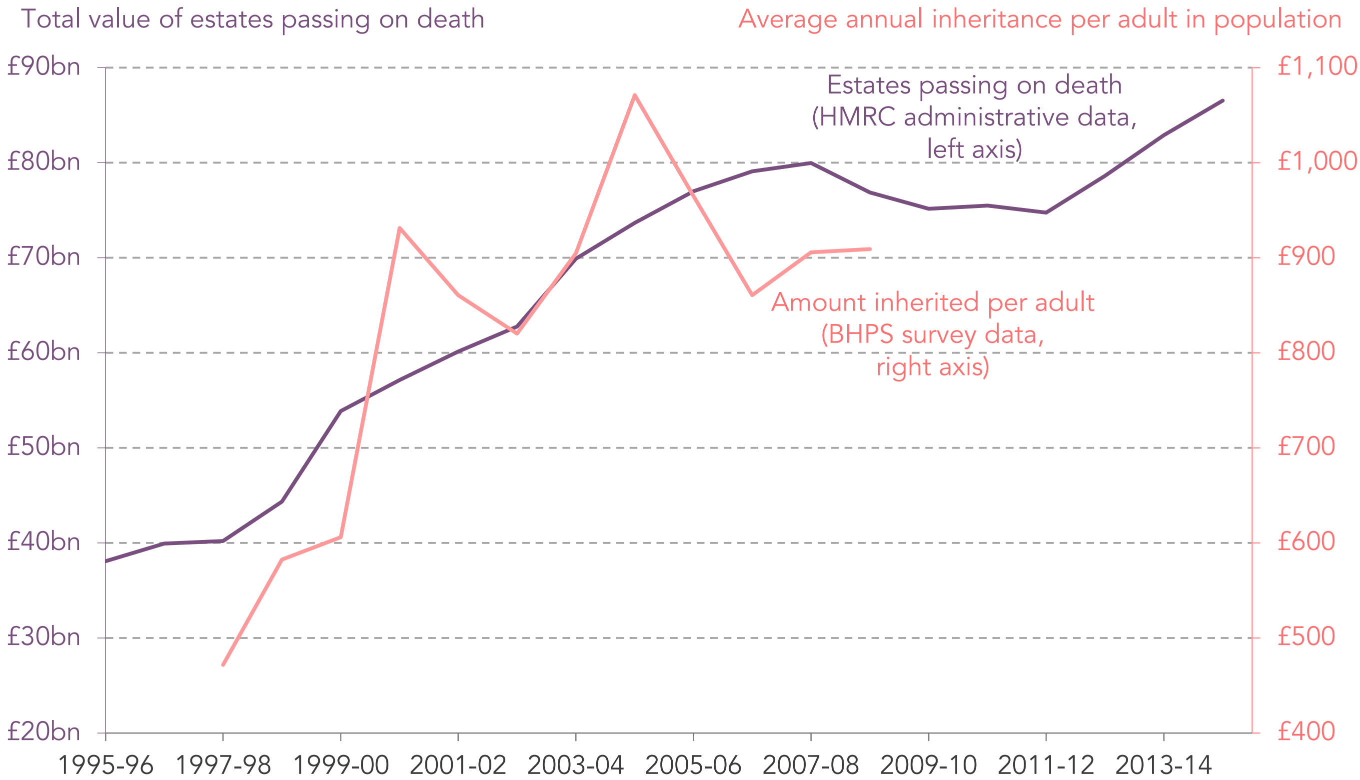
In this section we summarise current patterns of intergenerational family transfers and how these have evolved over time. Hand-in-hand with the growth of wealth in recent decades has come the growth of inheritances – the real value of estates passing on death has more than doubled over the past 20 years. While adults receive bequests from a range of different givers, two-thirds of money inherited flows directly from parents to their children. This money is unequally shared in relation to the current living standards of recipients. However, as a share of incomes inheritances are greatest for those with the lowest incomes, driven by a small minority of low-income households receiving substantial amounts. When inheritances are expressed as a share of lifetime incomes, the lowest lifetime income groups benefit more than those in the middle of the distribution, though still less than those with the highest lifetime economic resources.

Receipt of gifts – the other major form of intergenerational family transfer – happens when adults are younger and appears more closely related to expensive life stages and economic need. However gifts broadly maintain the unequal distribution of inheritance receipts in relation to current household incomes. Overall, the pattern is one of clear associations between the absolute levels of intergenerational family transfers to-date, and the resources of those who benefit from them.

Inheritances have played a growing role in British society over recent decades

Given the wealth trends described in the previous section, it is unsurprising that inheritances have grown in recent years, in relation to both prices and the size of the economy. Real-terms trends in the value of estates passing on death, and the average amount that each adult in Britain inherits each year, are shown in Figure 4.

Figure 4: **Total real value of estates passing on death and average amount inherited, UK/GB**



Notes: HMRC data covers UK, BHPS data covers Great Britain. Only around half of all estates (excluding those going to a surviving spouse) are covered by the HMRC data, however those excluded are small estates consisting only of cash and personal effects of less than £5,000 held in particular forms. This data therefore covers the vast majority of the *value* of pre-tax inheritances. The implied total values from the HMRC and BHPS data differ partly because the BHPS data will exclude any tax levied on estates, and partly because household survey data is known to under-record financial information such as this.

Source: RF analysis of HMRC, *Inheritance tax statistics*; Institute for Social and Economic Research (ISER), *British Household Panel Survey*

We turn first to the HMRC data (the purple line), which comes from administrative records. These records cover only around half of all the estates that pass on death each year in the UK but, given those excluded are very small, capture the vast majority of the total *value* of inheritable wealth. The real value of estates more than doubled in the 19 years between 1995-96 and 2014-15 – from £38 billion to £87 billion.

This increase is clearly large, but recent analysis by the late Tony Atkinson has shown that it is roughly in line with the big wealth increase in this period. And before we make bold statements about the 'age of inheritance', this same analysis reminds us that current inheritance levels are small when compared to those of a century ago. For example, estates passing on death totalled around 6 per cent of national income just before the financial crisis, compared to around 16 per cent at the turn of the 20th century.[9] While this historical perspective reminds us that we live in a different world to the Victorians in terms of the importance of family background in determining our living standards, the fact remains that the increase in inheritable wealth over the past two decades has been sizeable.

9 A Atkinson, *Wealth and Inheritance in Britain from 1896 to the Present*, Centre for Analysis of Social Exclusion, London School of Economics, November 2013

The second (pink) line in Figure 4 shows changes in the average amount each adult in Britain inherits each year, as measured in the *British Household Panel Survey* (BHPS). The implied total value of inheritances is lower than in the administrative HMRC data partly because the survey data will exclude any tax levied on estates, and partly because household surveys are likely to under-record inheritance values somewhat. Nonetheless, the upward trend over this shorter time-period is clear, with the average nearly doubling between 1997-98 and 2008-09, from £470 to £910.

Over this period, the proportion of adults inheriting each year in BHPS remained fairly flat at around 2.5 per cent, with the increase therefore driven by the rising real value of inheritances (from an average of £20,000 in 1997-98 to £43,000 in 2008-09, both in 2017 prices). More recent data from WAS captures the proportion of adults inheriting within the past *two* years, and gives broadly comparable[10] figures of 3.6 per cent of adults having inherited in the two years to 2008-10,[11] rising slightly to 3.9 per cent in the latest data covering 2012-14.

Taking a generational perspective and capturing inheritances over lifetimes rather than in the recent past, there is evidence of a rise in the *incidence* of inheritances as well as in their value. For example, research by the Institute for Fiscal Studies (IFS) has shown that 55 per cent of the 1940s cohort in England had received an inheritance during their lifetime in 2012-13, compared to 38 per cent of the 1930s cohort.[12] In sum, inheriting appears to be becoming both a more common pursuit and a more lucrative one.

Most money inherited comes from parents, although other givers are common

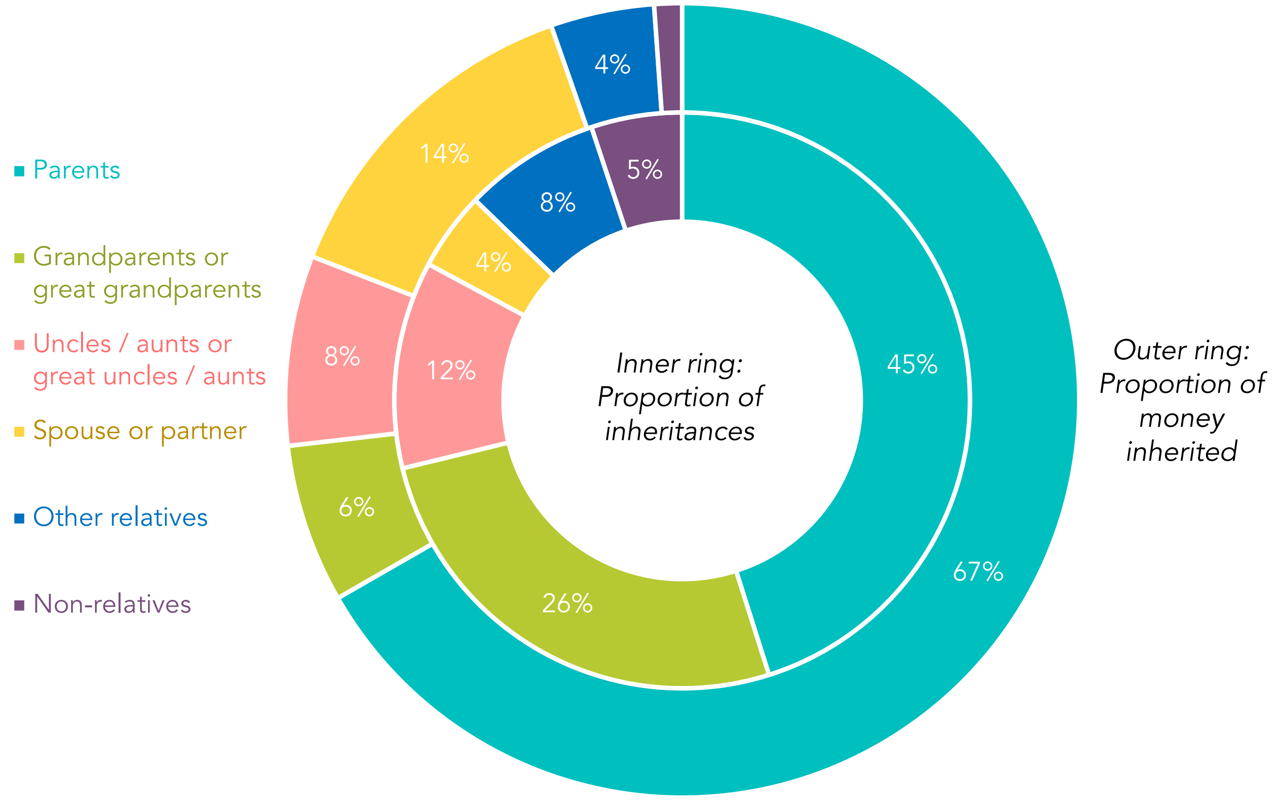
While the focus of the analysis in the following section is on potential future inter-generational transfers from parents to children, it is important to highlight that actual patterns of inheritance are more diverse than this. The relationship of givers to recipients is shown in Figure 5, which relates to all those inheritances occurring in the two years to 2012-14.

10 We might not expect the proportion of adults inheriting in the past two years to be double the proportion who have inherited in the past year, as some may inherit in both.

11 Office for National Statistics, *Inheritance in Great Britain, 2008/10*, October 2013

12 This analysis in fact captures expected future inheritances as well as their past incidence. But given these cohorts were entirely over age 60 in 2012-13, it is likely that most of the inheritances they might expect to receive will have already happened. See: A Hood & R Joyce, *Inheritances and Inequality across and within Generations*, Institute for Fiscal Studies, January 2017

Figure 5: **Proportion of inheritances and proportion of money inherited, by giver: 2012-14, GB**



Notes: Data captures up to three inheritances (of at least £1,000) received in the previous two years by each adult aged 16 and over.

Source: RF analysis of ONS, *Wealth and Assets Survey*

The inner ring shows the proportion of inheritances coming from each category of giver. Just under half (45 per cent) of inheritances came from parents in this recent period, and more than four-fifths (83 per cent) came from older generations of the recipient's family. Previous analysis has shown that while this overall share of inheritances coming from older family members is quite consistent across age groups, inheriting from a grandparent is more likely when aged under 40, and from a parent in one's 40s and 50s.[13]

In terms of other givers, the very low share of inheritances coming from spouses is perhaps surprising given that even jointly-held property is technically inherited by an individual (unless of course it is given to someone else) when his or her partner dies. Given that such transfers are not subject to inheritance tax and may have been considered part of the individual's property in the first place, it is our judgement that they are likely to be significantly under-captured in household surveys.[14]

The outer ring in Figure 5 shows the proportion of money inherited from each category of giver. The key difference here is a much greater role of inheritances from parents,

13 A Hood & R Joyce, *The Economic Circumstances of Cohorts Born between the 1940s and the 1970s*, Institute for Fiscal Studies, December 2013

14 For the same reason, we assume that people don't consider future inheritances from a spouse or partner when they respond to questions about future inheritance expectations that are discussed in the following section of this report.

which made up two-thirds of the total sum inherited in the two years to 2012-14. Inheritances from spouses – while we assume them to be significantly under-captured – are also much larger on a value basis than on an incidence basis.

So inheritances received from relatives other than parents, and non-relatives, represent either much smaller total estates, or small parts of estates that are divided up, with the dominant recipient(s) being children (or spouses). Although it is now decades out of date, a survey conducted for the Royal Commission on the Distribution of Income and Wealth (the Diamond Commission) supports the latter of these two explanations. In the early 1970s, the majority of medium and larger estates were made up of multiple bequests of small sums and one or two major bequests.[15]

In sum then, this analysis suggests that the combination of parental resources and coupling decisions have driven recent inheritances, which provides a basis for our assumptions about what will determine future wealth transfers, the topic of Section 3.

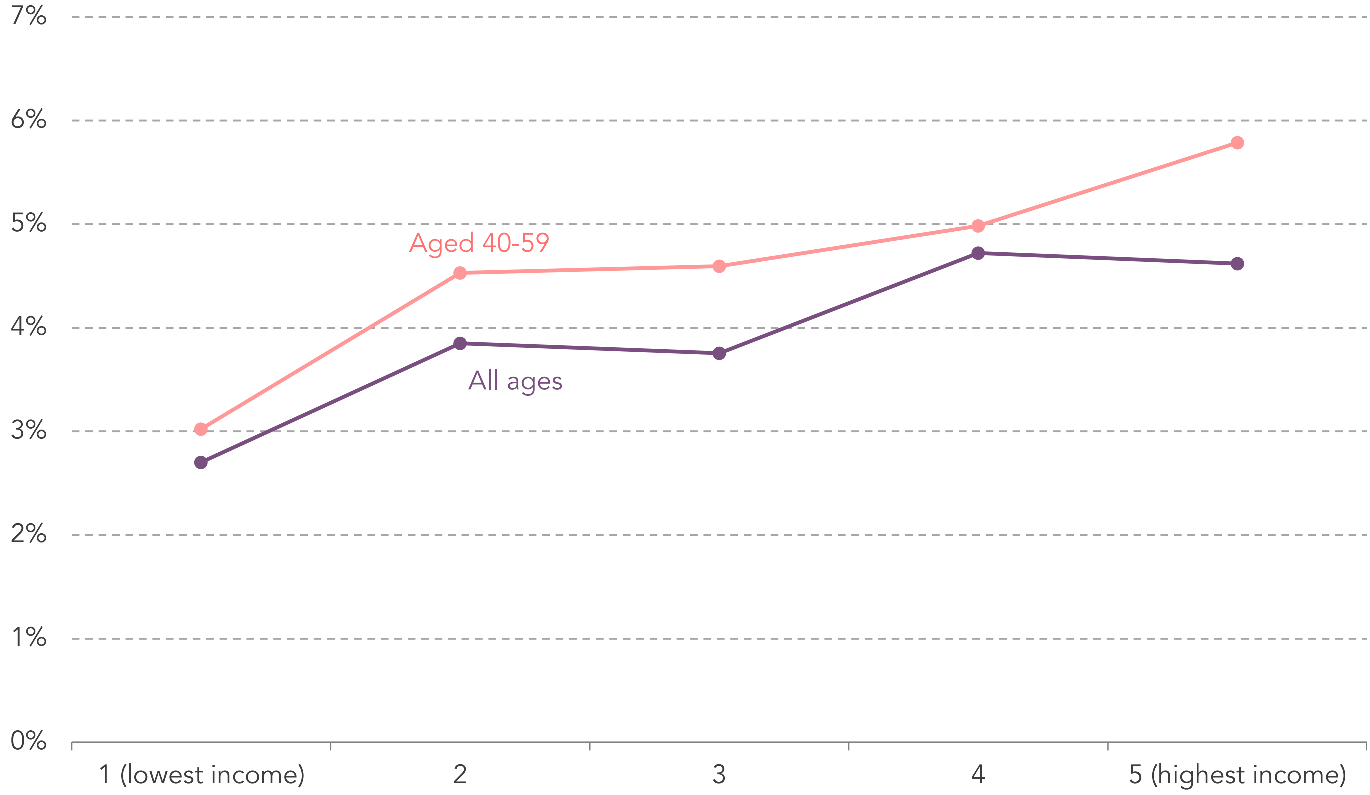
Inheritances are unequally shared in relation to adults' resources

The key question addressed by the forward-looking analysis in the following section of this report is the extent to which future intergenerational wealth transfers will ameliorate living standards challenges and wealth gaps in younger generations. As background, here we consider the relationship between inheritances and both incomes and wealth levels to-date.

Considering first differences across the spectrum of current incomes, Figure 6 shows the likelihood of having received an inheritance in the past two years by household income quintile.

15 Royal Commission on the Distribution of Income and Wealth, *Report No. 5: Third report on the standing reference*, 1977

Figure 6: **Proportion of adults receiving an inheritance over the past two years, by age and net household income quintile: 2012-14, GB**



Notes: Data captures inheritances of £1,000 or more. Household incomes are equivalised, with quintiles calculated separately within different age groups.

Source: RF analysis of ONS, *Wealth and Assets Survey*

Focusing on adults of all ages (the purple line) we find a clear pattern of the incidence of inheritances rising with income – 2.7 per cent of adults in Britain in the bottom 20 per cent of the income distribution had inherited in the two years to 2012-14, compared to 4.6 per cent of those in the top 20 per cent.

Of course, this could partly be because (as we will see in the analysis that follows) inheritance is most common in later working age, which is when household incomes tend to be highest. However, the pink line in Figure 6 shows very similar patterns when focusing on those of peak inheritance age only.

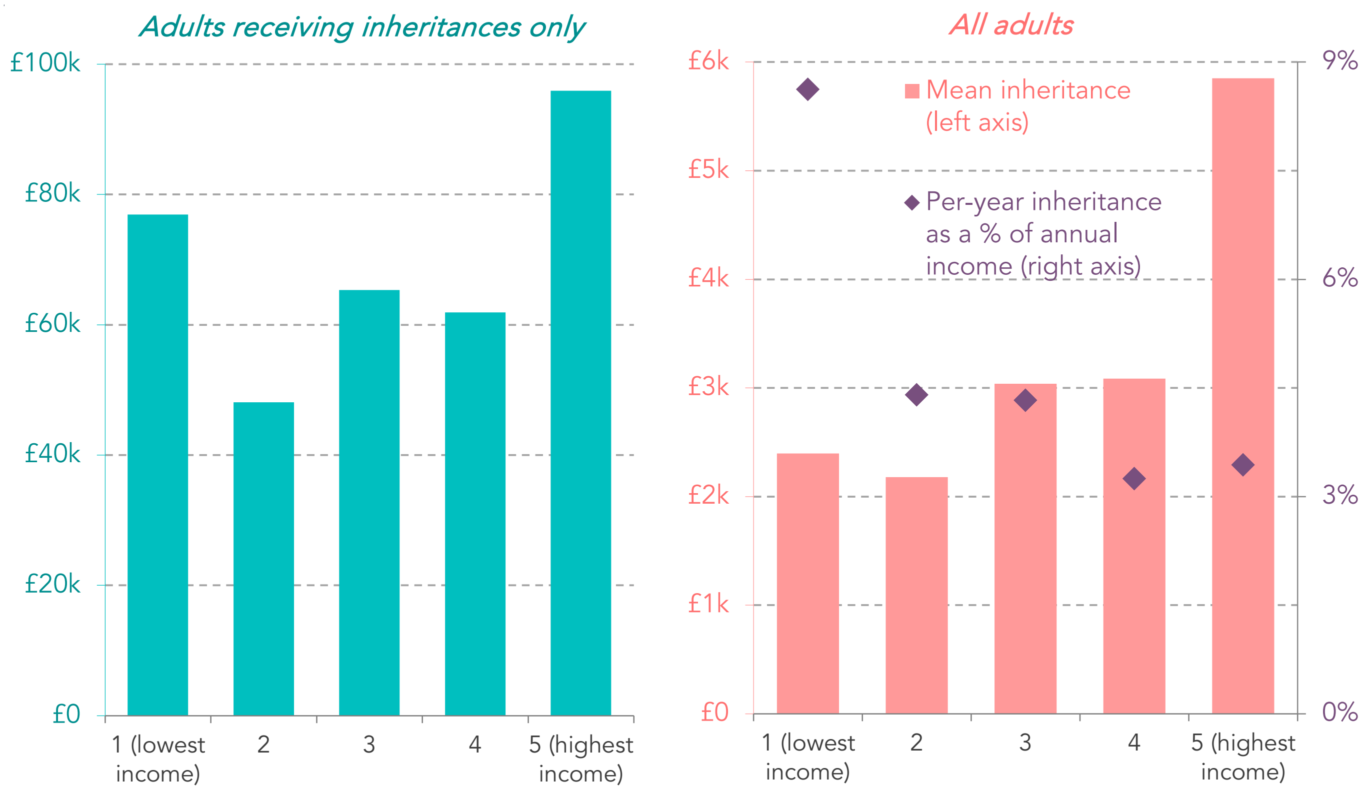
These findings in relation to income echo those of past analysis exploring the incidence of inheritances for different socio-economic groups. In the late 1990s and early 2000s, inheriting was more than twice as common for those in professional and managerial occupations as it was for those in semi- and un-skilled occupations.[16] More recently, researchers have found suggestive evidence that the associations between the incidence and value of inheritances and socio-economic status may have strengthened over time.[17]

16 A Ross, J Lloyd & M Weinhardt, *The Age of Inheritance*, National Centre for Social Research, May 2008

17 E Karagiannaki, 'Recent trends in the size and the distribution of inherited wealth in the UK', *Fiscal Studies* 36:2, 2015

Having described their incidence, we turn next to the *value* of inheritances. Figure 7 sets out the average value of inheritances within the peak inheritance age group in 2012-14.

Figure 7: **Average inheritance received over the past two years and per-year inheritance as a proportion of annual income for 40-59 year olds, by net household income quintile: 2012-14, GB**



Notes: Data captures up to three inheritances (of at least £1,000) received in the previous two years by each adult aged 16 and over. Household incomes are equivalised, with quintiles calculated within the population of 40-59 year old adults.

Source: RF analysis of ONS, *Wealth and Assets Survey*

Focusing first on the left-hand panel, we find that the average value of inheritances among recipients displays something of a U-shaped pattern in relation to current incomes. Recipients in the highest-income fifth of British adults in their 40s and 50s got the most, but those in the bottom 20 per cent received a larger amount than those in the middle three quintiles. One driver of this pattern might be that some givers direct bequests in particular towards those members of their families (or wider circle) who they perceive as having the greatest economic need for them. Indeed, previous analysis has suggested that this is the approach taken by some families when dividing estates.[18]

The right-hand panel in Figure 7 combines the value of inheritances for 40-59 year old recipients across the income scale with their differential incidence shown in Figure 6. The greater likelihood of inheriting for those with higher incomes and the greater value

18 E Karagiannaki, 'Recent trends in the size and the distribution of inherited wealth in the UK', *Fiscal Studies* 36:2, 2015

of inheritances when they do mean that the top 20 per cent of 40-59 year olds inherited nearly three times as much as the bottom 20 per cent did in the two years to 2012-14 – averages of £5,900 and £2,400 per adult respectively.

While large, it should be noted that this difference is smaller than income differences across the distribution. The purple diamonds in the right-hand panel in Figure 7 show recent inheritances as a share of current incomes, highlighting that for the bottom 20 per cent, inheritances are around double the size in relation to income as they are across the rest of the distribution. Given lower inheritance incidence for those on low incomes, this is the result of a small minority of low-income households receiving very large amounts of money, rather than lots of households on low-incomes getting such a boost. The average inheritance was nearly six times the average annual income for inheritance recipients in the bottom 20 per cent of incomes, whereas in the top 20 per cent the two values were similar. Nonetheless, the conclusion that inheritances are *less* unequal across the income distribution than household income levels at the time they are received is an important one, highlighting the role they play in distributing wealth to *some* households across the living standards spectrum.

Of course, some of the high relative value of inheritances for those with the lowest incomes could be because even lifetime well-off families have periods when income is low. This is an issue that past analysis has grappled with in the context of debates about the impact of inheritances on wealth inequality. We summarise the evidence in this area below.

The incidence and value of inheritances by non-inherited-wealth levels, and therefore their impact on wealth inequality, were comprehensively reviewed by Karagiannaki and Hills. Focusing on 'marketable' wealth (net housing and net financial wealth), these authors showed that inheritances in the period between 1995 and 2005 were positively correlated with pre-inherited wealth, meaning that they increased *absolute* wealth differences. *Relative* differences – that is, wealth inequality – narrowed though. That's because inheritances, while unequal, were less unequally distributed than wealth as a whole, and because some inheritors had very low pre-inherited wealth. However the authors cautioned that the small magnitude of these effects and uncertainty about behavioural responses mean inheritances can probably best be thought of as maintaining wealth inequalities rather than either narrowing or widening them.[19]

Furthermore, analysis by the IFS has shown that this finding is very sensitive to the definition of wealth used: including pension wealth (both state and private) means the impact of inheritances on wealth inequality is near zero. More broadly, this analysis suggests a shift of focus from wealth levels per se to income or consumption over lifetimes – the provision for which is, theoretically at least, the fundamental purpose of wealth accumulation.[20] On this lifetime living standards basis, the authors conclude that the impact of inheritances is likely to be either negligible or inequality-increasing, not inequality-reducing.[21]

This assessment of the relationship between past inheritances and the lifetime living standards of older adults is fundamental to our consideration of how intergenerational transfers will play out for younger generations. As such, we reproduce a version of these

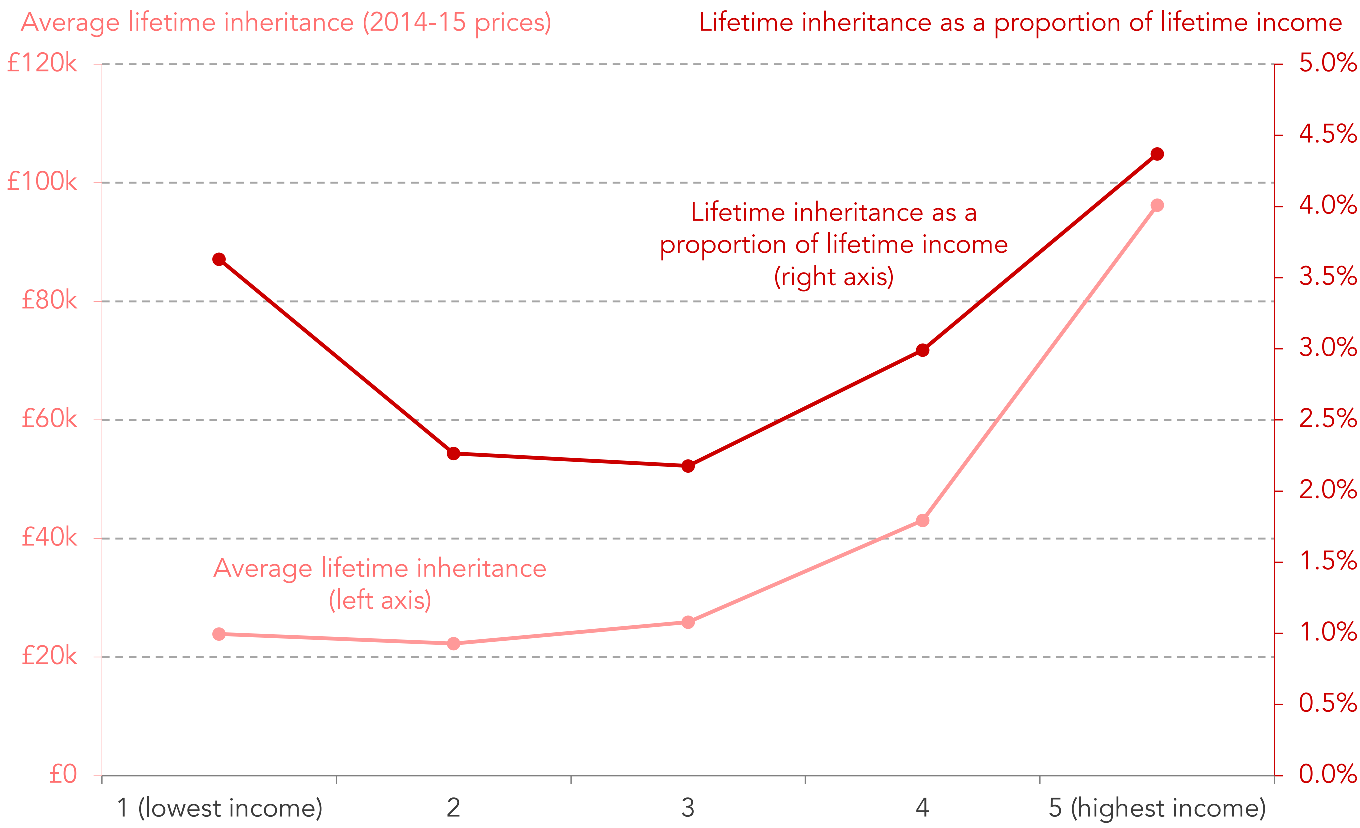
19 E Karagiannaki & J Hills, 'Inheritance, Transfers, and the Distribution of Wealth, in J Hills et al., *Wealth in the UK: Distribution, Accumulation, and Policy*, Oxford University Press, 2013

20 The reason that wealth levels do not provide a reliable guide to lifetime economic resources is primarily because the rich save more.

21 R Crawford & A Hood, *A tale of three distributions: Inheritances, wealth and lifetime income*, Institute for Fiscal Studies, April 2015

IFS findings from one of their more recent reports in Figure 8. This analysis exploits a link between the *English Longitudinal Study of Ageing*, which collects information on the value of inheritances received over lifetimes for adults aged over 50, and National Insurance records that can be used to estimate lifetime earnings patterns. Lifetime income is the discounted real value of lifetime after-tax earnings (and assumed Jobseeker's Allowance (JSA) receipt in non-earning periods) and private and state pension income over retirement.

Figure 8: **Lifetime inheritance of 65-80 year olds, by lifetime income quintile: 2012-13, England**



Notes: Lifetime totals are calculated using a 3 per cent real discount rate, with inflation measured using a variant of the CPI that includes mortgage interest payments. Income quintile groups are derived by dividing individuals into five equally-sized groups based on 'lifetime income' per person. 'Lifetime income' is the sum of household earnings, household state pension income and household private pension income. It does not include unearned income or working-age benefits (other than assumed JSA receipt).

Source: IFS analysis using UCL et al., *English Longitudinal Study of Ageing*, and linked administrative data. See: A Hood & R Joyce, *Inheritances and Inequality across and within Generations*, Institute for Fiscal Studies, January 2017

Focusing first on average lifetime inheritance (the pink line), we see a clear pattern of increasing lifetime inheritances through the top half of the lifetime income distribution of 65-80 year olds in England in 2012-13. This is driven by both a higher incidence of inheritances and higher inheritance values. This reinforces the finding we have already discussed in relation to wealth levels: that inheritances increase *absolute* inequalities in lifetime economic resources.

However the red line in Figure 8 shows that the *relative* impact is more complex: inheritances boost lifetime incomes (proportionally) most for the highest-lifetime-income fifth of 65-80 year olds, but for the bottom 20 per cent by nearly as much. This is driven by the much lower lifetime incomes in this group, an effect that would be lessened if receipt of benefits other than JSA, and tax credits, were included. This nonetheless underscores the important role that inheritances have played in boosting the living standards of some 'lifetime low income' older adults today. Again though, given lower inheritance incidence it's important to remember that this doesn't represent a widespread experience, but rather a minority of lifetime-low-income households getting a large living standards boost from inheritances. 32 per cent of 65-80 year olds in the bottom 20 per cent of lifetime incomes received an inheritance, compared to 64 per cent at the top.[22]

In sum, the relationship observed to-date between inheritances and income and wealth levels is nuanced. The following conclusions stand out:

- Whether measured in relation to current income, lifetime income or wealth, both the incidence and value of inheritances are higher for those with higher economic resources than lower resources. As such, inheritances have to-date increased *absolute* differences in income and wealth.
- However, that is not to say that inheritances have played no role in spreading wealth. Inheritances are more equally distributed across the current income and wealth distributions than income and wealth themselves. And inheritances as a share of income (whether measured at the time people inherit or over lifetimes) are higher for those with the lowest incomes than in the middle of the distribution.
- These effects for the lowest-income, or least-wealthy, households have resulted from a minority getting large sums in inheritances, rather than lots of low-resource households benefiting from intergenerational wealth transfers in a big way. So this wealth-spreading effect of inheritances doesn't reach most of those with low economic resources.
- The effects of inheritances on *relative* inequality levels are complex given these factors, as well as any behavioural responses to expecting or getting an inheritance that the evidence presented here doesn't capture. Overall, a reasonable conclusion is that inheritances have had a negligible or mildly inequality-increasing effect on wealth and lifetime incomes.

Lifetime gifts provide support when younger, but are also unequally distributed

So far in this section we have discussed the growth of inheritances in recent decades and their unequal allocation in relation to other markers of economic advantage. But inheritances are only one way in which families transfer economic resources down generations: 'inter-vivo transfers' – or gifts – are the other. Our ability to analyse these is more limited, but here we briefly recount recent patterns.

Past analysis has shown that the likelihood of receiving a gift over a two-year period was stable through the late 1990s and early 2000s, at around 1.5 per cent of adults. The value of these gifts was also stable.[23] More recent data from WAS (which records a much

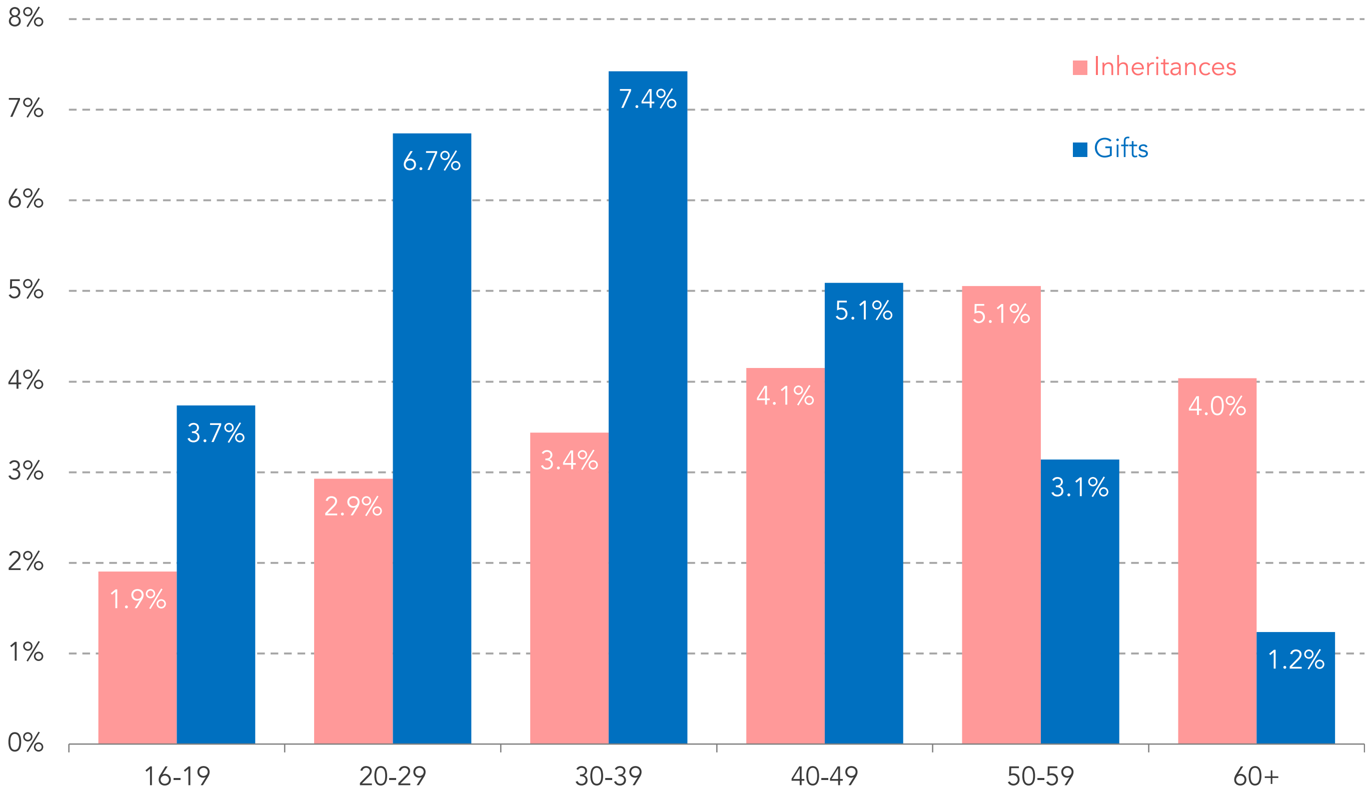
22 A Hood & R Joyce, *Inheritances and Inequality across and within Generations*, Institute for Fiscal Studies, January 2017

23 A Ross, J Lloyd & M Weinhardt, *The Age of Inheritance*, National Centre for Social Research, May 2008

higher incidence of gift receipt in general[24]) suggests that, if anything, gift receipt has fallen slightly in recent years – from 5.1 per cent of adults receiving gifts totalling £500 or more in the two years to 2008-10, to 4.2 per cent in 2012-14.

In order to compare the incidence of gifts with that of inheritances, Figure 9 shows the proportion of adults of different ages receiving each in the two years to 2012-14.

Figure 9: **Proportion of adults receiving inheritances and gifts over the past two years, by age band: 2012-14, GB**



Notes: Data captures inheritances of £1,000 or more and gifts of £500 or more.

Source: RF analysis of ONS, *Wealth and Assets Survey*

The age distributions of these two forms of wealth transfer are very different. Inheritances become more common as adults progress through working age, with their incidence peaking when people are in their 50s. Gifts, by contrast, are most common when adults are in their 20s and 30s, the ages at which many people go through expensive life stages like becoming home owners and having children. In this respect, intergenerational gift-giving may be a means of providing support and resources to those who need them at the time they need them.[25] Indeed, previous research using the BHPS has

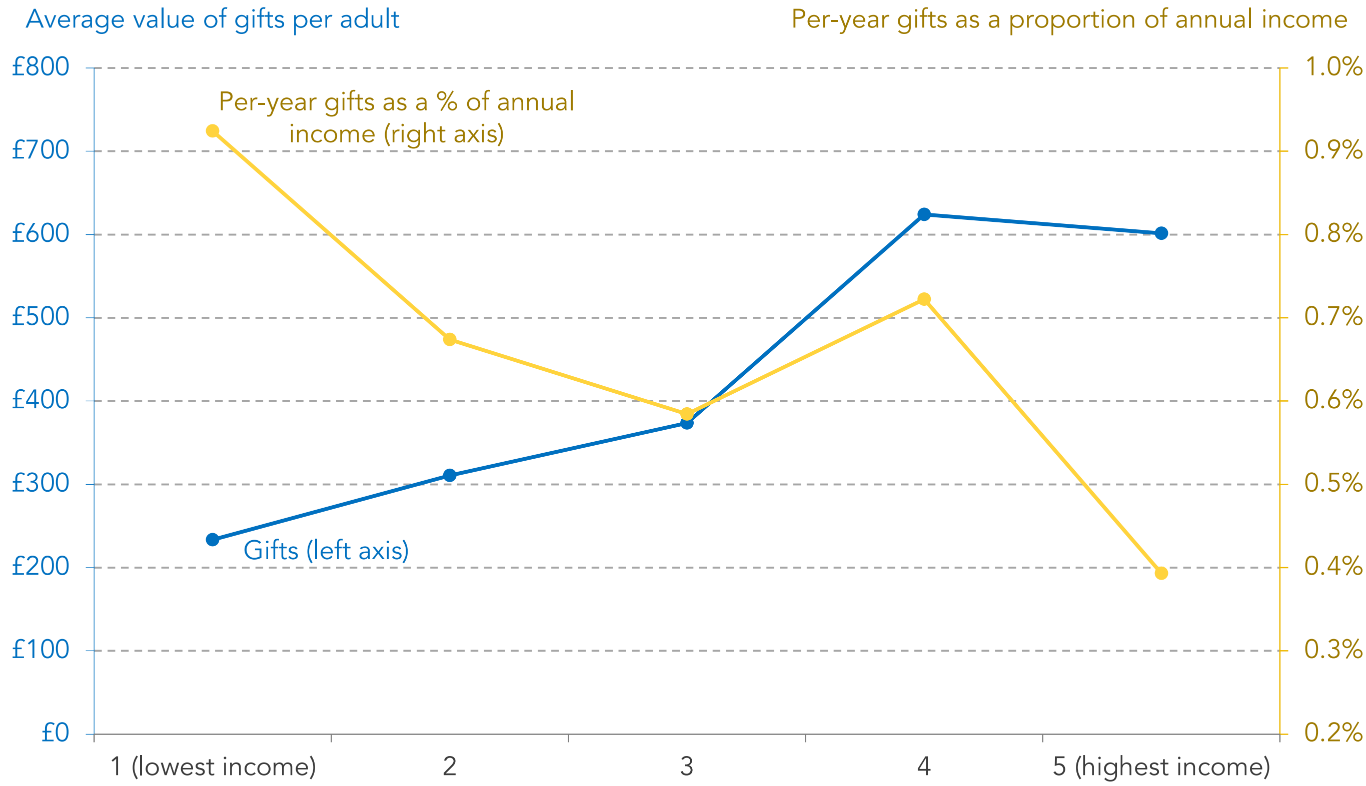
24 This is likely to be due to more detailed questions on this topic than in the *British Household Panel Survey*, on which previous analysis was based.

25 E Karagiannaki & J Hills, 'Inheritance, Transfers, and the Distribution of Wealth, in J Hills et al., *Wealth in the UK: Distribution, Accumulation, and Policy*, Oxford University Press, 2013

found some evidence that it is lower-income households that are most likely to receive gifts, and especially ongoing support.[26] However, perhaps unsurprisingly, the value of gifts is higher for recipients in higher socio-economic groups.[27]

Our more up-to-date analysis using WAS broadly complements these findings. Figure 10 shows the average value of gifts received in the two years to 2012-14 per adult in the population, and the size of these in relation to household incomes.

Figure 10: **Average gifts received over the past two years and per-year gifts as a proportion of annual income, by net household income quintile: 2012-14, GB**



Notes: Population is all adults, including those who did not receive an inheritance or gift over the past two years. Data captures up to three inheritances (of at least £1,000), and cash or in-kind gifts of £500 or more, received in the previous two years by each adult aged 16 and over. Household incomes are equivalised.

Source: RF analysis of ONS, *Wealth and Assets Survey*

It suggests that, as was the case in relation to inheritances, the value of gifts rises as household incomes rise. This finding is driven both by a slightly higher likelihood of receiving a gift in the top income quintiles and gifts having a higher average value in these quintiles, and this effect endures when we focus only on adults of certain ages. However, the yellow line in Figure 10 shows that because gifts are less unequally

26 E Karagiannaki & J Hills, 'Inheritance, Transfers, and the Distribution of Wealth, in J Hills et al., *Wealth in the UK: Distribution, Accumulation, and Policy*, Oxford University Press, 2013; R Shorthouse, *Family fortunes: The bank of mum and dad in low income families*, Social Market Foundation, October 2013

27 A Ross, J Lloyd & M Weinhardt, *The Age of Inheritance*, National Centre for Social Research, May 2008

distributed across the income distribution than income itself is, gifts are greatest as a share of income for the bottom 20 per cent. This finding is similar to our conclusion in relation to inheritances. In particular, it's worth emphasising again that this outcome is the result of a minority of low-income households (3 per cent of those in the bottom 20 per cent in the two years to 2012-14) receiving substantial gifts (an average of £8,000 for this income group), rather than being a majoritarian experience for those on low incomes.

In sum, this analysis suggests that gift giving shifts the timing of intergenerational family transfers compared to inheritances, but doesn't substantially affect the distribution.

In this section we have set out the current pattern of intergenerational family transfers and how this has evolved over recent decades. The following section turns to the pressing question for those concerned about the living standards of younger cohorts today: how such transfers will play out in future.

Section 3

The future of intergenerational wealth transfers

Having set out the incidence and distribution of inheritances and gifts for cohorts who have received them to-date, in this section we consider the future of intergenerational wealth transfers. Our analysis is based on a new dataset we have constructed that directly links adults in the millennial generation to their parents, in order to compare income and wealth levels.

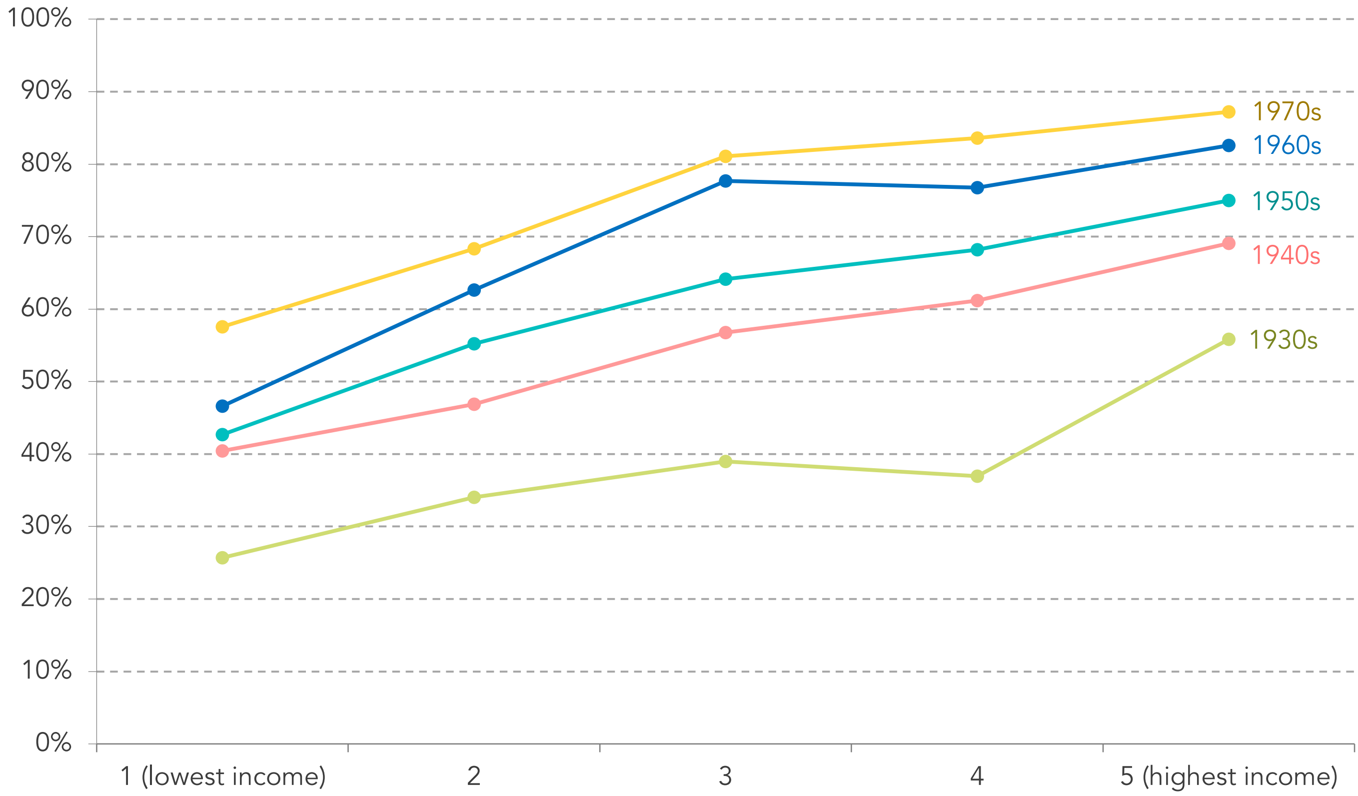
Our findings underscore the growing importance of intergenerational wealth transfers for younger cohorts: inheritances are set to rise across birth cohorts and become somewhat more equally spread in the process. Even those millennials who currently have the lowest incomes are more likely to have a home-owning parent than not, suggesting that wealth transfers will provide a boost to those with low resources more so than they did in the past.

However, there are a number of reasons why future intergenerational wealth transfers do not represent the solution to millennials' home ownership or wealth woes. Even with the potential for transfers becoming more common across income and wealth groups, nearly half of 20-35 year old non-home owners have no parental property wealth and so may expect never to get the kind of boost that would support them into owning. And even those who can expect to get a share of parental property wealth appear likely to get it too late to provide support during the expensive family-raising stage of lives. Finally, the transfer of parental property wealth to 20-35 year olds would vastly increase absolute wealth differences within this group, making it harder still to transition up the wealth scale.

Younger cohorts' expectations suggest that the incidence of inheritances may be somewhat more equal in future

The dominant approach to date for considering future patterns of intergenerational family transfers has been based on survey questions that capture people's expectations for giving or receiving them (these questions are limited to inheritances only and so don't capture gift expectations). Figure 11 reproduces previous work by the IFS that combines people's future expectations with past incidences of inheritance over their lifetimes, and shows the resulting likelihood of a lifetime inheritance by current household income quintile within each cohort.

Figure 11: **Percentage of individuals who either have received or expect to receive an inheritance, by cohort and net household income quintile: 2006-13, England**



Notes: Figures for the 1930s, 1940s and 1950s cohorts are calculated using ELSA and figures for the 1960s and 1970s cohorts are calculated using WAS. Inheritances received or expected by other household members are also included.

Source: IFS analysis of UCL et al., *English Longitudinal Study of Ageing*; ONS, *Wealth and Assets Survey*. See: A Hood & R Joyce, *Inheritances and Inequality across and within Generations*, Institute for Fiscal Studies, January 2017

Two things are clear from this. First, this analysis confirms the story we told in Section 1 (based on older adults' expectations of leaving a bequest) about the likely growth of inheritances in coming decades. Each successive birth cohort has higher expectations (combined with receipts to-date) of inheriting than the previous one. Overall more than three-quarters (77 per cent) of adults in England born in the 1970s have received or expect to receive an inheritance, compared to less than four-in-ten (38 per cent) of the 1930s cohort.

Second, inheritance incidence across the household income distribution looks set to be somewhat more equal for birth cohorts that will mainly inherit in future to the pattern in birth cohorts that have mostly inherited already. Across all cohorts born between the 1930s and 1970s, expectations (or the actualities) of receiving an inheritance are around 30 percentage points higher in the top income quintile than the bottom one. But coupled with rising expectations across the board, this means that the *relative* difference between expectations for those with high and low incomes is lower in younger cohorts. Strikingly, more than half of the bottom 20 per cent of the 1970s cohort expect to receive (or have already received) an inheritance. This finding supports one of the key reasons for optimism regarding the future pattern of intergenerational wealth transfers discussed in Section 1 of this report: factors such as rising home ownership in older generations mean wealth transfers looks set to be more widely spread in future than they were in the past.

High-income millennials have the highest parental property wealth, but even in the lowest fifth of incomes, most people have some

Asking people about their expectations is one way of drawing inferences about future intergenerational family transfers. Another obvious approach would be to directly observe the wealth levels of the parents of members of younger generations, and consider what effects the transmission of this wealth might have, now or in future. The challenge is that there is no readily available UK dataset that directly links adults and their parents, unless they happen to be living in the same household. However by exploiting the long time-series of the BHPS (and *Understanding Society*, its successor), and the fact that that most younger adults originally joined the sample via their parents' household, we can create one. Our approach to constructing a dataset directly linking records for millennials no longer living with either of their parents to those parents is described in Box 1.

i Box 1: Methods and approach for constructing a dataset pairing millennials and their parents

The data used in the analysis in this section is drawn from the *British Household Panel Survey* (BHPS), and *Understanding Society*, its successor. BHPS is a longitudinal survey that began in 1991 with a representative sample of British households. In subsequent years the survey has tracked all members of those original households including when households move or individuals leave to join a new household (for example, adult children leaving home). Any future children of these original sample members are also tracked (and anyone any of these people shares a household with). Family relationships are recorded in any survey wave when people are living in the same household (but not in subsequent waves when they no longer share a household, even if related family members remain in the sample). These sampling protocols were maintained when the BHPS sample was boosted, and when the sample was significantly refreshed in 2009-10 as part of the first *Understanding Society* wave.

By tracking members of the latest (2015-16) *Understanding Society* sample back through previous waves to when they lived in different households, we can therefore identify a number of family relationships to other sample members who they are no longer living with. We construct a dataset of 20-35 year olds (roughly the oldest three-quarters of the millennial generation in 2015-16) who are not currently living with either parent but for whom we have identified at least one parent in the historic BHPS / Understanding Society data. We exclude young adults currently living with at least one parent because of concerns that their inclusion would bias income and wealth trends. For example, apparently-low personal incomes may mask significant reliance on parental resources to support living standards.

On various demographic measures, our sample reflects well the wider group of 20-35 year olds in the 2015-16 dataset. To further ensure representativeness, we adjust survey weights to correct for the likelihood of a 20-35 year old appearing in our sample or not based on observed characteristics.[1]

Our analysis focuses on property wealth. This is because only limited information on financial wealth has been collected in BHPS / *Understanding Society* (and only in four of the 25 waves), and no information on pension or physical wealth has been collected. Further, we focus on gross property wealth held in primary residences only, as this is the only property wealth measure that has been collected consistently in every wave since wave three. These significant limitations mean this analysis does not set out to estimate the total parental wealth of millennials. Rather, by way of illustration of their wider resources, we focus on one major asset class (which for most people is the main store of wealth that can be bequeathed) for which detailed information is available.

To minimise the effects of survey attrition, when parents are not present in the 2015-16 sample but have been observed recently, and when their absence is not due to death, we project their property wealth forward to 2015-16 using average wealth increases in the data.

1 This is the same as the re-weighting method used in our previous study of wealth for the Intergenerational Commission. For details, see: C D'Arcy & L Gardiner, *The generation of wealth: Asset accumulation across and within cohorts*, Resolution Foundation, June 2017

While the data we use in the remainder of this section has significant advantages in directly linking observed characteristics of parents and those of non-resident adult children, our approach here carries limitations and warrants certain caveats. These include the fact that:

- Because of data limitations, we focus only on parental property wealth, and only on the gross amount of wealth held in main residences. This means that we do not account for mortgage debt, wealth held in other properties or any non-property wealth when considering the assets of millennials' parents (see Box 1 for more details). Thus our analysis provides no more than an illustration of their wider resources and the amount they might be able to give or bequest in future, albeit in terms of the main element of wealth that can be bequeathed for most people.

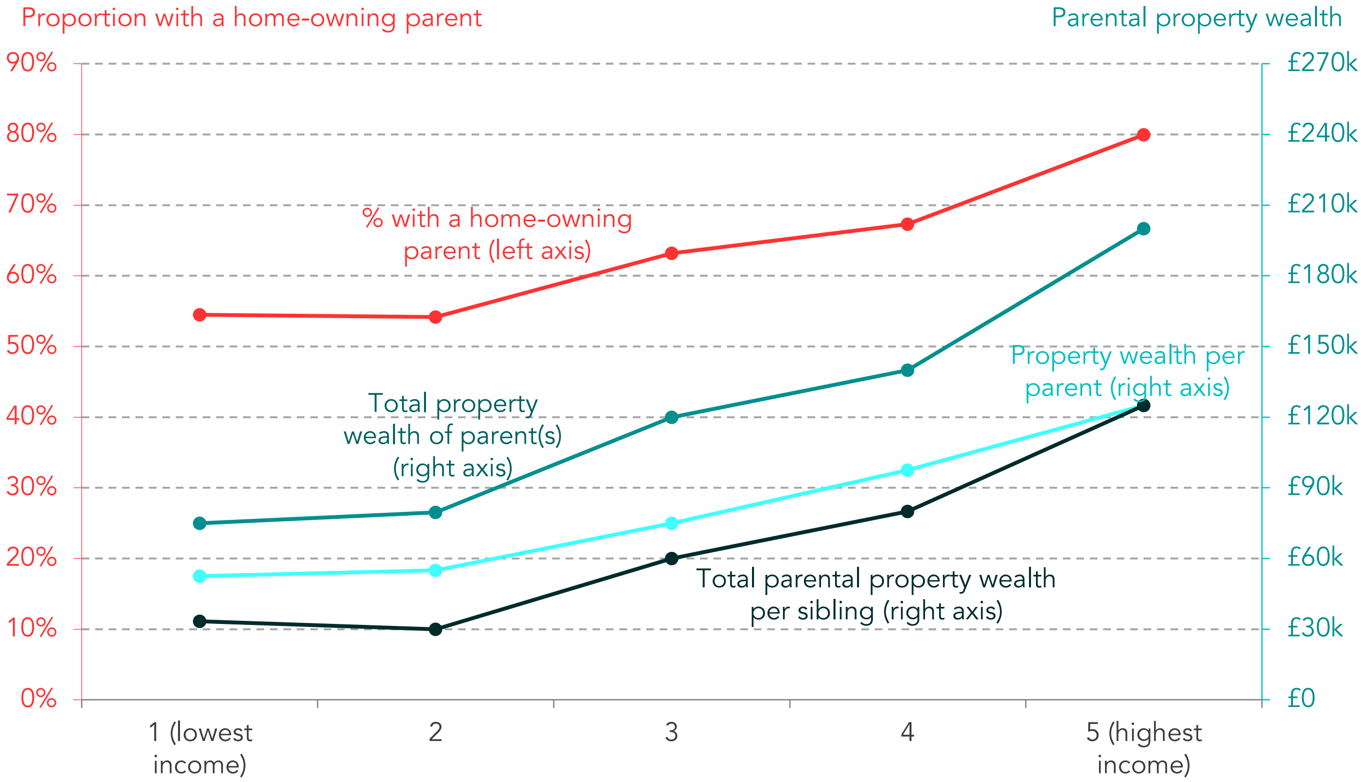
- When we consider levels of parental gross property wealth in relation to their children's income and wealth, we do not make any attempt to model the growth or depletion of this wealth after 2015-16. If this wealth is inherited at death, it's very possible that its value could be significantly larger or smaller than in the latest data, for example due to further sharp increases in house prices on the one hand, or depletion due to social care expenses on the other. Modelling such effects would be complex and subject to huge uncertainty, and in addition, throughout much of this analysis we make no definitive judgement as to whether intergenerational family transfers happen when parents die or beforehand. It is for these reasons that we take 2015-16 parental property wealth levels at face value in our analysis. So our findings do not represent a definitive assessment of how much property wealth millennials will get from their parents, but rather an illustration of the likely differential incidence of future gifts and inheritances.

- For 33 per cent of 20-35 year olds in our sample we only observe one parent, meaning that they have never been recorded as living with another since first entering the sample. In the main, this is because these millennials grew up in single-parent households, at least in their teenage years. In these cases, we assume no parental property wealth for the absent parent. This is probably an underestimate as non-resident parents will be likely to leave inheritances in some cases. On the other hand, some may not have maintained much of a relationship with their children, and any inheritance may be smaller on average if they also have children in other families. On balance, we opt to capture only that parental wealth which we can directly observe. In doing so we essentially highlight the potential endurance of the experience of having relied largely on the resources of only one parent during childhood.

- By measuring only direct links between millennials and their parents, this analysis implicitly ignores the role that wealth transfers to millennials from other relatives, or non-relatives, will play in future. We saw in Section 2 that the majority of money inherited has come from parents in recent years, so this is felt to be a fair assumption for illustrative analysis such as this. However it should be noted that other inheritances and gifts – for example from grandparents – may play more of a role in future than they have in the past. For example, the rising life expectancies of their parents and the challenges that millennials are facing in the labour and housing markets may drive grandparents and others to direct inheritances and gifts towards them.

With these caveats in place, Figure 12 shows the proportion of this sample of 20-35 year olds who have a parent who owns their home, and presents different measures of the gross parental (main residence) property wealth for this group, across the distribution of gross personal incomes.

Figure 12: **Median gross parental property wealth of 20-35 year olds not living with their parents, and proportion with a parent who owns, by gross personal income quintile: 2015-16, UK**



Notes: Gross personal income captures earnings, benefits, pensions and investment income. Data captures wealth in main residence only. See Box 1 for further methodological details.

Source: RF analysis of ISER, *British Household Panel Survey / Understanding Society*

Turning first to parental home ownership (the red line), we find that this rises with the personal incomes of this group of millennials: 55 per cent of 20-35 year olds in the bottom fifth of incomes have at least one home-owning parent, compared to 80 per cent in the top fifth. However, it remains the case that more than half of the lowest-income 20-35 year olds might expect to get a share of a parent's property one day. While not directly comparable, this points to a higher incidence of intergenerational wealth transfers for those with low resources in future than the past incidence discussed in the previous section (only 32 per cent of 65-80 year olds in the bottom 20 per cent of lifetime incomes inherited).

Turing next to property wealth per parent (i.e. the average per-adult property wealth of parents if two have been identified, or for those with only one parent identified, the per-adult property wealth of that parent) – the lighter teal-coloured line – we find that the median value rises across income quintiles. The top 20 per cent of 20-35 year olds not living with their parents have more than twice that of the bottom 20 per cent – £125,000 and £55,000 respectively.

The middle-shaded teal line in Figure 12 then shows total parental property wealth, so capturing that of both parents if two have been observed. This increases observed inequalities in parental property wealth: the ratio of the typical value in the highest income quintile to that in the lowest income quintile rises from 2.4 to 2.7. This essentially reflects the higher likelihood of having grown up in a single parent household (or, more accurately, having only ever been observed living with one of one's own parents) among lower-income 20-35 year olds.

Finally, the darkest-coloured teal line in Figure 12 divides total parental property wealth by the number of siblings who have ever been observed in the data, on the assumption that any future gifts and inheritances are equally shared among children.[28] Again this increases observed inequalities in parental property wealth, with the typical value of per-sibling parental property for the top 20 per cent of this group of millennials 3.8 times as high as the value for the lowest-income fifth (figures of £125,000 and £35,000 respectively). This results from the fact that the highest-income millennials tend to have fewer siblings.

The implication of this analysis is therefore that millennials with higher current incomes might expect to inherit (or be given) far more property wealth from their parents that those with lower current incomes. In line with the findings of the previous section, this variation in potential transfers by current income levels, while stark, is not as great as the variation in current incomes themselves (typical gross personal incomes are 6.6 times as high for the top quintile of our sample of 20-35 year olds not living with their parents as in the bottom quintile). And nor does this analysis represent the value of intergenerational transfers as a share of *lifetime* incomes: the previous section suggested that transfers have played a more important role for those with the lowest lifetime incomes than the approach here can reveal. Nonetheless, the strong suggestion from this direct analysis of who millennials' parents are is that intergenerational wealth transfers in future will be unequally shared in *absolute* terms, but greater *relative* to current incomes for those low-income adults who do inherit.

A number of sampling choices and assumptions have been taking to arrive at this conclusion, but it appears robust to different analytical specifications. For example, including 20-35 year olds currently living with their parents, while boosting per-sibling parental property wealth in the lowest income quintile (in part because we probably don't observe the full extent to which co-resident parents are supporting young adults' living standards in the income data), maintains the shape of outcomes across the rest of the distribution. And it is not the case that our results simply reflect younger 20-35 year olds, who tend to have lower incomes, also tending to have less wealthy parents. Typical per-sibling parental property wealth is similar for 20-25 year olds in our sample as it is for 30-35 year olds, and the shape of the distribution of per-sibling parental property wealth is maintained when we hone in on these sub-groups within our overall age range.

The conclusions of this analysis of parental property wealth in relation to millennials' current income levels support the prospect, discussed in Section 1, that intergenerational family transfers will be somewhat more widely spread in future. Even for those 20-35

28 Past research has suggested that equally sharing, or leaving more to less well-off children, are the most common approaches. See: E Karagiannaki, 'Recent trends in the size and the distribution of inherited wealth in the UK', *Fiscal Studies* 36:2, 2015

year olds in the bottom fifth of incomes, more than half have some parental property wealth. That raises the potential for a higher incidence of inheritances for those with low resources than in the past. In addition, while the absolute gaps in parental property wealth between lower- and higher-income millennials are stark, in relative terms these gaps are smaller than income differences themselves.

Nearly half of millennials who don't own homes have non-home owning parents only

So this analysis gives some reasons for optimism regarding the future pattern of inter-generational wealth transfers, but key questions remain. In particular, to what extent will future transfers address low levels of home ownership in younger generations, and what will they do to wealth inequality?

Turning first to home ownership, an important test is how the likelihood of millennials owning their own home varies with their parents' home-ownership rates. Overall 33 per cent of our sample of 20-35 year olds not living with either parent own their home, and 64 per cent of them have at least one parent who owns. In line with past research,[29] we find that these groups are strongly overlapping. 83 per cent of home-owning millennials have at least one home-owning parent (so might expect to receive some of the wealth in that home in future), compared to only 54 per cent of millennials who don't already own. In other words, nearly half (46 per cent) of 20-35 year olds who don't own a home (31 per cent of the group as a whole) have no parental property wealth. Therefore while inter-generational wealth transfers may help many non-owners get into property ownership in future, there is a sizable group of millennials for whom such an outcome appears much less likely.

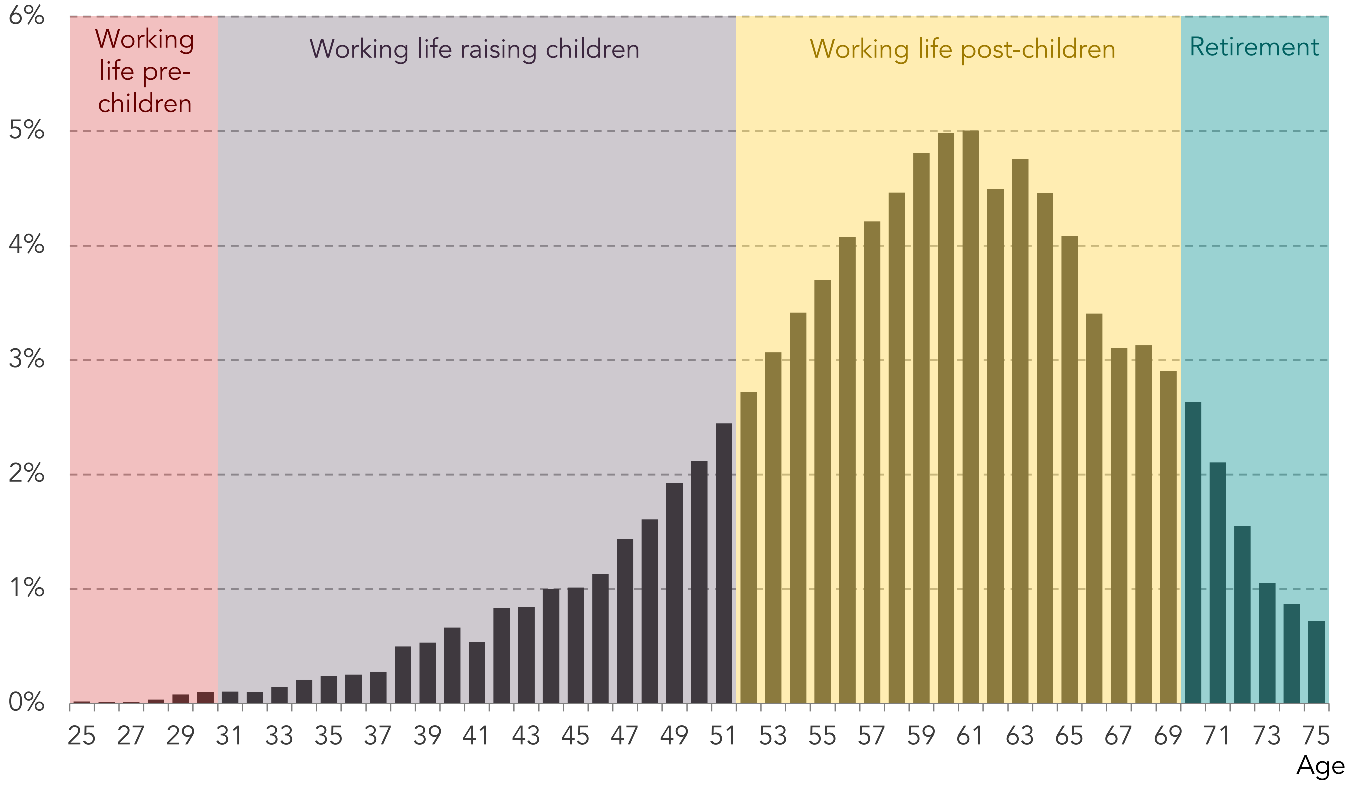
For those who do get them, inheritances are likely to come too late to support living standards during the expensive family stage

Related to the question of whether millennials – especially those who aren't already home owners – appear likely to benefit from the transfer of property wealth from their parents in future is the question of when this wealth transfer might happen. While we make no firm judgement in this analysis as to how wealth is transferred, it is clearly difficult to release wealth from properties that people are living in,[30] so it is reasonable to assume that a large share of the property wealth we measure will come in the form of inheritances rather than gifts. By applying the latest mortality rates by age to the parents of 20-35 year olds observed in our dataset (this time including those currently living with their parents), and accounting for past parental deaths, Figure 13 shows the distribution of ages at which inheritance might be expected.

29 J Blanden & S Machin, *Home Ownership and Social Mobility*, Centre for Economic Performance, London School of Economics, January 2017

30 Indeed, our previous analysis of wealth for the Intergenerational Commission showed the very limited extent to which older adults appear to have downsized or released equity from their properties in recent years. See: C D'Arcy & L Gardiner, *The generation of wealth: Asset accumulation across and within cohorts*, Resolution Foundation, June 2017

Figure 13: **Proportion of adults aged 20-35 by age at which their parents have died or are expected to be deceased: 2015-16, UK**



Notes: In contrast to previous analysis in this section, here we include 20-35 year olds who are living with parents as well as those who aren't. Includes past parental deaths as captured in the data. To project future parental deaths, the distribution of 2016-based cohort mortality rates (estimated separately for each age and sex) is applied to parents of 20-35 year olds in 2015-16. For those with two parents identified in the data, the chart shows the age at which their last parent is expected to die. See Box 1 for further methodological details.

Source: RF analysis using ISER, *British Household Panel Survey / Understanding Society*; ONS, *Life Tables*

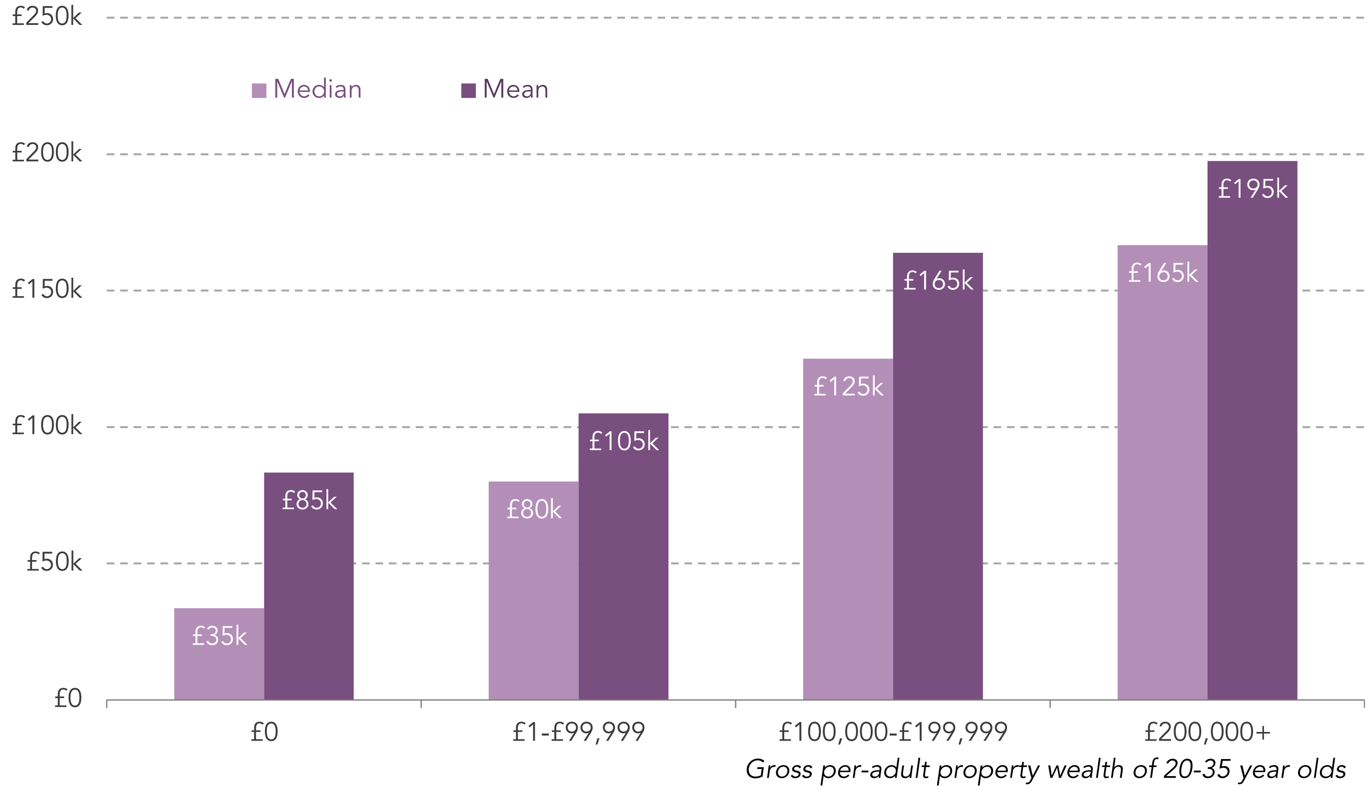
While spending more of one's life with parents around is likely to be very welcome for young adults and probably a living standards boost in itself, we find that this parental longevity is pushing inheritances for millennials beyond the child-rearing age to just before retirement. The most common age of inheritance is expected to be 61 for 20-35 year olds, a full 30 years after the age at which they will typically start having children. While inheriting on the run-in to retirement would be a welcome boost, if intergenerational wealth transfers are to be relied upon to get into home ownership this timing is likely to be sub-optimal. The security and lower housing costs that owning a home entail are particularly important when bringing up families, and to the extent that secure housing allows people to take risks in other areas, when building up careers and earnings potential.

We have seen that intergenerational wealth transfers cannot be relied upon to ensure entry into home ownership for many millennials. In addition, we find that even for those who have this route into owning potentially open to them, the timing may well be far later than is desirable.

Millennials owning high-value properties have the highest parental property wealth

Figure 14 delves beneath the stark home ownership correlations between millennials and their parents to explore the associations between average property wealth levels. For different bands of 20-35 year old property wealth, it shows the average (both mean and median) per-sibling gross property wealth of parents.

Figure 14: **Average gross per-sibling parental property wealth of 20-35 year olds not living with their parents, by gross property wealth band: 2015-16, UK**



Notes: Data captures wealth in main residence only. See Box 1 for further methodological details.

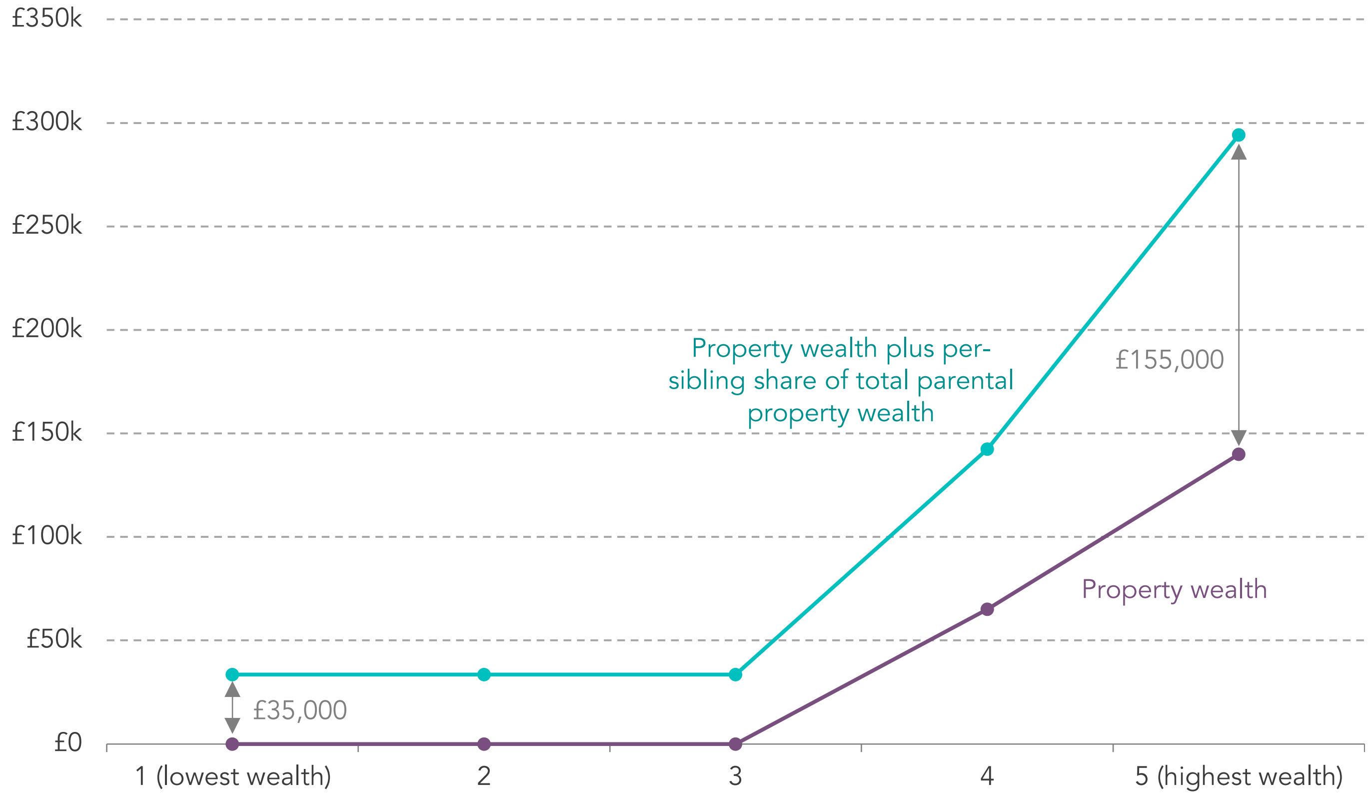
Source: RF analysis of ISER, *British Household Panel Survey / Understanding Society*

We find that the 67 per cent of 20-35 year old who don't own homes (those with no property wealth) have lower average parental property wealth than all groups of owners: a mean of £85,000, and a median of just £35,000. This is unsurprising given the correlations between parent and child home ownership status discussed above. Furthermore, among the one-third of 20-35 year olds who do own their own home, parental property wealth varies strongly in relation to their own wealth. Those with less than £100,000 of gross property wealth had mean per-sibling parental property wealth of £105,000, while those with their own property wealth of £200,000 or more had mean per-sibling parental property wealth of £195,000. Co-location in parts of the country with higher house prices will play a role in driving these trends, but the associations between parental and child property wealth levels are nonetheless stark.

The transfer of all primary property to millennials from their parents would increase absolute property wealth inequalities among millennials

So what impact might future intergenerational wealth transfers have on the distribution of wealth among millennials? Given we only measure gross property wealth in main residences in this analysis, and don't model any future growth or depletion of the wealth levels of either 20-35 year olds or their parents, this is not a question we can answer definitively. But having observed the distribution of parental property wealth in relation to millennials' own wealth levels, as an illustrative thought experiment we can consider what impact the immediate transfer of this wealth would have on the 20-35 year old distribution. This thought experiment is presented in Figure 15.

Figure 15: **Median gross property wealth per adult of 20-35 year olds not living with their parents excluding and including parental property wealth, by gross property wealth quintile: 2015-16, UK**



Notes: Data captures wealth in main residence only. See Box 1 for further methodological details.

Source: RF analysis of ISER, *British Household Panel Survey / Understanding Society*

Because only 33 per cent of 20-35 year olds in our sample currently own their own homes, the effect of this thought experiment is the same across the bottom three-fifths of the 20-35 year old property wealth distribution. Typical wealth goes from £0 to the median per-sibling value of their parental property wealth that was shown in Figure 14: £35,000. By contrast, for the 20 per cent of 20-35 year olds with the highest property wealth the increase is £155,000, taking their total wealth in this thought experiment to £295,000. The result is a near-doubling of the *absolute* difference between the top fifth and bottom fifth of the millennial gross property wealth distribution, from £140,000 to £260,000. However many 20-35 year olds go from having no property wealth to having some, so *relative* inequalities decrease.

While we can't say precisely what the effect of future intergenerational wealth transfers on relative wealth inequality will be, this thought experiment demonstrates the potential for welcome reductions. But the effect of future intergenerational wealth transfers on absolute gaps is at least as important. In particular, in periods of weak income growth especially, growing absolute wealth gaps will make it harder still for individuals to earn their way towards being wealthy on the basis of their human capital, as opposed to getting there on the basis of what their parents had. And even if human capital were able to do the work for younger generations, it's worth noting that this is also strongly associated with parental wealth levels for our sample of 20-35 year olds not living with their parents: median per-sibling parental property wealth is £85,000 for those with degrees, but only £45,000 for those without.

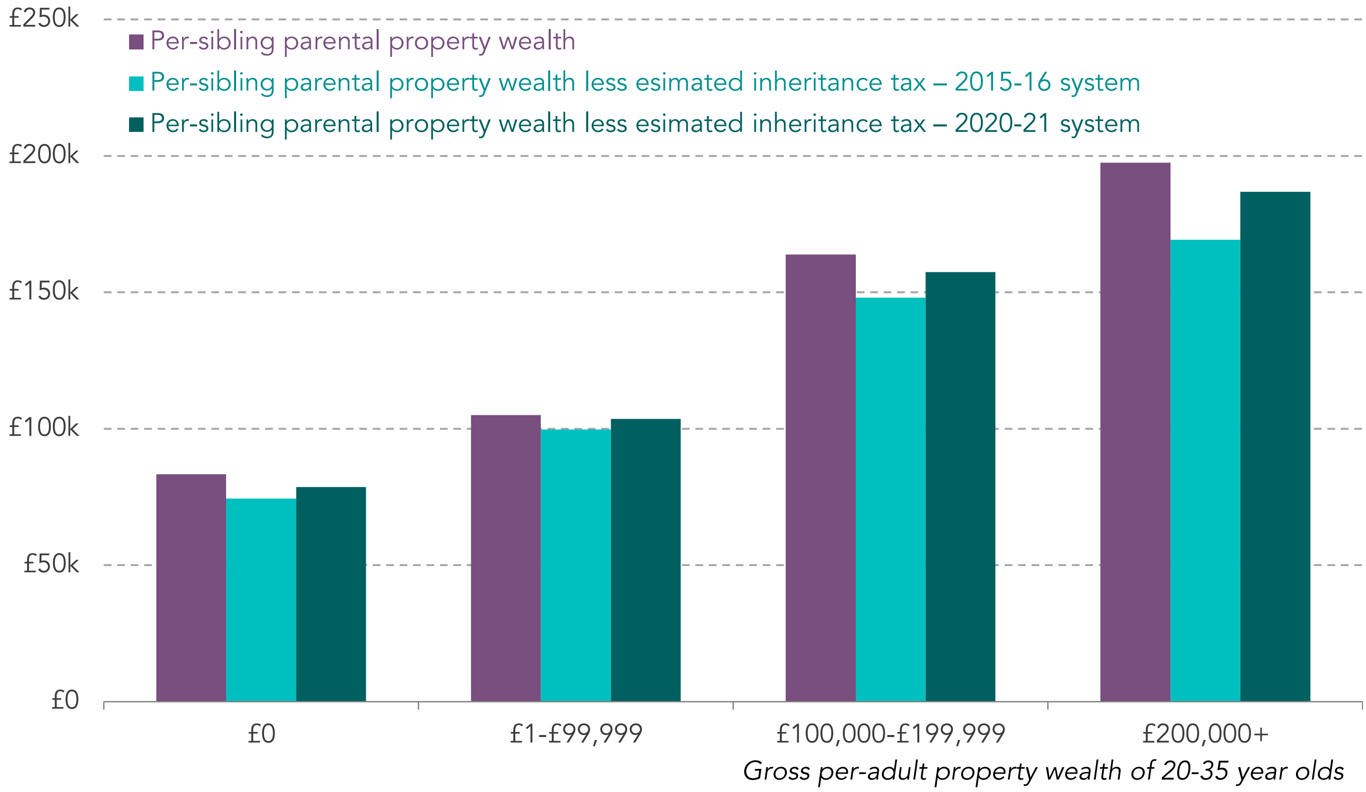
Inheritance tax will do increasingly little to reduce these absolute gaps in millennials' property inheritances

A potential caveat to this conclusion that the transfer of parental property wealth to 20-35 year olds would increase absolute wealth inequalities is that they wouldn't actually get all of it – the impact of inheritance tax would lessen this effect. As we said earlier in relation to the age at which millennials might expect to inherit, it is reasonable to assume that a large share of parental property wealth held in main residences will be transferred at death. If that is the case (or if it is transferred in the seven years prior) it will be subject to inheritance taxation.

In Figure 16, we simulate the effect that inheritance tax might have on the mean per-sibling property wealth levels that were shown in Figure 14 (approximately accounting for the likely value of non-property assets in estates, see chart notes for details).[31] We conduct this simulation using both the 2015-16 inheritance tax system, and the system as it will exist in 2020-21 after the new nil-rate band for residential property assets (raising the overall tax threshold to £500,000 for most people, meaning that couples can pass on a £1 million estate tax-free) has been fully introduced. Again, it should be noted that 2015-16 parental property wealth values are taken at face value, for example we do not model any house price growth or depletion due to social care costs up to death. So this should not be taken as a precise estimate of future pre- and post-tax inheritances, but rather a rough illustration of potential tax incidence.

31 On the assumption that they are transferred as inheritances at death or in the seven years prior, and therefore subject to taxation.

Figure 16: **Mean gross parental property wealth (including and excluding inheritance tax incidence) of 20-35 year olds not living with their parents, by gross property wealth band: 2015-16, UK**



Notes: Data captures wealth in main residence only. Parental inheritance tax is estimated by multiplying gross parental property wealth by two – on the basis that around half of the value of estates at death was made up of residential property in 2014-15 according to HMRC data – and applying tax thresholds and rates to this amount. This estimate is then divided by two, again to account for the fact that residential property composes around half the value of estates at death. The resulting tax burden is then shared equally among siblings. The mean average is used here rather than the median to clearly show the differential effects of different inheritance tax systems. See Box 1 for further methodological details.

Source: RF analysis of ISER, *British Household Panel Survey / Understanding Society*

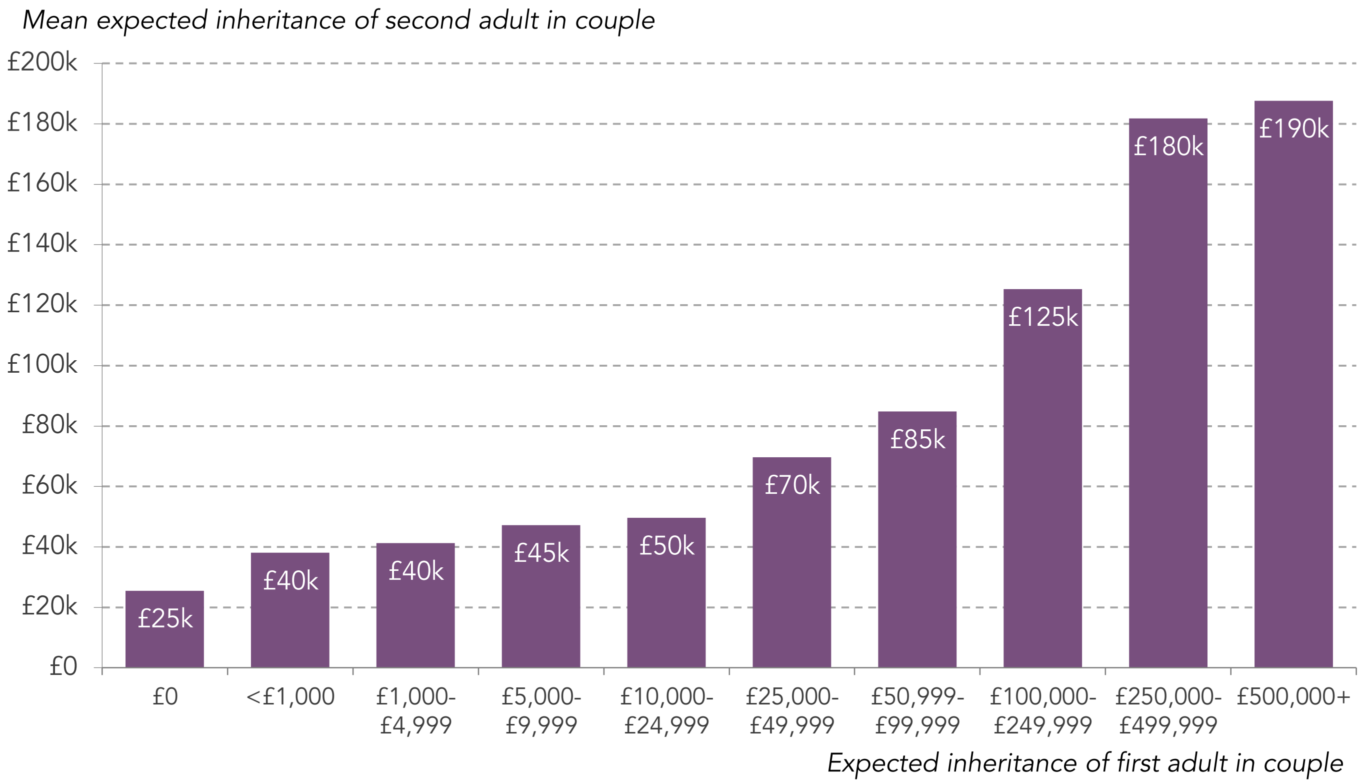
The teal-coloured bars in Figure 14 suggest that even if all of this wealth was taxable, the impact on the amount of parental property wealth transferred would not be huge. More pertinently, comparing the two teal-coloured bars, which show the inheritance tax system before and after the reforms currently underway, suggests that these reforms are set to significantly reduce the tax burden on property. Across all 20-35 year olds not living with their parents, we estimate that inheritance tax would reduce the average amount of property transferred by 10 per cent under the 2015-16 tax system, but by only 5 per cent under the 2020-21 tax system. The reduction is larger for 20-35 year olds who have £200,000 or more of property wealth of their own already, from an average tax burden of 14 per cent under the 2015-16 tax system, to 5 per cent under the 2020-21 system.

While this analysis is only illustrative, it suggests that the taxation of inheritances will do increasingly little to reduce the large absolute differences between future parental wealth transfers across the millennial wealth distribution. The discussion in Section 4 returns to the question of taxation of inheritances and gifts, and other policy implications emerging from this analysis.

'Assortative mating' looks set to amplify absolute inequalities in intergenerational family transfers at the household level

The analysis so far in this section has focused on individuals and their parents. When thinking about the resources that people can access over their lifetimes, the other consideration alongside these *inter*-generational relationships is *intra*-generational ones: the people young adults couple up with. This isn't something we can analyse directly in the BHPS / *Understanding Society* dataset we've used so far in this section,[32] however we can explore coupling effects in terms of individuals' inheritance expectations as measured in WAS.[33] Figure 17 summarises the relationship between the inheritance expectations of each partner in couples in which adults were aged under 50 in 2006-08.

Figure 17: **Mean inheritance expected of partner, by individual's expected inheritance, for adults in couples aged under 50: 2006-08, GB**



Notes: Mean expected inheritance of second adult in couple calculated using the mid-points of banded responses.

Source: RF analysis of ONS, *Wealth and Assets Survey*

32 The BHPS and *Understanding Society* allow us to identify the parents of young adults who originally joined the sample via their parents' household. The people these individuals couple up with only enter the sample when they cohabit, however, so tracing *their* parents is not possible.

33 We take the view that people will be unlikely to report any inheritance their partner might expect as part of their own inheritance. Our reasons are the same as the IFS's when they conducted similar analysis, which are summarised in footnote 68 in: A Hood & R Joyce, *The Economic Circumstances of Cohorts Born between the 1940s and the 1970s*, Institute for Fiscal Studies, December 2013. For similar reasons, we assume that people don't consider future inheritances from a spouse or partner when they respond to questions about future inheritance expectations.

The results are striking. At one end of the spectrum, coupled adults under 50 who expect not to get any inheritance at all are with partners who expect an average inheritance of £25,000. At the other, those who expect to get an inheritance of £500,000 or more have partners with an average inheritance expectation of £190,000. The clear implication is that the home ownership correlations between *individual* millennials and their parents, and prospects for the transfer of their parental property wealth to increase absolute wealth inequalities, will be amplified at the *household* level.

The analysis in this section has demonstrated both the growing role that intergenerational wealth transfers will play for younger generations, and the limitations of relying on them to address these cohorts' home ownership gaps or wealth inequality levels. The following section concludes and briefly reflects on the implications of this analysis for policy.

Section 4

Conclusion

The analysis in this report has assessed the role that intergenerational family transfers – inheritances and gifts – will play in addressing the generational living standards challenge that Britain faces. Nowhere is this challenge clearer than in relation to home ownership and wider wealth accumulation for today's younger generation, so the future flow of assets down generations appears an obvious potential avenue via which the current situation can be ameliorated.

Considering the millennial generation as a whole, it's clear that the large sums of wealth held by older generations will provide a major boost to younger generations' living standards in years to come. Inheritances are set to more than double over the next two decades and peak in 2035, as the generally high-wealth baby boomers progress through old age. And a greater share of young people today are likely to benefit from intergenerational transfers of wealth than did in the past, driven by fast-rising home ownership rates for today's older generations compared to predecessors.

However, future intergenerational wealth transfers are by no means the solution to the low home ownership rates and wealth accumulation challenges today's younger generation faces. Even with the potential for more widely-spread wealth transfers, nearly half of 20-35 year old non-home owners have no parental property wealth, making it unlikely that they will receive the kind of transfer that would support them to own themselves in future. Even those who can expect to get a share of parental property wealth will inherit too late to use this to support living standards during the expensive child-rearing stage. And the transfer of parental property wealth to 20-35 year olds would vastly increase absolute wealth differences within this group, making it harder still for individuals to earn their way towards being wealthy, as opposed to getting there on the basis of their parents' wealth. The fact that people tend to couple up with partners who have similar inheritance expectations to their own only serves to amplify these gaps at the household level.

Of course there are many aspects of how families use their wealth and share it across generations that this analysis has not considered. For example, depending on the funding system in place, social care costs could significantly reduce the amount of wealth bequeathed at the end of lives. And support flows in both directions in families, with younger generations often providing both financial and in-kind support to older ones, particularly as they near the end of lives. But focusing on the narrow question of whether wealth transfers down generations have the potential to address home ownership and wealth distribution challenges for young adults, our clear conclusion is that while playing an important part, they won't be sufficient.

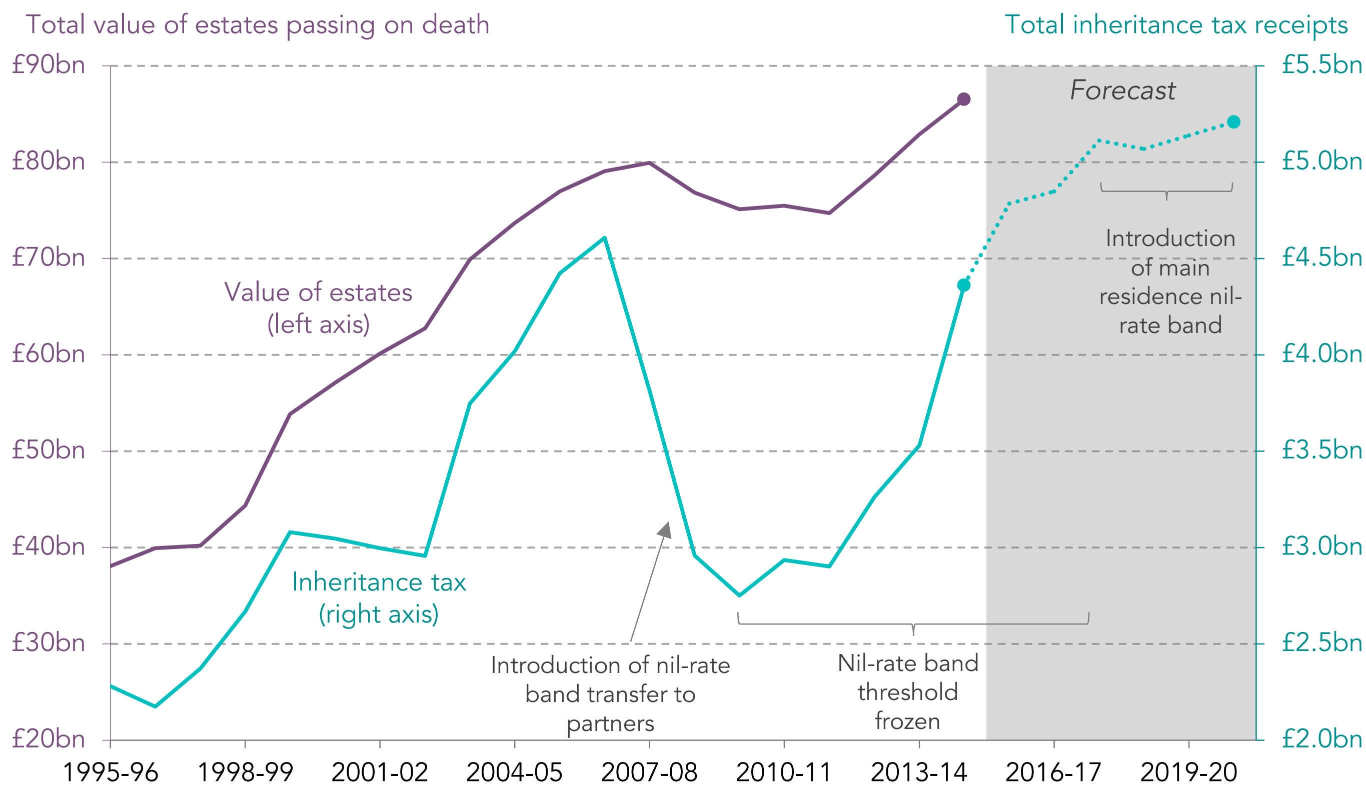
On this basis, forthcoming papers for the Intergenerational Commission will consider what policy changes might be needed to support wealth accumulation within younger generations and temper the role of intergenerational family transfers in driving up absolute wealth gaps. Some areas for consideration emanating from the analysis in this report are as follows:

- Because inheritances look set to come too late to help members of younger generations during the expensive family-raising stage of their lives, it's worth considering how families can be supported to share wealth earlier. Policies that facilitate downsizing and equity release are options in this area.

- Because intergenerational wealth transfers in future – while more common across the income and wealth scales than in the past – will remain unequally shared, the redistributive potential of inheritance taxation must be considered. The history and forecast future of inheritance tax receipts are summarised in Figure 18, which shows that after a decline in 2007-08, receipts have caught back up to around 5 per cent of the value of estates. However, changes to inheritance tax currently underway (the new nil-rate band for residential property assets, which raises the overall tax threshold to £500,000 for most people) are expected to temper real growth in receipts despite big expected increases in the value of inheritances. If we want inheritance taxation to do more rather than less, tax rates, tax thresholds, whether tax is levied on estates or receipts, and the treatment of lifetime gifts are all important considerations.

Figure 18: **Total real value of estates passing on death and inheritance tax receipts, UK**

CPIH-adjusted to 2017 prices



Notes: Only around half of all estates (excluding those going to a surviving spouse) are covered by these records, however those excluded are small estates consisting only of cash and personal effects of less than £5,000 held in particular forms. These records therefore cover the vast majority of the *value* of inheritances. CPIH projected using OBR CPI forecasts.

Source: HMRC, *Inheritance tax statistics*; OBR, Economic and Fiscal Outlook

- Because even a broader system for inheritance taxation would still leave large inequities in the amounts individuals receive from older generations, we should also consider the wider 'social inheritance' that today's generations are leaving to tomorrow's. This means thinking about investment in both public and private infrastructure, levels of national debt, the build-up of human capital through the education system, and the condition of the environment.

With intergenerational family transfers set to grow rapidly over coming decades, now is the right time to be thinking about these issues. As such, the Intergenerational Commission will consider these and other policy areas in forming recommendations for a renewal of the intergenerational contract in Britain.

Resolution Foundation

Intergenerational Commission

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