Intergenerational Centre

THE FAMILY BUILDING SOCIETY

Resolution Foundation

BRIEFING

Intergenerational rapport fair?

Intergenerational wealth transfers and the effect on UK families

Jack Leslie & Krishan Shah

February 2022

Acknowledgements

The authors are grateful for The Family Building Society for supporting this work, their funding, insights and support were essential to this project. The authors would also like to thank Ricky Kanabar for helpful input, as well as colleagues at the Resolution Foundation, in particular Torsten Bell, Mike Brewer, Nye Cominetti, Tara Goatley, Lindsay Judge, Sophie Metcalfe, Felicia Odamtten, Hannah Slaughter, James Smith and David Willetts. All errors remain the authors own.

Download

This document is available to download as a free PDF at: https://www.resolutionfoundation.org/publications/intergenerational-rapport-fair/

Citation

If you are using this document in your own writing, our preferred citation is:

J Leslie & K Shah, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families,* Resolution Foundation, February 2022

Permission to share

Foreword

We need to build more homes, in the right places that satisfy the needs of all the community. And we need an integrated, long-term housing policy; not the current higgledy-piggledy mess, overseen by 10 different Housing Ministers since 2010.

Most still want to own their own home. But, given how tough it is to get on the housing ladder, what is more natural than wanting to help children or grandchildren with it?

But even those who have benefitted from rising house prices, final salary schemes and historically low mortgage interest rates, may have other considerations which make them think very carefully before giving substantial gifts.

This is what this report explores: who has the ability and desire to help pass on wealth and the implications for those who cannot.

For those that can help, will this transfer be used in the way that was intended? I remember being at a focus group just before we launched Family Building Society where a lady lambasted her grandson for spending all the ISA money she had put aside for him for a deposit. “Never getting any of my money again!” she intoned.

If you are lucky enough to be in a position to help, what about your own considerations?

The thing about money is that you can’t spend it twice. If you decide to help your grandchildren, enjoy your retirement, take a cruise, buy a holiday home, how do you know that you won’t need it in the future, to fund care, for example?

Despite the recent changes to the cap on self-funded care fees, who knows what will be in place in the future? The Treasury would really like for you to pay your own care fees but if you’ve already spent it, or given it away, they’ll be disappointed.

And what about the housing market? Here, we are simply not building enough of the right types of homes for first time buyers. Past and present taxpayer-funded schemes to help buyers have tended to add to demand, push up prices, and do little for supply.

As a mutual lender to first time buyers and those coming up to and in retirement, we, at the Family Building Society, saw years ago the growing pressure on the ‘squeezed middle’. The generation that sees their children wanting to get on the property ladder while watching their elderly parents enter retirement. We developed products to use assets to best effect. People don’t need to be super rich to use assets smartly. We have shown that this can be done with creativity and with risk minimisation clearly in mind, both for the institution and the individual.

Mark Bogard, CEO, Family Building Society

Summary

Intergenerational wealth transfers – by which we mean both gifts and inheritances – have increasingly become a major feature of UK economic life and that is set to increase in the future. These wealth transfers have major impacts on how people live their lives and the opportunities available to them. For younger generations, the biggest effects are, for those lucky enough to receive a transfer, higher financial resilience and access to housing. But the older generations are also affected, because a decision to transfer wealth to future generations often affects other life choices, like saving patterns.

Rising wealth levels in the UK – the result of a decades-long trend of increasing asset prices – combined with an ageing population means that, given older people's current plans, the value of inheritances is set to double over the next 20 years. Rising asset prices have also affected intergenerational gifts: since 2007, the total value of gifts in excess of £500 received by families over the two years prior has risen by almost 30 per cent, from £9.2 billion to just under £12 billion in 2017. Those rising asset prices have also meant that it is difficult for younger people to be able to save enough for a house deposit, meaning more people are turning to help from their family to get on the property ladder – something that the pandemic has accelerated, as the 'race for space' has driven up house prices across the country. This means that both the potential 'supply' of intergenerational wealth and the 'demand' for transfers have increased.

Understanding the impact that these wealth transfers have is therefore crucial, for what they show us about the economy, household finances, social mobility and intergenerational relationships in the coming decades. This report uses a mixed-methods approach, combining qualitative focus group analysis with an original survey of UK adults, to understand the effects of and motivations for wealth transfers between generations.

Our results show clearly that, although inheritances and intergenerational gifts are increasing, they are far from ubiquitous: only around a third of adults expect to receive something over their lifetime. Gifts are set to become more common over time, with the proportion of adults who expect to benefit from a transfer in the form of a gift at some point in their lives rising from 10 per cent of 'baby boomers' and older generations to around 40 per cent of new adults in the 'gen z' generation. There is a large difference in the probability of receiving a transfer based on pre-existing wealth and income, with the highest fifth of earners being roughly twice as likely to receive a significant transfer than the lowest fifth of earners – and the gap across the wealth distribution is even larger. Given all the advantages that household wealth can bring – it can facilitate home ownership (which then is associated with lower housing costs over the long-term) or investment in education, and it acts as a financial buffer, insulating households from

financial shocks – this shows the risk that wealth transfers are acting to entrench economic advantage for the already well-off by creating barriers for future social mobility.

Economic research on this topic has often neglected the question of how transfers are actually used in practice. Here, our results are clear: housing wealth and greater financial resilience are the primary benefits that people gain after receiving a transfer, rather than transfers being used for short-term consumption. The scale of the effect on the housing market is particularly notable, with an estimated 6 per cent of UK homeowners owning a property that they would have otherwise been unable to purchase if they had not received a transfer. Transfers can create other economic opportunities, but they are less common, with only around 1 per cent of adults moving area or making different career decisions as a result of a transfer.

Some argue that the decline in youth home ownership, an area that successive governments have attempted to address, is not a long-term problem because the receipt of an inheritance will eventually allow the current generation of young people to own a home. But previous research found that the most common age that a 'millennial' will receive a parental inheritance is at the age of 61. And, although theory suggests that the benefits of a transfer should precede receipt – because people will be able to make different life decisions knowing that they will receive wealth in the future, such as borrowing more money for a house – credit constraints and uncertainty seem to prevent that from happening for most: just 7 per cent of respondents receiving a transfer report that the benefits were felt in advance of receipt. So, even though it is clear that older generations would like to pass on the wealth they accumulated as a result of rising asset prices, inheritances often come too late in life to ameliorate difficulties in becoming homeowners. Policy makers, therefore, cannot rely on the wealth of 'baby boomers' to be passed on soon enough for youth home ownership to rise significantly from current levels; such a strategy would also risk restricting home ownership among those whose parents owned their home.

Economic research also often neglects to consider the impact wealth transfers have on those giving them. Although a minority of people are, or expect to be, a recipient of a transfer, around half of people of retirement age are expecting to leave an inheritance or give a significant gift to another generation. Around half of this group have not taken any direct actions to facilitate future transfers, but one-in-six (16 per cent) of those intending to make a transfer are saving more, one-in-ten (9 per cent) are downsizing houses and a small number are even changing career decisions. These effects are large enough that they could have material societal or macroeconomic consequences. But they also highlight that economic problems faced by one generation can have broader effects. In particular, our research shows that enabling future generations to purchase a home is a key goal for many older people, and so high housing deposit requirements affect not just younger people's saving and spending patterns but can also put pressure on older people to save more to help their children and grandchildren.

Policy affects the likelihood that gifts and inheritances are made, and our research identified with two major influences. Inheritance tax (IHT) is often thought of as affecting the decisions that families take around intergenerational transfers because of the incentive to reduce tax liabilities. Our results highlight that the effect of the tax is wider than might be expected given the relatively low proportion (currently around 4 per cent of deaths) who pay the tax: 12 per cent of respondents say that they expect IHT to be paid on their estate, and around half of those have taken some pre-emptive action as a result of the tax. Working in the other direction is the significant uncertainty around the potential costs of care and pensions, which for some people limits the share of wealth transfers that they are willing to make through gifts: instead, people hold wealth in case they need it themselves in the future. Our results suggest that care costs are a key driver of uncertainty for older people, despite the fact the survey was collected after the Government's 2021 announcements on capping care costs. For younger people, future saving needed for pension costs and inherent uncertainty about the future were more important in creating uncertainty in how much people thought they may transfer in the future.

The trends underlying the results in this report are unlikely to reverse in the near future. A high-wealth country and an ageing population are features of the UK economy that are here to stay. Given this, the need to understanding the impact that intergenerational trends have on UK families' lives is increasing, and something that the Resolution Foundation will be doing over the next five years as part of the ESRC-funded Connecting Generation centre. Policy makers have failed to grapple with the problems created by rising wealth gaps between families, and, in particular, how wealth gaps can embed a lack of opportunity for a large proportion of people in the UK. Having to rely on the generosity of older generations within a family to have a successful life is in stark contrast to the society-wide belief that if you work hard you should be able to get ahead.

The scale and nature of intergenerational transfers in Britain

Intergenerational wealth transfers – by which we mean both gifts and inheritances – have increasingly become a major feature of UK economic life. But the broader discussion of the effect of these transfers has focussed on those who happen to receive transfers, ignoring the impacts both on those who are not lucky enough to receive a transfer and on those who provide the transfers. We need to understand the full range of impacts that wealth transfers have and on which groups of people. These impacts range from the housing market to saving rates, and shed light on important aspects of the economy, household finances, social mobility and intergenerational relationships in the coming decades. This report does that, focussing on the scale and impact of transfers rather than policy ideas. As we describe in more detail later on, it uses a mixed-methods approach, combining qualitative focus group analysis with an original survey of UK adults, to understand the effects and motivations for wealth transfers between generations.

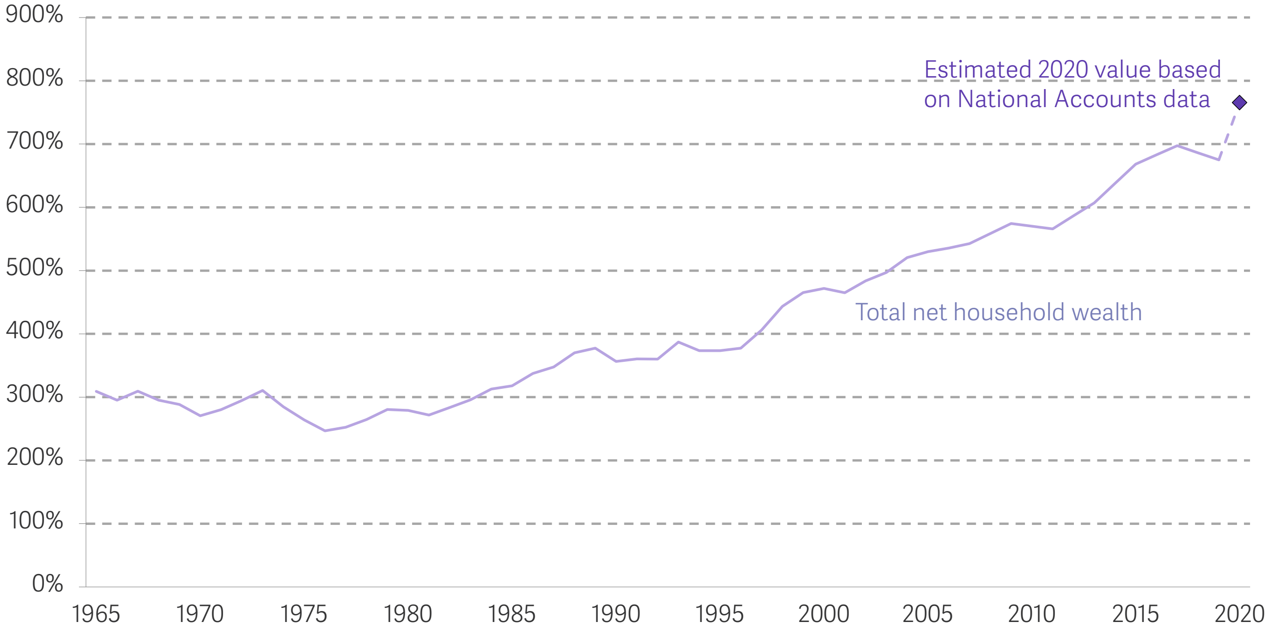
The rising value of household wealth and an ageing society are driving increases in intergenerational transfers

The steady rise in the value of wealth has been a defining trend of the UK economy over the past 40 years, and has had profound consequences for the economy as a whole. As shown in Figure 1, the value of household wealth stood at around three times the value of national income throughout the 1960s and 1970s. But since the 1980s, the rate at which households have accumulated wealth has accelerated, outpacing the growth in national income, so that the stock of household wealth stood at nearly seven times national income in 2019. Given the unprecedented boom in asset prices during the pandemic, with average house prices rising by approximately 10 per cent from their February 2020 values, it is likely that this trend has continued: indeed, we estimate that wealth stood at 7.6 times GDP at the end of 2020.[1]

1 For more on the latest data on household wealth in Britain see K Shah, Wealth on the eve of a crisis: Exploring the UK's pre-pandemic wealth distribution, Resolution Foundation, January 2022.

FIGURE 1: **The value of household wealth relative to the size of the economy has more than doubled since the 1980s**

Household wealth as a share of national income: UK



NOTES: 2020 datapoint estimated by applying the growth rate since 2019 of wealth as a proportion of GDP from the National Accounts to the latest Wealth and Assets Survey data.
SOURCE: RF analysis of OECD; 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 in Great Britain; ONS, Gross Domestic Product at market prices.

As has been discussed widely, multiple factors have driven this startling rise in the size of wealth holdings, including the secular fall in interest rates over time and demographic changes both nationally and globally.[2] But what is clear is that the more-than doubling in the size of wealth relative to the economy since the 1970s has significant implications for living standards and economic opportunity. In particular, the growing value of wealth makes it a more significant resource for those who have accumulated it, providing wealth owners a greater ability to absorb shocks to income, easier access to lower-cost credit, and facilitating purchases of significant assets such as housing. Wealth is also very unequally distributed, being about twice as unequal as the income distribution when measured using the Gini coefficient.[3] What's more, the fact that growth in wealth is outpacing growth in household income means it is harder for those currently without wealth to accumulate significant wealth and enjoy the same benefits outlined above. This is because as the value of assets rise relative to income, it becomes harder for someone to 'save' their way up the wealth distribution.[4] As wealth becomes more

2 For more on the drivers of increasing wealth see G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020; A Advani, G Banham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Fiscal Studies, Vol. 42, No. 3-4, October 2021; and I Mulheirn, Sources of wealth and their implications for taxation, Wealth and Policy, Working Paper 122, October 2020.

3 ONS, Household total wealth in Great Britain: April 2018 to March 2020, January 2022. See also: M Brewer, What Do We Know And What Should We Do About Inequality? SAGE Publishing, 2019.

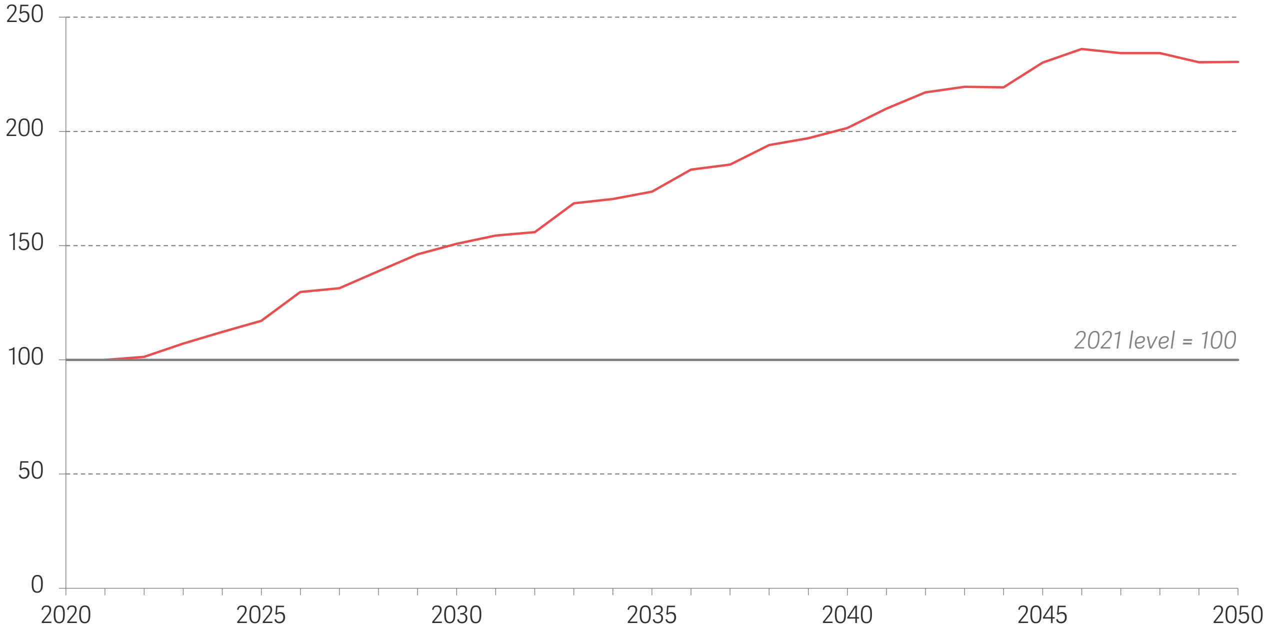
4 A concrete example of this is that the age at which a typical first-time buyer family will have saved the required deposit for a house has risen from the early 20s for someone born in the late 1970s to mid-30s for those born since the mid-1980s. See L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.

important in driving outcomes in life compared to income, those outcomes become more unequal simply because the wealth distribution is already more unequal than the income distribution.[5]

The rising levels of wealth, an ageing population and the growing difficulty for younger adults to accumulate significant holdings of wealth has driven a second key trend – the increasing value of intergenerational transfers (both gifts and inheritances) in the UK. Figure 2 demonstrates how this phenomenon is set to become increasingly important during the 21st century, as older households – who have passively accumulated large wealth holdings as asset prices have soared over previous decades – disperse this wealth to younger households at death via inheritances.[6] We estimate that the value of these transfers is set to double over the next 20 years as the large baby-boomer cohort move into late retirement; it is also likely that more wealth will be dispersed by these households while they are alive through gifts.

FIGURE 2: **The value of intergenerational transfers is set to double by 2040**

Index of total expected future bequests of adults aged over 50, by estimated year of bequest (2021=100): England



NOTES: This forecast is calculated by first using survey data on the likelihood of leaving inheritances at various different thresholds to construct estimates of the expected inheritance households will give in the future. This is then combined with distributional life expectancy estimates to produce an estimate of the year in which a household will leave an inheritance. Together, this provides the aggregate flow of inherited wealth each year. Results are averaged over 100 simulations where year of death is randomly assigned based on life expectancy disaggregated by age and sex.
SOURCE: RF analysis using UCL et al., English Longitudinal Study of Ageing; ONS, Life Tables.

5 This fact was a key driver behind a previous Resolution Foundation policy recommendation to introduce a 'citizen's inheritance' of a universal sum of money received by all at the age of 25, to offset the unequal nature of transfers. For more see: G Bangham, The new wealth of our nation: the case for a citizen's inheritance, Resolution Foundation, May 2018.

6 Previous research has taken a similar approach using the same data – particularly important is P Bourquin, R Joyce & D Sturrock, Inheritances and inequality over the life cycle: what will they mean for younger generations?, IFS Report R188, Institute for Fiscal Studies, 2021.

The growing size of total intergenerational transfers has a broad range of effects on the UK economy and the opportunities available to families. For those who are lucky enough to receive such transfers, transfers will become more significant relative to lifetime income, meaning that these individuals will feel the benefits of such bequests more keenly.[7] It is these households who will be most able to buffer the effects of shocks to their income arising from periods of unemployment, or benefit from lower housing costs if their inheritance enables them to purchase a home as opposed to renting.[8] However, there is a risk that those with poorer parents and grandparents who are not set to receive transfers and enjoy such boosts to their living standards will fall behind. The implication is that the rise in average wealth levels and intergenerational transfers is leading outcomes in life to be more dependent on the success of one's antecedents than was the case in previous decades, something that would bear down on social mobility.

The extent of intergenerational wealth transfers matters also for the public finances because it is when wealth is transferred that the tax system is most able to take a cut. Figure 3 demonstrates how the real value of inheritance tax revenue has increased from just over £3 billion at the start of the millennium to over £5 billion today, and is set to rise by almost 40 per cent to £7 billion by 2026-27. The increased revenue for the state results both from the increased number of individuals passing on inheritances and from the growth in the value of the average inheritance, which will bring a larger (although still small) proportion of estates into paying the tax. Historically, however, previous growth in IHT revenues has been slower than the growth in the value of wealth since the 1980s.[9] This is because successive governments since the 1970s have reduced the scope and rate of inheritance tax, including most recently the rise in the typical tax-free allowance from £325,000 to £500,000 per adult in 2017.[10]

7 P Bourquin, R Joyce & D Sturrock, Inheritances and inequality over the life cycle: what will they mean for younger generations?, IFS Report R188, Institute for Fiscal Studies, 2021.

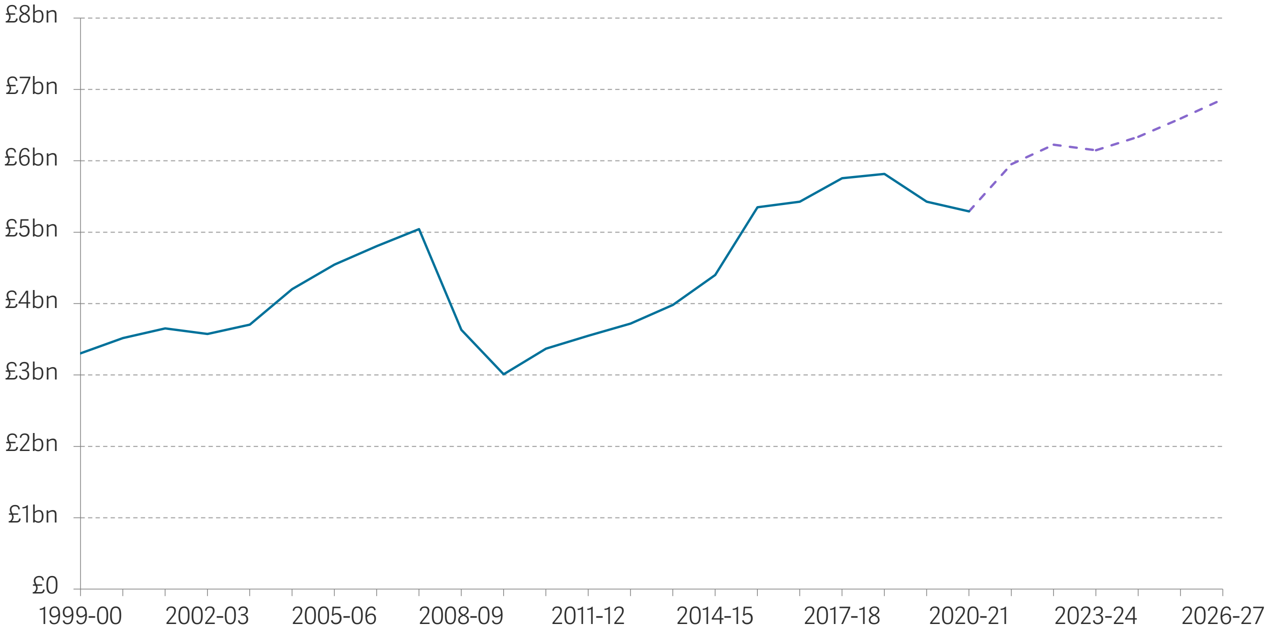
8 For more on the relationship between housing costs and housing wealth, and the economic benefits of owning wealth more broadly, see: G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020

9 G Bangham & J Leslie, Who owns all the pie? The size and distribution of Britain's £14.6 trillion of wealth, Resolution Foundation, December 2019.

10 This change was first announced in 2015 and applied from 2017. See HM Treasury, Summer Budget 2015, July 2015.

FIGURE 3: **Inheritance tax revenues is expected to rise significantly in the coming decade**

Real value of Inheritance Tax revenue, outturn and forecast: UK



NOTES: Data is deflated using the GDP deflator to 2021-22 prices. Revenue from 2021-22 onwards is forecast.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook.

In order to investigate the impact of inheritances on families in the UK, this research project has relied on a multi-methods approach. The first stage of the project was to hold focus groups of people who have either received or given intergenerational transfers, or who expect to do so in the future. These group discussions focussed on how families approach decisions in their lives with respect to transfers and the key issues arise from them. Participants were drawn from customers of the Family Building Society. Drawing on these discussions, we then designed and fielded an online survey of a nationally representative sample of UK adults (covering 8,749 individuals) conducted in December 2021.[11] Subsequent analysis in this paper combines results from focus groups, the original survey and other data sources to elucidate the effects of transfers and who are affected by them.

Receiving and giving significant intergenerational transfers is becoming more common but is far from a ubiquitous experience

Although intergenerational transfers are becoming increasingly significant in size, they are far from ubiquitous. As shown in Figure 4, our survey suggests that it is still a minority

11 The survey was conducted using an online interview administered to members of the YouGov Plc UK panel, which is made up of 800,000+ individuals who have agreed to take part in surveys. The total sample size 8,749 adults, aged 18+ and fieldwork was undertaken between 30 November 2021 and 7 December 2021. The figures presented here have been weighted and are representative of all UK adults (aged 18+) according to age, gender, and region. The figures presented throughout have been analysed independently of YouGov and by the Resolution Foundation. They are not the views of YouGov.

of UK adults that have benefited or expect to benefit from the receipt of a gift or an inheritance over their lifetimes, with 53 per cent of all adults saying that they did not expect to receive one at all over their lifetimes (and a further 15 per cent saying that they did not know or preferred not to say).[12] If people are accurate in their expectations, it is likely that a large number of the population will not benefit at all from the increased value of intergenerational transfers.

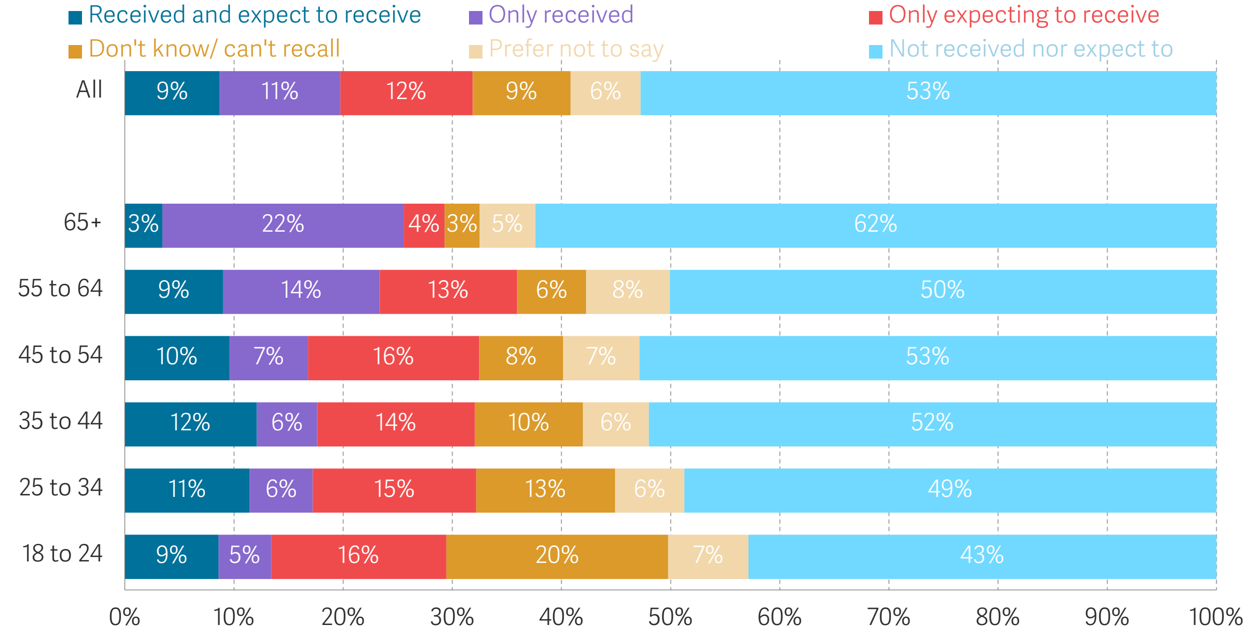
Of those that said that they have received or expect to receive (32 per cent), a third (12 per cent of all respondents) have not yet received a transfer but expect to do so in the future, and a further 9 per cent have already received some gifts or inheritances and also expect more in the future. As would be expected, the proportions of those anticipating receipt but not having yet received a gift is higher among younger age groups. Of those aged 25-34, 15 per cent expect to receive and have not received anything to date, while this is only the case for 4 per cent of the over-65s. So, although the young look set to enjoy significant intergenerational wealth transfers (given the large rise in total inheritances), this only applies to a minority of adults, and for those that it does apply to, they are more likely to expect future transfers, limiting the impact that such transfers have on their lives today (17 per cent of those aged 25-34 report already receiving something, while 25 per cent of the over-65s have received).

Figure 4 also demonstrates that younger people have significant uncertainty around whether or not they will receive an intergenerational transfer. A fifth of those aged 18-24 reported that they didn't know or could not recall whether they have been or will be in receipt of a gift or inheritance from another generation. The uncertainty is natural given that many will only receive such transfers in the distant future. Importantly, this uncertainty limits the extent to which the future transfers they receive can have an impact on their lives today, as it makes it unlikely that the recipients will, in the face of this uncertainty, adjust their spending or investing behaviour accordingly.

12 The definition of gift in our original survey was a "significant" gift from someone not of the respondent's generation, for example a parent or child. This was designed so as to focus explicitly on gifts which could be considered wealth transfers. We did not suggest a financial threshold to distinguish between significant and non-significant gifts. Respondents living with a partner were asked to include any significant receipts their partner received as the respondent will share in the benefit of receipt – however, questions on the effect on lives were targeted just at the respondent rather than collectively with their partner.

FIGURE 4: **The majority of adults do not expect to receive a significant transfer from another generation in their lifetimes**

Proportion of adults reporting having received or expecting to receive an inheritance or significant gift from another generation, by age of respondent: UK, 2021



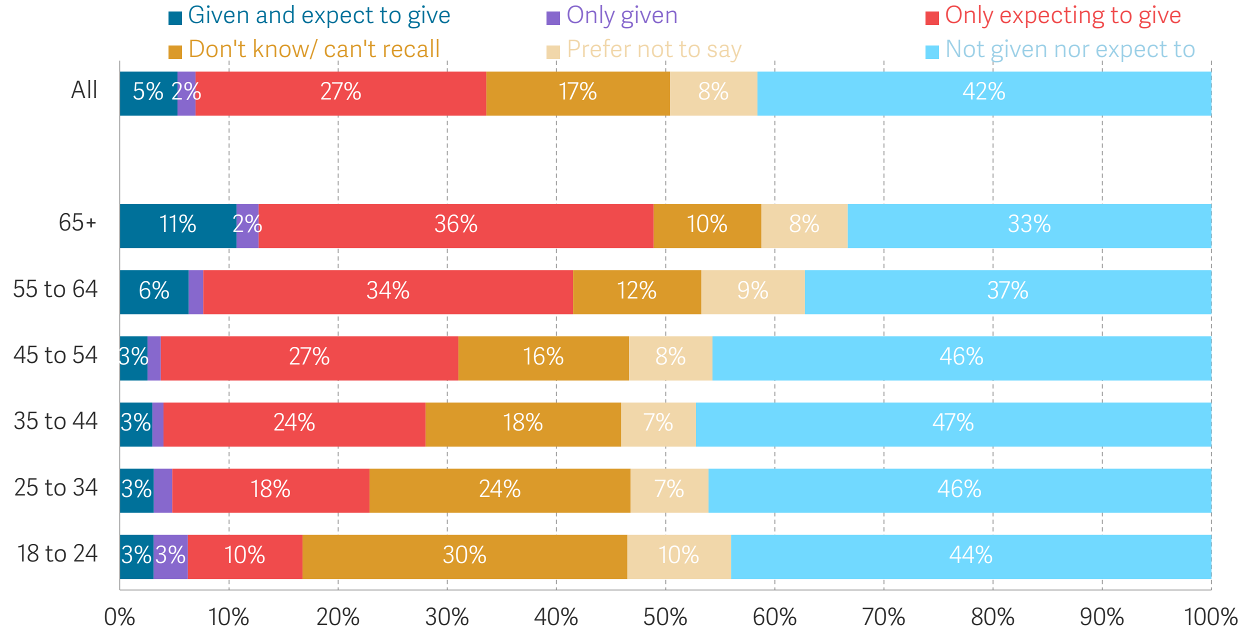
NOTES: Base = 8,749 for all respondents. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

We can get another impression of the likely increase in intergenerational inheritances and gifts by looking at the other side of the coin, and asking people about their expectations of making a bequest or gift. The results suggest that more families expect to give inheritances or gifts in the future than the proportions who were expecting to receive: Figure 5 shows that 42 per cent of adults are not expecting to give a transfer (compared to the 53 per cent who do not expect to receive one in their life). Although there are difficulties in comparing the number of givers in the population with the number of receivers – given that one giver can give to multiple people, or vice versa – these results are suggestive that more people will receive transfers in the future than was the case in the past. Again, older respondents are more certain of their intentions than younger respondents, with nearly half all those aged 65 or over either having given or expecting to give, and only 10 per cent responding that they either did not know or could not recall.

One important takeaway from these results is the higher proportion of older people expecting to give transfers in the future than have received transfers in the past. This reflects the wealth windfall that some generations have experienced as real asset prices rose through the 1990s and 2000s. The results highlight that these windfalls, at least in part, will be transferred to future generations.

FIGURE 5: **More people are expecting to give an inheritance or gift to another generation than are expecting to receive**

Proportion of adults reporting having given or expecting to give an inheritance or significant gift to another generation, by age of respondent: UK, 2021



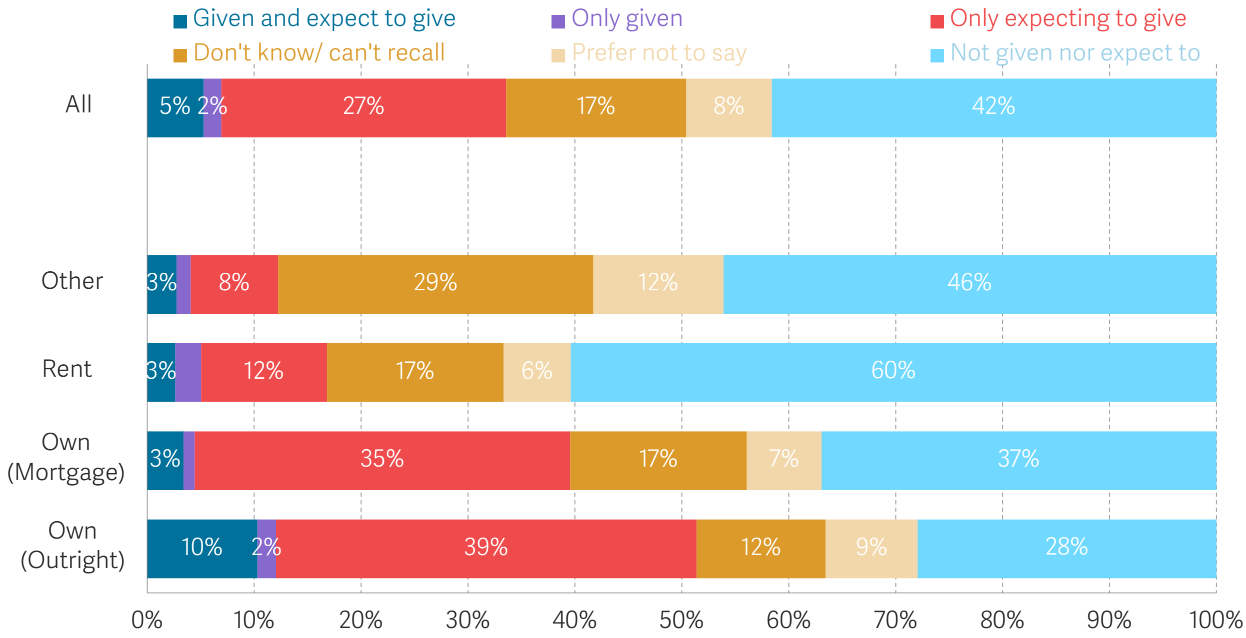
NOTES: Base = 8,749 for all respondents. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

If we split this by housing tenure, it demonstrates the growing importance of housing wealth in the transfer of wealth between the generations. Figure 6 shows clearly that those who own their own housing are far more likely to expect that they will give a significant gift or inheritance to another generation than those who rent. Additionally, 60 per cent of those who rent (which includes those both in the private rented sector and in the social rented sector) do not expect ever to make a transfer in their lifetimes. Some of this variation between tenures is a result of those who rent tending to be younger than those who own their home outright, but the fact that the variation across tenure groups is larger than that across age groups suggests that tenure is an important determinant of who is able to give. But given that housing wealth is a major part of household wealth in the UK (36 per cent of total net wealth in 2018-20), it is not surprising that those who own their own homes are more likely to expect that they will transfer wealth to another generation in the form of a gift or an inheritance.[13]

13 For more on how wealth can be accumulated through housing assets, see: L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021. See also: Office for National Statistics, Household total wealth in Great Britain: April 2018 to March 2020, January 2022.

FIGURE 6: **Those who rent are the least likely to expect to be able to give to another generation**

Proportion of adults reporting having given or expecting to give an inheritance or significant gift to another generation, by housing tenure of respondent: UK, 2021

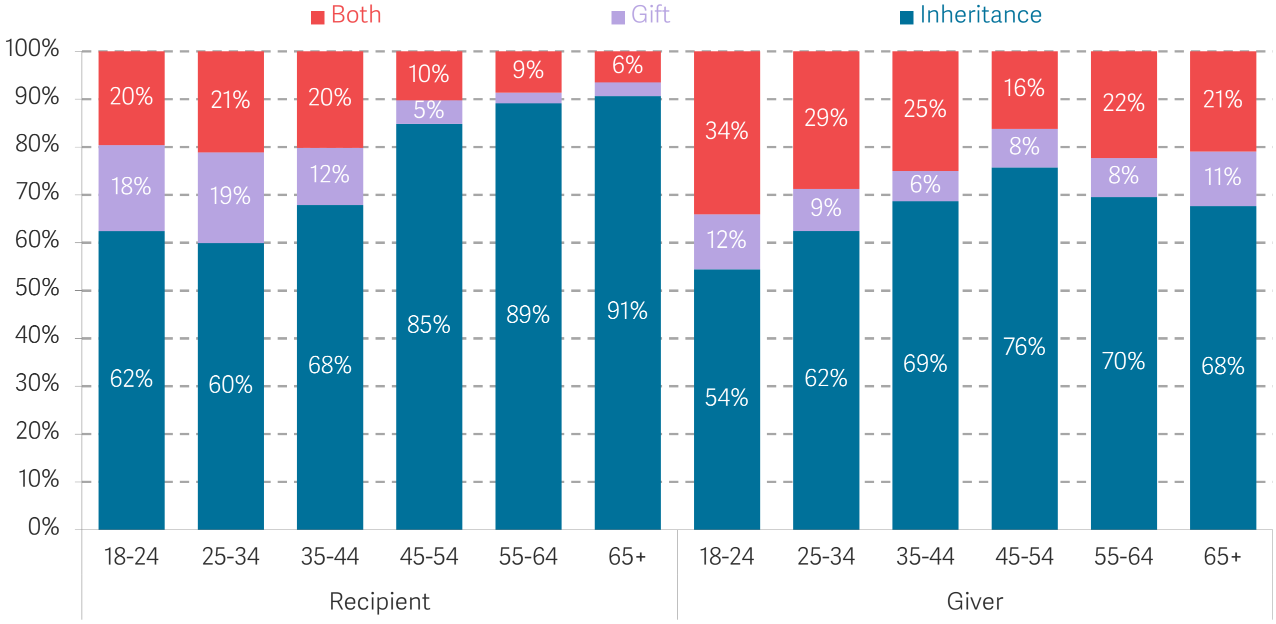


NOTES: 'Own (Mortgage)' includes those who part own their property. 'Rent' includes both those in private rental sector and those in the social rental sector. 'Other' includes those who live with their parents, family, or friends and pay some rent and those who live with their parents, family, or friends and do not pay rent. Base = 8,749 for all respondents. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

When looking at the breakdown of intergenerational transfers by type, it appears that gifts are becoming more prevalent over time, although inheritances still dominate the flow of transfers. Figure 7 depicts this issue from the perspective of recipients in the left panel, and givers in the right panel. Inheritances were the dominant way that those in their late 50s and 60s received wealth from other generations – with close to 90 per cent of those who have received or expect to receive doing so via this route alone – but gifts are more common among more recent cohorts, with 40 per cent of those aged 18-44 (millennials and generation-Z adults born since the 1980s) who anticipate receiving transfers believing that they will receive a gift. This is also matched by the fact that a greater proportion of older adults (aged 65 and over) anticipate using gifts instead of inheritances alone than was reported by receivers in the same age group.

FIGURE 7: **Gifts are becoming an increasingly prevalent method for intergenerational wealth transfers**

Type of intergenerational transfer, by whether survey respondent is a recipient or giver and age: UK, 2021



NOTES: Chart includes both transfers that have taken place and those that are expected to take place, so someone who has received a gift and expects to receive an inheritance would be marked as 'both' in the recipient section. 'Don't know' responses have been excluded. Base = 2,739 for recipient and 2,914 for giver. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

This increased prevalence of gifting is something we can see in other household surveys. Figure 8 shows the total real value of gifts reported by families in the Wealth and Assets Survey, conducted by the Office for National Statistics. Since 2007, the total value of gifts in excess of £500 received by families over the two years prior has risen by almost 30 per cent in real terms, from £9.2 billion to just under £12 billion in 2017. This is a substantial rise, but is actually a smaller increase than that seen in total UK household wealth, which rose by 40 per cent in real terms over the same time period. This likely reflects that the largest increase in wealth in recent years has come from measured pension wealth, which is often not easily transferable to other individuals.[14]

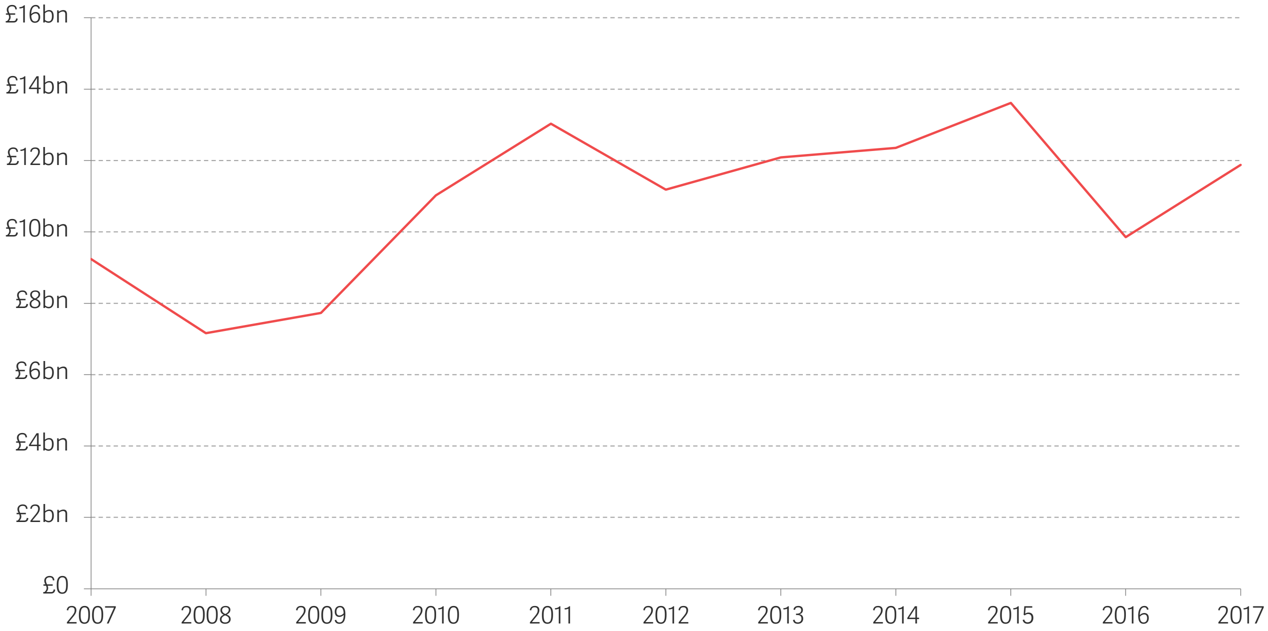
One reason for the increase in the value of gifts over time is that they may have become more attractive as tighter credit markets have constrained the ability of those with few existing assets (such as the young) to access credit. This was a significant theme across our focus groups – specifically the difficulty with home purchases – and something

14 See: Office for National Statistics, Household total wealth in Great Britain: April 2018 to March 2020, January 2022.

we return to later in this paper. Effectively, gifts have become an alternative source of funding for major purchases that would previously have been funded by credit.[15]

FIGURE 8: **The total value of gifts has been rising since 2007**

Total real value of gifts families report receiving, per adult, over the prior two years in excess of £500: GB



NOTES: Values have been deflated to 2020 cash terms using CPIH. Value of gifts received is measured at the family level (i.e. one adult or cohabiting couple and any non-adult children) and divided by number of adults within the family.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

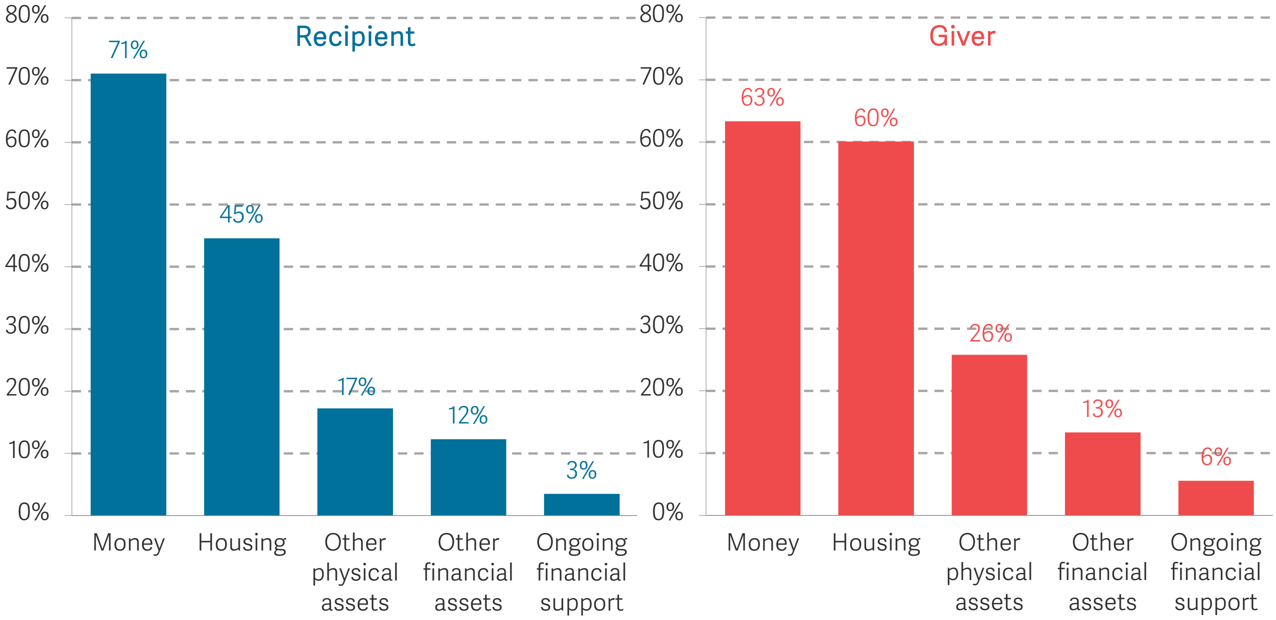
Monetary transfers are the form in which both recipients and givers are most likely to expect wealth to be transferred: this applies to 71 per cent of those who have received or expect to receive wealth from another generation, and 63 per cent of givers (Figure 9). However, money is not the only form in which transfers are expected to take place, and housing and other assets also play a key part of intergenerational wealth transfers: 60 per cent of those who have given or expect to give chose housing as a type of asset that they will pass or have passed on to another generation. Although home ownership among those aged 65 or over is high, at approximately 85 per cent, the fact that only 60 per cent of givers expect to pass on housing reflects that some homeowners do not anticipate passing their property on. The reason for this is unclear, though many (62 per cent) of those who own housing and report that they do not expect to gift property also report that it is too early to know what will be available for inheritance – social care costs, or at

15 Post-financial crisis reforms introduced stricter limits on what mortgage lenders could consider when assessing mortgage applicants. For prudential reasons, typically, mortgage providers would not be able to consider the potential for future inherited wealth to reduce the risk of a loan and thus limits the ability of people with future inheritances to benefit today. For more detail on the credit barriers to purchasing a property, see: A Corlett & F Odamtten, Hope to buy: The decline of youth home ownership, Resolution Foundation, December 2021.

least concerns over the potential need for care in the future, could be playing a role (we discuss this in more depth later in the report).

FIGURE 9: **Money is the most common form of wealth transfer that adults expect to receive**

Form of actual or expected wealth transfer, by whether recipient or giver: UK, 2021



NOTES: Base = 2,818 for recipient and 3,081 for giver. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

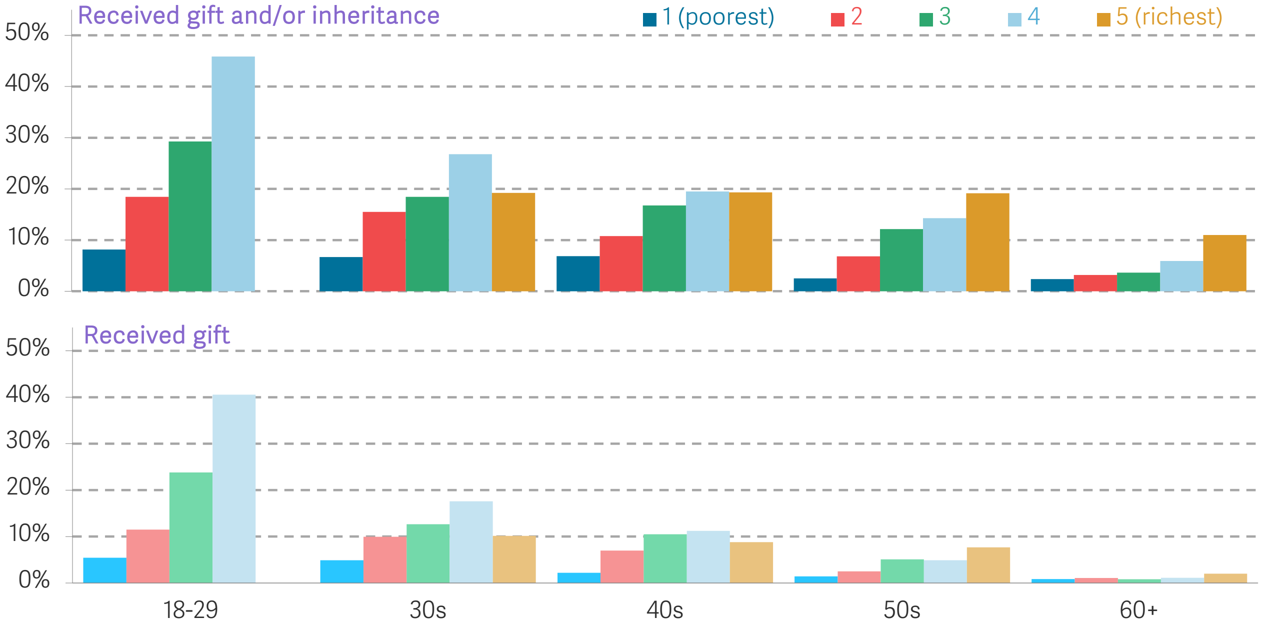
Those receiving intergenerational transfers are substantially more likely to be higher-income or higher-wealth families

As we established above, benefiting from inheritances or gifts is far from a universal experience – and it is wealthier families that are significantly more likely to benefit from an inheritance. This fact is shown in Figure 10, which plots the proportion of families who have received either an inheritance or gift (top panel) or just a gift (bottom panel) by age and the family's wealth quintile prior to having received the gift.[16] The same strong upward gradient is seen across all age groups, with the wealthiest 20 per cent being between four or five times more likely to receive a transfer than the poorest 20 per cent of families. The same is true when considering gifts only, though the overall prevalence of these is low, except among those aged between 18-29.

16 The definition of gifts here is broader than that used in our YouGov survey; specifically: it includes all gifts, not just those which the recipients considered to be a significant intergenerational transfer. This means there is not a perfect mapping between these estimates of proportions receiving transfers and the other survey measures.

FIGURE 10: **Wealthier families are significantly more likely to receive intergenerational transfers**

Proportion of families receiving an inheritance or gift in the past two years, by age group and prior net wealth quintile: GB, 2010-2018



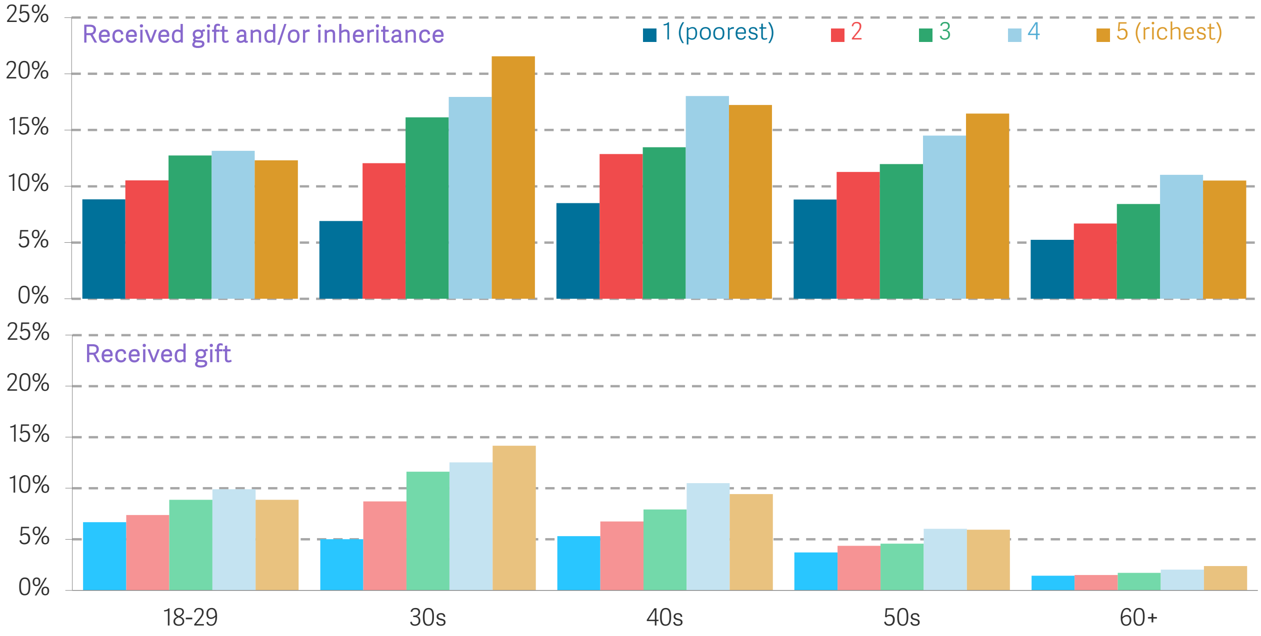
NOTES: The Wealth and Assets Survey captures gifts which are greater than £500 in value and inheritances which are larger than £1,000 in value. The sample size for the top wealth quintile for under-30s is too small to be reliable and is excluded from the chart. Receipt of a transfer is measured at the family level (i.e. one adult or cohabiting couple and any non-adult children). Net wealth quintile is measured prior to receipt of a transfer using the longitudinal element of the Wealth and Assets Survey. Survey weights are adjusted to account for sample attrition.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

The likelihood of benefiting from transfers also varies by income (see Figure 11). Although the gradient by income is not as steep as the gradient by wealth, the highest-income families remain significantly more likely to receive a transfer than the poorest: for those in their 30s, those in the top income quintile are over three times as likely to have received either a gift or a transfer as those in the bottom income quintile. This distributional pattern of the richest families being the most likely to have received transfers is something we also find in our own survey.[17]

17 RF analysis of the YouGov UK Inheritances and intergenerational wealth transfer survey showed 50 per cent of those with gross household annual earnings of over £70,000 had received a gift or inheritance (base = 960) compared to 25 per cent of those earnings of less than £20,000 (base = 1,686).

FIGURE 11: **Higher-income families are also more likely to benefit from transfers**

Proportion of families receiving an inheritance or gift in value, by age group and net income quintile: GB, 2010-2018



NOTES: Wealth and Assets Survey only captures gifts which are greater than £500 in value and inheritances which are larger than £1,000 in value. Receipt of a transfer is measured at the family level (i.e. one adult or cohabiting couple and any non-adult children).
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

These patterns are also reflected in the wider literature that considers income across people's lifetimes. For example, recent research has projected that those households in the top fifth of the lifetime income distribution will inherit around twice as much as those in the bottom fifth.[18] For households born in the 1980s, a household in the bottom fifth is projected to inherit £200,000, and a household in the top fifth will inherit more than £410,000. Given these differences, it is interesting to consider the broader societal perceptions of transfers – these are covered in Box 1.

BOX 1: **Society's perceptions of intergenerational transfers**

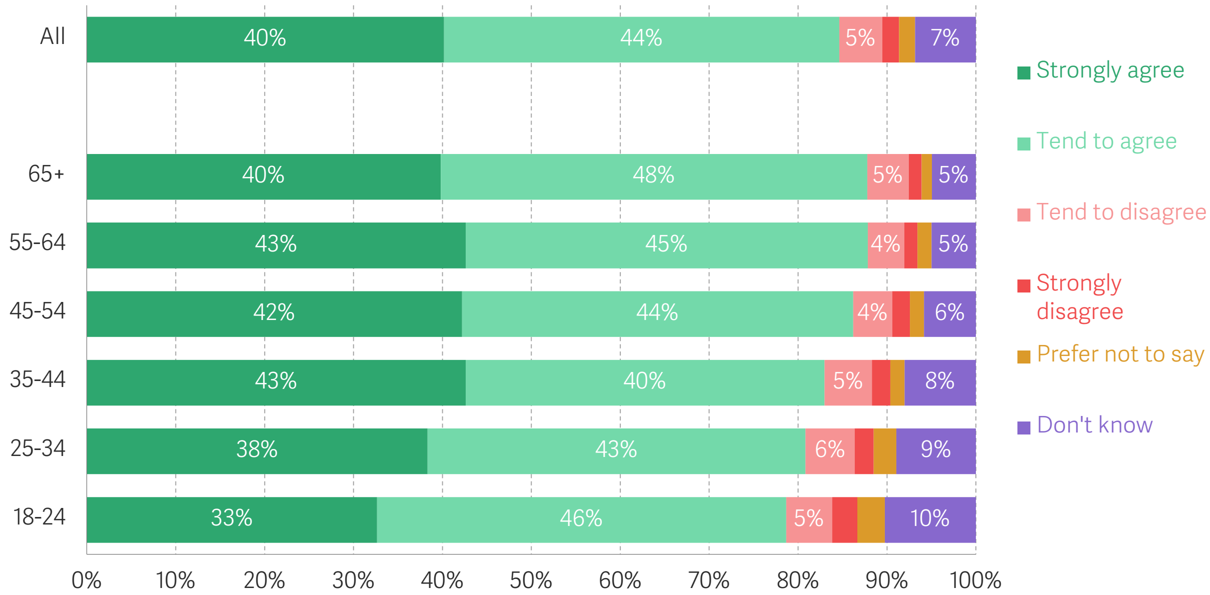
Respondents to our survey saw giving a gift or leaving an inheritance as a fundamental part of how people should use their economic resources, and this held across all groups in society. Figure 12 depicts the proportion of respondents who agreed or disagreed with the statement "people work hard for their money and should be able to support future generation" by age group. It shows universal high levels of agreement with the statement, with

18 P Bourquin, R Joyce & D Sturrock, Inheritances and inequality over the life cycle: what will they mean for younger generations?, Institute for Fiscal Studies, April 2021.

at least 80 per cent of respondents agreeing in each age group. Giving money to future generations via inheritances or gifts is seen as a legitimate use of an individual's resources and one that many would be reluctant to prevent from occurring.[19]

FIGURE 12: **The majority of people believe that people should be able to use their money to support future generations**

Proportion of respondents who agree or disagree that "people work hard for their money and should be able to support future generations", by age: UK, 2021



NOTES: Base = 8,749. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

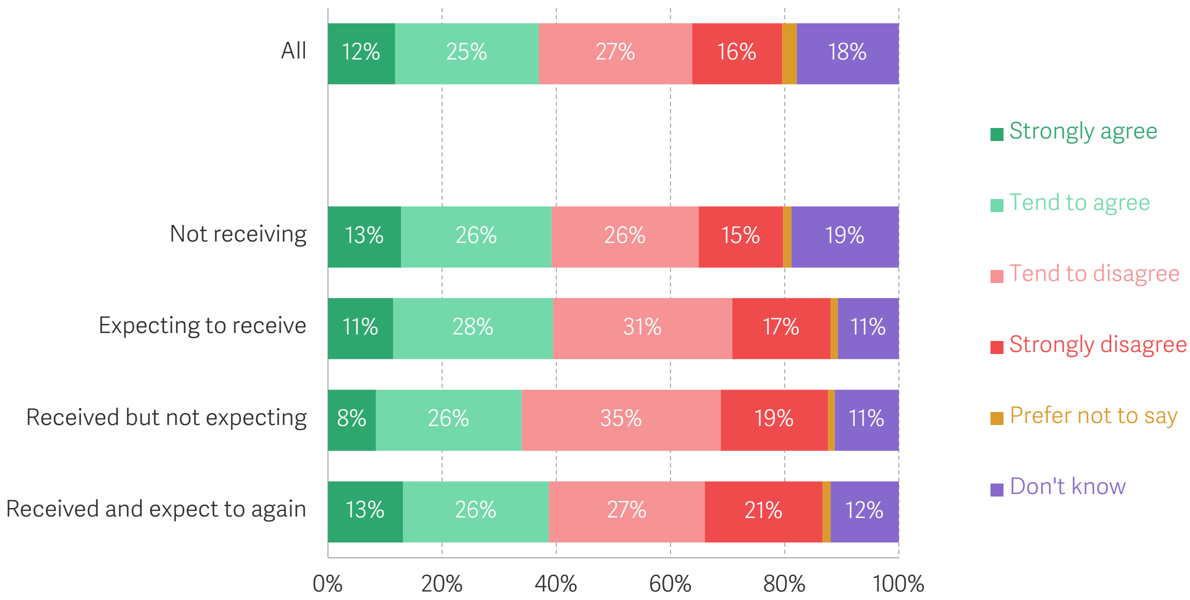
Although transferring money to future generations is seen as something individuals should be able to do, views on the fairness of intergenerational transfers are more mixed. Figure 13 reports the proportion of respondents who believed or disagreed with the proposition that passing wealth between generations is unfair for those without wealthy families. Around 40 per cent agree with the statement, and close to 50 per cent disagree. However, although there is much variation in the extent to which respondents felt intergenerational transfers were unfair, the level of agreement with the statement was unrelated to whether people have benefited or expect to benefit from transfers. The more important dimension of variation is age, with 50 per cent of 18-24-year olds agreeing with the statement, compared to just 33 per cent of those aged 65 and over. The fact that this

19 These results are in line with previous research highlighting that inheritance tax is widely unpopular with the public. See: Tax Justice UK, Talking tax: How to win support for taxing wealth, September 2020.

difference in views of the fairness of transfer exists by age and not by whether people expect to benefit from transfers suggests the difference may be generational, and may not change as more of the young receive transfers in the coming years. This relationship to age could also be driven by life-cycle effects where younger people, of any generation, are more likely to consider wealth transfers as unfair; on the other hand, it is striking that the perceived fairness is unrelated to whether someone has received a transfer.

FIGURE 13: **Perceptions of the fairness of intergenerational transfers is not related to whether someone is set to benefit from them**

Proportion of respondents who agree or disagree that passing wealth between generations is unfair for those without wealthy families, by receiving status: UK, 2021



NOTES: Base = 8,749. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

These attitudes are interesting in their own right, but are also relevant given the pressure on government finances, and the suggestions made by some to tax wealth more, with inheritance tax being one way to achieve this.

The fact that those at the top of the income and wealth distributions are most likely to receive an intergenerational wealth transfer has profound implications for social mobility, opportunity and inequality. And these impacts have been explored in the wider literature. Research looking at the relationship between whether a parent is a homeowner and whether their child becomes a homeowner has found that the link has strengthened in the UK over time, indicating that one's chances of home ownership has become more dependent on parental resources.[20] Past work from Resolution Foundation research has shown that young adults are increasingly reliant on parental help to purchase their first home, given the size of deposits required.[21] The greater link between an individual's resources and those of their parents has meant that wealth inequalities by family origin are rapidly widening in Great Britain.[22] Although some research has estimated that inheritances reduce measures of relative wealth inequality (because inheritances are received by a wider range of people than give them), more recent work has highlighted that intergenerational transfers make a significant contribution (around 26 per cent) to wealth inequality in Great Britain.[23]

So, rising intergenerational transfers are increasingly defining the living standards people can enjoy over their lives, but there has been little research on the choices people make in their lives as a result of the wealth transfers. This is the subject of the next section.

The impact of intergenerational transfers on UK families' life decisions

Receipt of a transfer directly creates a range of opportunities that might not have otherwise been available to the recipient, ranging from being able to purchase a property through to making different career decisions. Using our original survey, we can quantify the extent to which transfers are used to facilitate major life decisions – and, by extension, the opportunities that families who do not receive transfers may miss out on.

Receipt of an intergenerational transfer is primarily used to improve financial resilience or purchasing housing

Although there are a wide range of possible uses for an intergenerational transfer, in practice transfers are mostly used to increase financial resilience and to facilitate house purchases. Figure 14 shows the proportion of people reporting having used prior transfers and expecting to use future transfers in particular ways.[24] The most common use is to improve financial resources: around one-third (33 per cent for those already in receipt) of adults use transfers to increase savings, and around one-sixth (15 per cent) use transfers to reduce debt. The other major use of transfers is to facilitate house purchases: over

20 See: J Blanden et al., Trends in Intergenerational Home Ownership and Wealth Transmission, CEPEO Working Paper Series 21-05, May 2021; S Clarke & J Wood, House of the rising son (or daughter): The impact of parental wealth on their children's homeownership, Resolution Foundation, December 2018.

21 A Corlett & F Odamtten, Hope to buy: The decline of youth home ownership, Resolution Foundation, December 2021.

22 P Gregg & R Kanabar, Intergenerational wealth transmission and mobility in Great Britain: what components of wealth matter?, CEPEO Working Paper No. 22-01, January 2022.

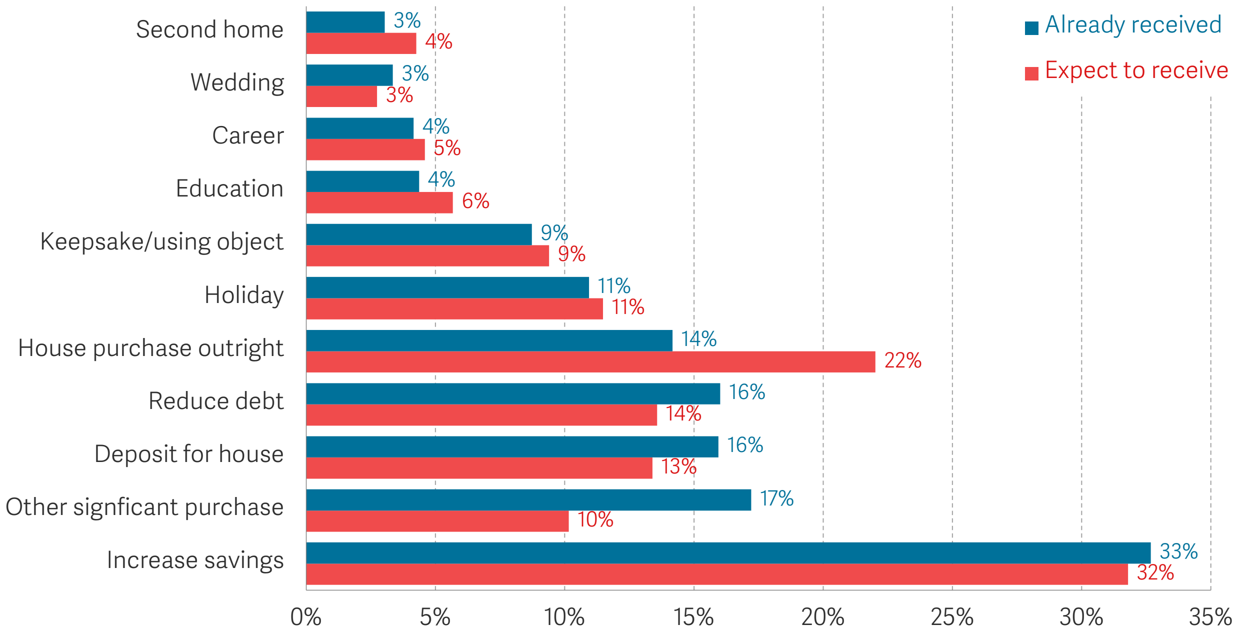
23 See: R Crawford & A Hood, Lifetime receipt of inheritances and the distribution of wealth in England, Fiscal Studies, 37(1), March 2016; J C Palomino et al., Wealth inequality, intergenerational transfers, and family background, Oxford Economic Papers, October 2021.

24 These results are largely independent of whether the transfer is a gift or inheritance and indeed the scale of the transfer: restricting the sample to just those having already received gifts, 33 per cent used them to increase savings and 15 per cent used them to reduce debt. Similarly, removing responses where respondents listed the transfers as "small" in scale, makes little difference to how the transfers are used.

one-fifth (22 per cent) of those expecting to receive a transfer in the future expect to be able to use it to own a home outright in the future. But transfers are used for many different purposes, and these results are in line with previous research which has found that, on average, those in receipt of an inheritance spend 30 per cent of the value of the transfer.[25]

FIGURE 14: **Increasing financial resources and home purchases are the primary use for intergenerational transfers**

Proportion of recipients of intergenerational transfers using transfers in particular ways, by whether transfer has already occurred or is expected: UK, 2021



NOTES: Base = 1,793 for already received and 1,778 for expect to receive. These figures have been analysed independently by the Resolution Foundation. 'Don't know' and answers with low responses are not shown on the chart.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

How transfers are used is only one part of the picture: it is also important to understand how significant the impact is on recipients' lives. Figure 15 presents recipients' views of this: a majority of respondents report that transfers do have a significant impact, with only a third reporting that there has been no significant impact.

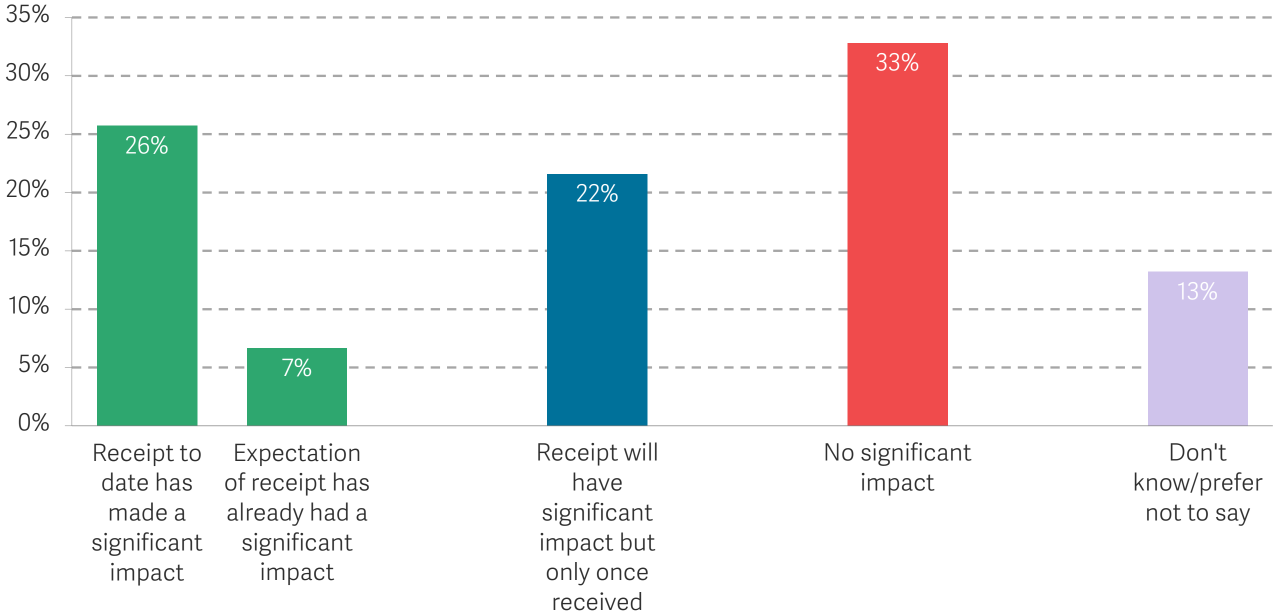
Crucially, the evidence also suggests that for most recipients a significant impact on their life only occurs once the transfer is received rather than in advance of receipt (22 per cent versus 7 per cent, respectively). From a theoretical perspective, future intergenerational transfers are part of someone's lifetime wealth and should affect economic decisions in advance of the transfers being received: for example, it might be rational for someone to borrow more to buy a house today because they expect

25 E Karagiannaki, The Impact of Inheritance on the Distribution of Wealth: Evidence from Great Britain, The Review of Income and Wealth, Vol 63, Iss 2, June 2017.

to receive a wealth transfer in the future. In practice though, this seems to apply only to a minority of transfer recipients. One explanation for this is that recipients are too uncertain about the scale and timing of transfers for them to have an impact prior to receipt. Indeed, Figure 4 showed that younger people were highly uncertain about whether they will receive transfers in the future. This is important because inheritances (in particular) are unlikely to be received early enough in people's lives to mitigate difficulties in getting on the property ladder.[26] It could also be caused by credit constraints: mortgage providers, for example, will not take into account potential future inheritances when approving loans.

FIGURE 15: **Most recipients report that transfers have a significant impact on their lives**

Proportion of recipients of intergenerational transfers reporting that it has or will have a significant impact on their life: UK, 2021



NOTES: Base = 2,818 – all those who have or expect to receive a transfer. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

Unsurprisingly, given the results above, receipt of a transfer appears often to be associated with concrete changes to how people live their lives, with a significant minority reporting otherwise impossible home purchases taking place. Figure 16 breaks down the proportion of adults who have already received a transfer by whether they have taken a range of actions as a result of receiving the transfer. Most striking is that 13 per cent of recipients report that they bought a home that would otherwise have been

26 For more see L Gardiner, The million dollar be-question: inheritances, gifts, and their implications for generational living standards, Resolution Foundation, December 2017; and A Corlett & F Odamtten, Hope to buy: The decline of youth home ownership, Resolution Foundation, December 2021.

impossible: this equates to approximately 6 per cent of all homeowners in the UK. This demonstrates both how significant transfers can be in creating life opportunities for some people, and how life circumstances and opportunities are increasingly reliant on the economic position of previous generations within a family. Given that it has become significantly harder to save for a deposit for a first-time buyer home since the large rises in property prices in the early 2000s, we would expect the proportion of prospective homeowners relying on receiving a gift or inheritance to increase over time.[27] In other words, the 6 per cent of current homeowners having relied on a transfer is likely an underestimate of the proportion of new purchasers relying on transfers today.

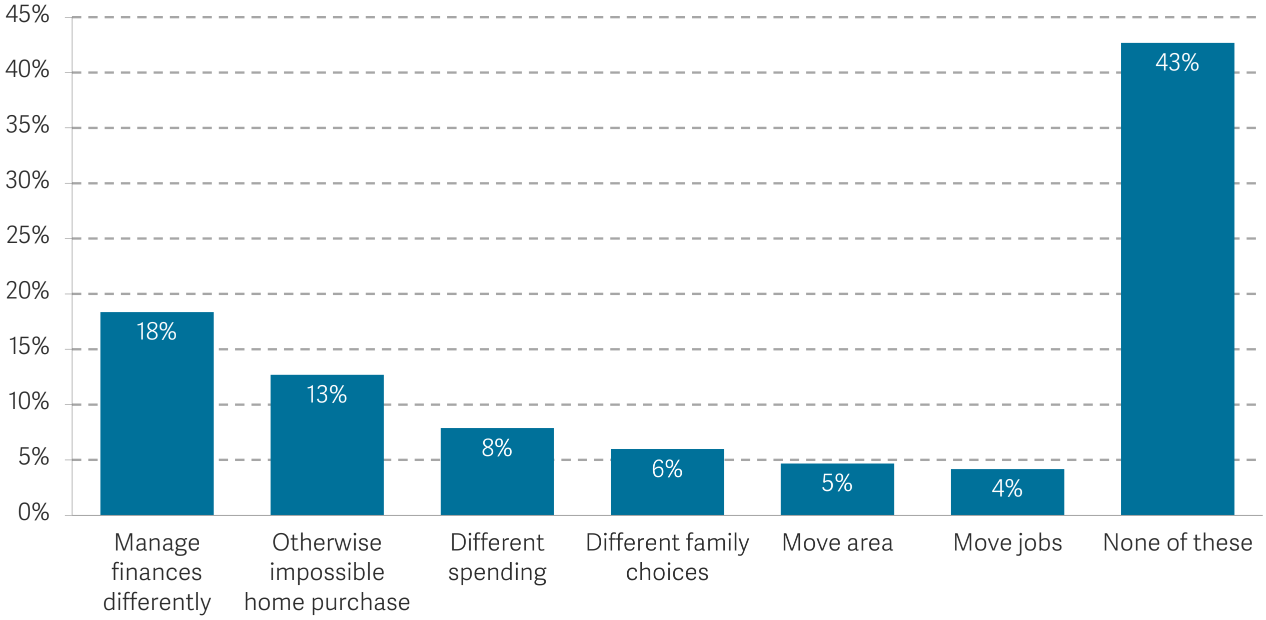
The impact of intergenerational transfers on behaviours are not isolated to the housing market; however, impacts on geographic mobility, family composition and the labour market are all less widespread. Figure 16 shows that 6 per cent of transfer recipients report making different family choices (this category includes the decision to have a child). Additionally, 5 per cent of recipients report moving area and 4 per cent report moving jobs as a result of the transfers.[28] Given the share of the population who have received a transfer, this suggests that around 1 to 2 per cent of the population live in a different area or work in a different job as a result of receiving additional wealth.

27 For more detail on the evolution of the costs and benefits of becoming a first-time buyer in the UK over time see: L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.

28 An important caveat to these estimates is that recipients may be less willing to move as a result of the receipt of a transfer (for example as a result of family connections becoming more important) and so these results could underestimate the scale of the impact of transfers on total mobility choices. For more on mobility around the UK see: L Judge, Moving matters: Housing costs and labour market mobility, Resolution Foundation, June 2019.

FIGURE 16: **A significant proportion of transfer recipients have purchased a home that otherwise would not have been possible**

Proportion of intergenerational transfer recipients who report changes to their behaviour: UK, 2021



NOTES: Respondents could select multiple options, so numbers do not add to 100 per cent. 'Don't know' and answers with low responses are not shown on the chart. Base = 2,818. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

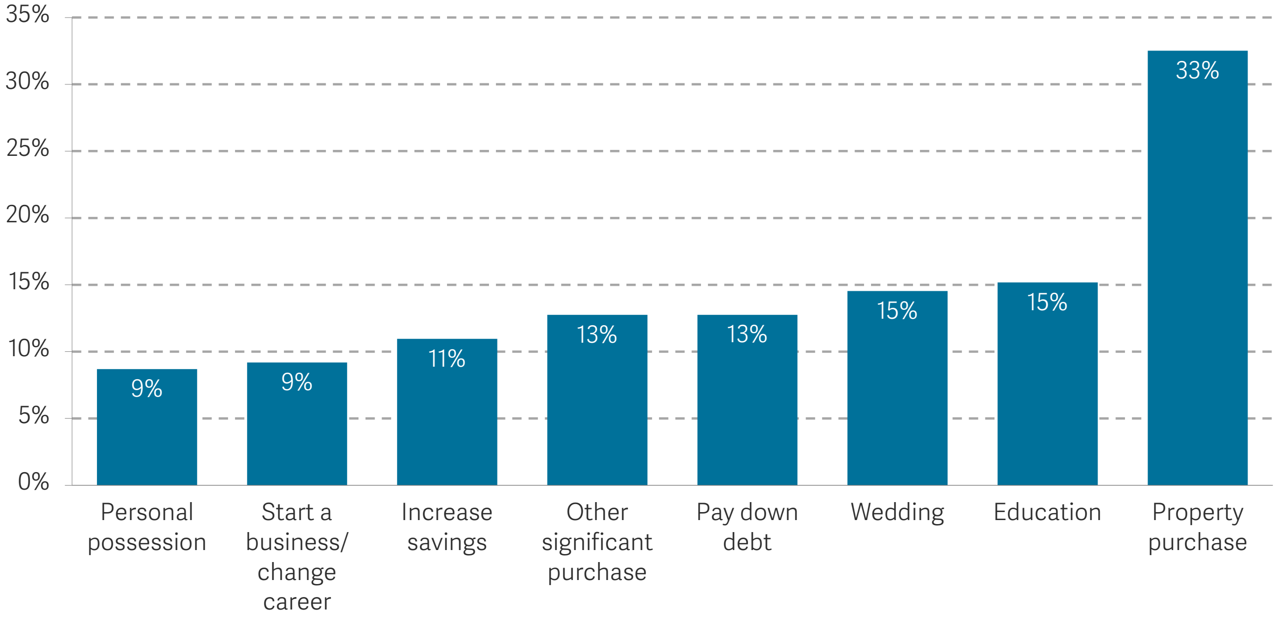
The desire to facilitate house purchases is the biggest single driver of intergenerational gifts

Figure 17 shows the breakdown in how those who have given intergenerational gifts wanted those gifts to be used. In line with how recipients used gifts, the largest single driver of gift-giving was for property purchases (33 per cent). However, as previous research has uncovered, there is a mismatch between how some recipients use transfers and how givers expect the transfers to be used.[29] For example, the proportion of people giving gifts to help increase savings was only 11 per cent, which is significant, but this is much lower than the proportion of recipients who report that this is what they actually used gifts for (33 per cent of those who have already received a transfer). These results also suggest that recipients and donors were not always thinking about the same gifts when responding to our survey: for example, 15 per cent of those giving wanted gifts to be used for weddings and education, but these uses were only cited by around 5 per cent of recipients.[30]

29 For a more in-depth discussion focusing on intergenerational wealth transfers between parents and children, see: K Scanlon et al., The Bank of Mum and Dad: How it really works, LSE, January 2019.
30 This could be driven by differences in views around what constituted a gift: for example, providing money for living costs at university might be considered a gift by the person providing the financing but not by the person receiving the support.

FIGURE 17: **Property purchases were the largest reason for giving an intergenerational gift**

Proportion of intergenerational gifts given for a specific purpose: UK, 2021



NOTES: Respondents could select multiple options, so numbers do not add to 100 per cent. 'Don't know' and answers with low responses have been excluded. Base = 620 for all those already having given a gift and provided a response to the question. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

Wanting to give gifts or leave inheritances drive a range of actions by the givers, particularly an increase in saving

Much of the existing research on inheritances focuses on the impact on the recipient, but there are material impacts on the behaviour of prospective givers. Figure 18 breaks down the proportion of adults who have already given a gift or intend to make a transfer in the future by what actions they took or will take to facilitate those transfers. Around half of givers report taking no action, but a significant minority took (or will take) a range of other actions, the most frequent of which (16 per cent) was saving more.[31]

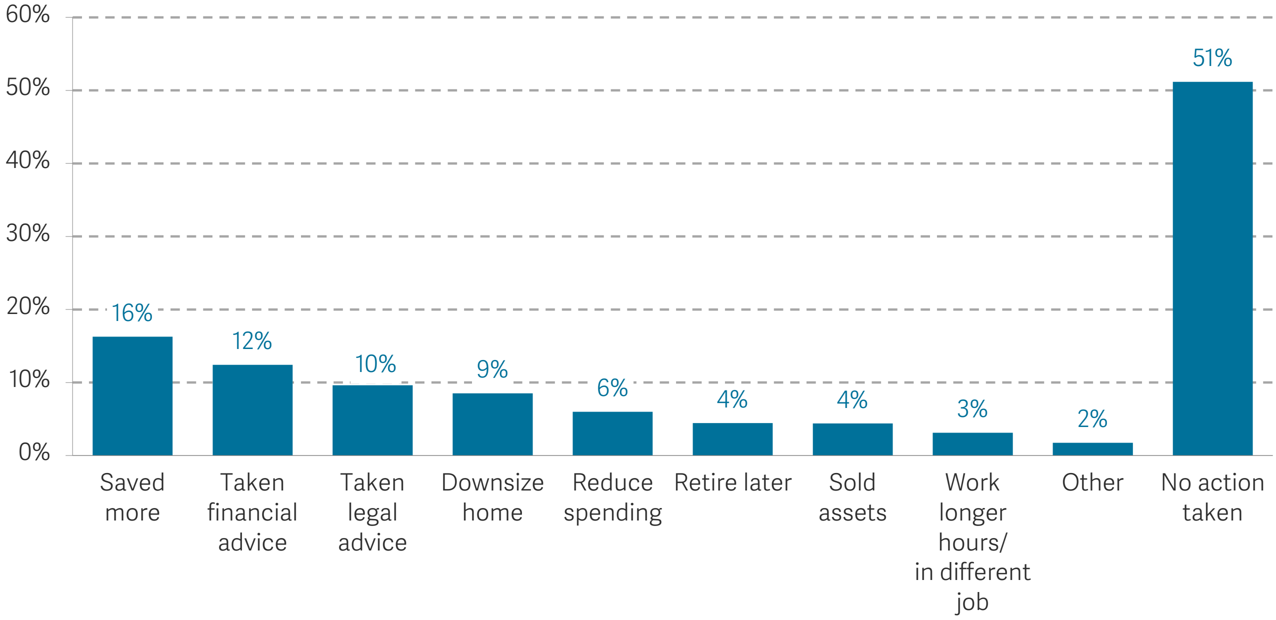
These results indicate a way that intergenerational issues can have broader repercussions on the way people live their lives. The clearest example here is that givers report wanting to help recipients with purchasing housing; as it has become harder to become a first-time buyer, that will feed into a stronger demand for saving, not just by younger people but also for some people in older generations who want to help

31 Previous research has highlighted that observed lifetime saving patterns can diverge from what a standard economic model suggests would be 'optimal' (see, e.g.: R Crawford & L O'Brien, Life-cycle patterns in pension saving, IFS, May2021). Saving more in order to make bequests or gifts later is an example of a savings motive which can shift saving patterns away from the typical 'accumulate during working years and decumulate during retirement' pattern.

members of the family buy a home.[32] But this is not the only behavioural response: 9 per cent of givers report having downsized or planning to downsize their home, and some respondents have made or intend to make changes to career plans (4 per cent retire later and 3 per cent work in a different job or longer hours) to afford the gift.

FIGURE 18: **A significant minority of people report taking actions to facilitate transfers**

Proportion of givers reporting taking or expecting to take actions to facilitate intergenerational transfers: UK, 2021



NOTES: Respondents could select multiple options, so numbers do not add to 100 per cent. 'Don't know' and answers with low responses have been excluded. Base = 3,081 for all givers; 'don't know' and 'prefer not to say' options are not shown on the chart. These figures have been analysed independently by the Resolution Foundation. 'No action taken' includes those planning to take no action and have taken no action to date.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

Naturally, many people who want to make transfers in the future are uncertain about how much they may be able to give. Figure 19 shows the proportion of people who intend to make a transfer (gift or inheritance) and are uncertain about the value of that transfer, by various reasons why they are uncertain. For older families, the potential cost of social care is cited by a large proportion (45 per cent of over 65-year-olds), while a higher proportion of younger people are more concerned about pension costs.[33] These findings were matched by results from the focus groups where there were widespread

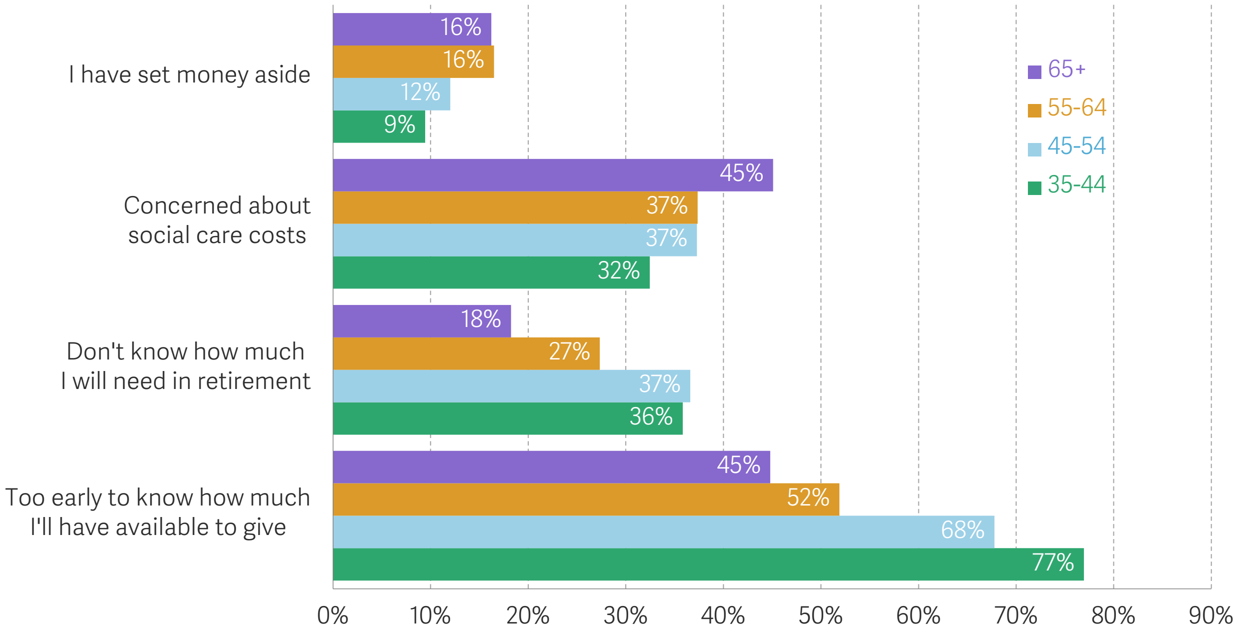
32 Policy changes can also have important effects here. For example, pension reforms since 2010 have increased the portion of pensions which can be inheritable. Although many be unaware of changes to how inheritance of pensions function in practice, the fact that pension wealth can be passed on could also be an influence on the amount that older families choose to spend or save. One way this could manifest would be a greater incentive to save into a pension because it has a greater chance of benefiting future generations directly. For more see D Thurley, Inheriting pension rights, House of Commons Library Briefing Paper 8635, April 2021.

33 The survey was collected after the Government's 2021 announcements to limit the contributions some people will make towards social care, but before these changes have been implemented.

concerns about the potential costs of social care; the focus groups were conducted after the Government announced reforms to the payment for social care in 2021, but no participant said that they had changed their views as a result of the new plans to limit care costs.

FIGURE 19: **Older families are concerned about care costs while younger families are more likely to worry about future pension requirements**

Proportion of givers who report each reason as causing uncertainty/certainty around gift value, by age: UK, 2021



NOTES: Respondents could select multiple or no options, so numbers do not add to 100 per cent. Base = 2,729. These figures have been analysed independently by the Resolution Foundation. The Government announced changes to social care in England prior to this survey being conducted, however it is worth noting that this survey covers the UK as a whole, rather than just England.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

A final significant driver of behavioural effects relating to intergenerational transfers is the existence of inheritance tax. Inheritance tax can theoretically drive families' decisions in a number of ways; most clearly, the current design of inheritance tax in the UK means that, if someone gives a gift prior to death, part of the value is not included in the taxable estate.[34] There are also financial schemes, including various forms of relief (e.g. Business Relief), that can reduce tax liabilities as well.

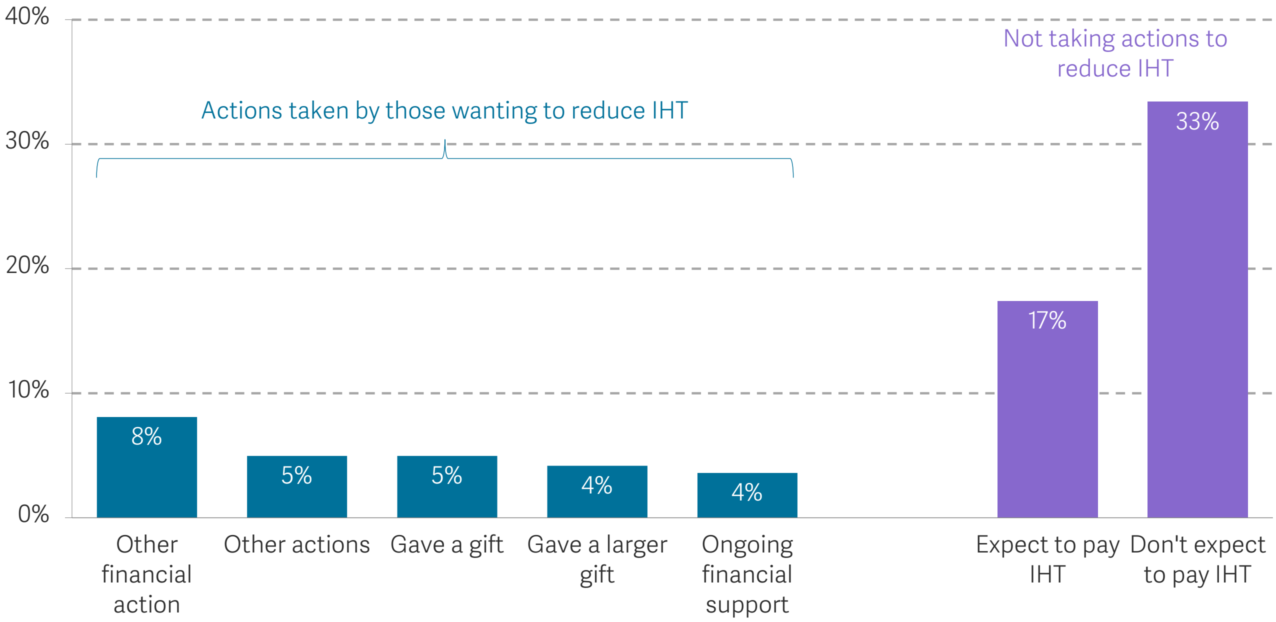
Figure 20 provides a quantitative estimate of the extent to which adults intending to make transfers in the future have taken actions as a result of inheritance tax. A third

34 The proportion of the gift excluded from the estate depends on the length of time between giving the gift and death, scaling up to the entire value after seven years. In addition to the gift allowance, there is an allowance for ongoing support payments. For more discussion of inheritance taxes, particular with respect to main residences, see: A Corlett & J Leslie, Home county: Options for taxing main residence capital gains, Resolution Foundation, December 2021.

of that group are not expecting to pay inheritance tax and have not taken actions as a result, and 17 per cent report expect to pay the tax but still have not acted. For those taking actions, relatively few report using the simplest methods of reducing tax payment (namely: giving larger gifts or providing ongoing payments). However, what is striking from these results is the disconnect between the proportion expecting to pay the tax and how many estates have tended to pay inheritance tax in the past. In 2020-21, 4.3 per cent of deaths were subject to inheritance tax; this is expected to rise to 6.5 per cent by 2026-27, partially as a result of the freeze in the inheritance tax threshold but mostly as a result of rising value of estates.[35] But these numbers are far below the proportion of people expecting to pay inheritance tax in our survey: 12 per cent of all adults. This suggests the tax has a wider impact on decisions than might be assumed from just considering the proportion of estates affected.

FIGURE 20: **Inheritance tax is a material driver of decisions that prospective givers take**

Proportion of givers taking actions, or not, as a result of inheritance tax: UK, 2021



NOTES: IHT refers to Inheritance tax. 'Don't know' and 'prefer not to say' responses are not shown on the chart. NOTES: 3,081, don't know and prefer not to say options are not shown on the chart. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Inheritances and intergenerational wealth transfers December 2021.

35 For more detail see OBR, Economic and fiscal outlook, October 2021.

Conclusion

This report sets out the wide-ranging effects that intergenerational wealth transfers are having on families living in modern Britain. On the scale of the issue, we found that rising asset prices, an ageing population and increasing difficulties in saving for a first-time buyer home deposit are all contributing to increasing wealth flows. The proportion of adults who have received or expect to receive a transfer coming in the form of a gift rises from 10 per cent of the over 65s to around four-in-ten of 18-24-year-olds, and older people's expectations of their bequest behaviour implies that inheritances will roughly double over the next two decades.

With wealth transfers between generations increasing, it becomes increasingly important to understand their effects on society. Rising asset prices and the commensurate difficulty in saving for a house deposit mean that household wealth is now a more important driver of lifetime living standards than in the past. Higher wealth also provides opportunities and acts as a financial buffer, insulating households from financial shocks. It is therefore concerning that there is such a large difference in the probability of receiving a transfer based on pre-existing wealth and income; the highest fifth of earners are roughly twice as likely to receive a significant transfer as the lowest fifth of earners – and the gap across the wealth distribution is even larger. This shows that the UK is at risk of entrenching economic advantage for the already well-off and creating barriers for future social mobility.

Our original survey provides clear evidence of the impact of gaps in wealth between families on life outcomes. Recipients of transfers primarily use them for housing and to improve their financial resilience: 6 per cent of homeowners say that they would have been unable to purchase property without a wealth transfer. This proportion is only set to increase as high house prices and the commensurate deposit requirements continue to make it difficult to get on the housing ladder without some form of family help. Crucially, the benefits to those who receive transfers are typically only experienced after the transfer has been made rather than in advance (e.g. as a result of borrowing more money knowing that there will be future wealth inflows to the family). This means that, even for those who receive transfers through an eventual inheritance, transfers may come too late in life to ameliorate difficulties in becoming homeowners, and credit markets do not allow people to borrow against future inheritances. Therefore, policy makers cannot rely on the wealth of 'baby boomers' to be passed on soon enough for youth home ownership to rise significantly from current levels.

One important takeaway from our findings is that issues such as difficulties in getting on the property ladder do not just affect individual generations in isolation – they have ramifications across society. Older generations have a strong desire to help younger people within their families, manifesting in around half of people of retirement age expecting to leave an inheritance or give a significant gift. While not ubiquitous, it is common for this group to take actions now in order to facilitate those transfers later, including saving more (16 per cent of givers), downsizing houses (9 per cent) and even changing career decisions. This shows how important it is to consider economic issues through an intergenerational lens.

The trends underlying the results in this report are unlikely to reverse in the near future. Given this, the need to understand the impact that intergenerational trends have on UK families' lives is increasing, and something that the Resolution Foundation will be doing over the next five years as part of the ESRC-funded Connecting Generations centre.[36] Such research will help policy makers understand better the impact intergenerational trends have on UK families' lives and how problems created by rising wealth gaps between families can embed a lack of opportunity for a large proportion of people in the UK.

36 This will begin in April 2022. See: CPC, Connecting Generations, 2022.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

For more information on this report, contact:

Jack Leslie
Senior Economist
jack.leslie@resolutionfoundation.org

Resolution Foundation, 2 Queen Anne's Gate , London, SW1H 9AA

Charity Number: 1114839 | resolutionfoundation.org/publications