

Inheritances and Inequality across and within Generations

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Executive Summary

The growing importance of inherited wealth

Elderly households now have much more wealth than households of the same age a decade ago.

Among households where all members are 80 or older, average real non-pension wealth in 2012–13 was £230,000, compared with £160,000 for the same age group in 2002–03.

An increased proportion of elderly households intend to leave a large inheritance.

In 2012–13, 44% of elderly households expected to leave an inheritance of £150,000 or more, compared with just 24% in 2002–03.

Younger generations are much more likely to expect to receive an inheritance than their predecessors.

Of those born in the 1970s, 75% either have received or expect to receive an inheritance, compared with 68% of those born in the 1960s, 61% of those born in the 1950s, 55% of those born in the 1940s and less than 40% of those born in the 1930s.

Current pensioners: who inherited?

People with higher incomes over their lifetimes are also more likely to receive an inheritance.

Looking at a group of individuals born in England in the 1930s and 1940s, 64% of the highest-income fifth (top quintile) have benefited from an inheritance, compared with 32% of the lowest-income fifth (bottom quintile).

Among heirs, those with higher incomes inherit more on average.

Looking at the same group, mean inheritance among heirs averaged £150,000 for the top quintile, but less than £100,000 for everyone else. Combined with being more likely to receive an inheritance at all, this meant the top quintile inherited four times as much on average as the bottom quintile (£100,000 compared with £25,000).

Those with the highest lifetime incomes are much more likely to have received an extremely large inheritance.

Nearly 10% of those in the top lifetime income quintile have inherited more than £250,000, compared with around 1% of those in the bottom three quintiles. In other words, more than half of those who have inherited more than £250,000 are also in the top lifetime income quintile.

As a proportion of lifetime income, inheritances are largest for the highest- and lowest-income individuals.

Lifetime inheritances are 4.4% of net lifetime income for the top quintile and 3.6% for the bottom quintile, compared with around 2% for the second and third lifetime income quintiles.

These inheritances can be significant multiples of annual income from employment, particularly for low earners.

Across the group as a whole, 12% have inherited more than 5 years' worth of net earnings and 4% have inherited more than 10 years of net earnings. But among the lowest-earning fifth, those figures rise to 16% and 9% respectively.

Younger generations: who will inherit?

The wealth of elderly households is extremely unequally distributed.

The top half of households where all members are 80 or older hold 90% of the wealth, and the top 10% hold 40% of the wealth. Hence a 'lucky half' of younger households look likely to get the vast majority of the inherited wealth from the older generation.

In younger generations, those with higher current incomes are significantly more likely to have received an inheritance or expect to receive one at some point in future.

Among those born in the 1970s, 87% of those in the top income quintile have received or expect to receive an inheritance, compared with 58% of those in the bottom income quintile.

Inheritances have become more important for both low- and high-income households.

The poorest fifth of those born in the 1970s are more likely to have received or expect to receive an inheritance than the highest-income fifth of those born in the 1930s.

1. Introduction

Unless we deal with the housing deficit, we will see house prices keep on rising. Young people will find it even harder to afford their own home. The divide between those who inherit wealth and those who don't will become more pronounced.

Theresa May, 11 July 2016¹

In the speech that launched her campaign to become leader of the Conservative Party, the Prime Minister expressed concern about a growing divide between those who inherit wealth and those who do not. The wealth of younger generations is falling behind the wealth that their predecessors had at the same age, and working-age incomes have been struggling for many years.² Meanwhile, rising house prices (among other factors) have boosted the wealth of older generations in particular. The net result is that receipts of inheritances are likely to be much more important for the current young than they were for older generations,³ both in absolute terms and relative to the other sources of income and wealth that they have. This naturally leads to concerns about inequality – since inheritances are very unequally distributed – and social mobility – since the growing size and importance of inheritances will benefit the children of wealthier parents.

In Section 2 of this briefing note, we combine information on the wealth holdings of elderly households, their intention to leave that wealth to future generations, and younger generations' expectations of receiving inheritances, to document the growing importance of inheritances.

In Section 3, we investigate what impact we can expect inheritances to have on inequality within generations of people who are currently of working age. First, we examine the patterns of actual inheritance receipt that we saw among pensioners, using detailed survey data on older individuals linked to their lifetime earnings histories from administrative National Insurance records. Second, we combine information on the distribution of current wealth holdings of elderly households and how younger generations' expectations of receiving inheritances relate to their income, to say what we can about how the inheritances younger generations receive in future will affect inequality among that group.

Section 4 briefly concludes.

¹ <http://www.ukpol.co.uk/2016/07/11/theresa-may-2016-speech-to-launch-leadership-campaign/>.

² J. Cribb, A. Hood and R. Joyce, 'The economic circumstances of different generations: the latest picture', IFS Briefing Note 187, 2016, <https://www.ifs.org.uk/publications/8583>.

³ See chapter 4 of A. Hood and R. Joyce, *The Economic Circumstances of Cohorts Born between the 1940s and the 1970s*, IFS Report R89, 2013, <https://www.ifs.org.uk/publications/7007>.

2. The Growing Importance of Inheritances

The inheritances that younger generations receive will depend on the wealth of the current elderly and on how much of that wealth is passed down to the next generation. In this section, we combine data on the wealth holdings of elderly households (and how these have changed over time), their intentions with regard to leaving an inheritance, and younger generations’ expectations of receiving an inheritance, to provide strong evidence that inheritances will be a more important source of economic resources for younger generations than they were for their predecessors.

Figure 1. Mean net non-pension wealth of households where all members are 80 or older



Note: Households containing more than one benefit unit are excluded from the sample. Figures are adjusted for inflation using a variant of the CPI that includes mortgage interest payments. England only.

Source: Authors’ calculations using ELSA, waves 1 and 6.

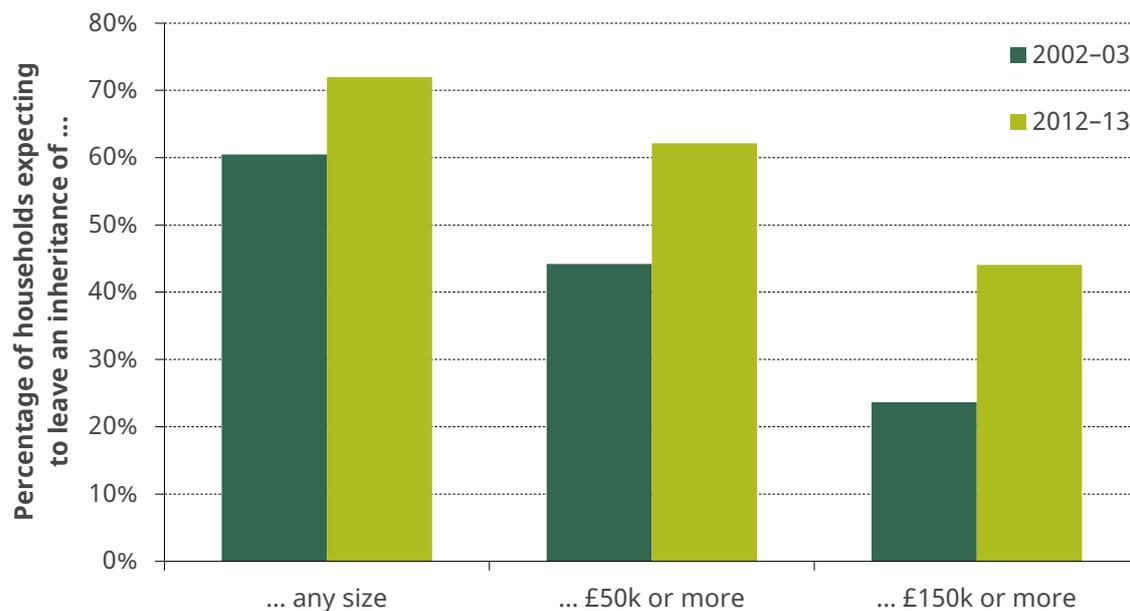
The first key fact is that today’s elderly households have much more wealth than elderly households had even a decade ago. This is illustrated by Figure 1, which shows the average (mean) non-pension wealth of households where all members are 80 or older. In 2002-03, the average household wealth of this group was £160,000, of which £110,000 was accounted for by the value of primary residences. A decade later, the average household wealth of the same age group was 45% higher, at £230,000. As the figure shows, this increase is mostly due to a rise in primary housing wealth, from £110,000 to £160,000. This increase was the result of both rising house prices (average real house prices in the UK rose from £150,000 to £170,000 over that decade) and an increase in the homeownership rate of elderly households (from 60% in 2002-03 to 71% in 2012-13).⁴ And this rise in the housing wealth of elderly households was not confined to London and the South East: in

⁴ Sources: house prices – authors’ calculations using Nationwide house price index; homeownership rate – authors’ calculations using English Longitudinal Study of Ageing (ELSA), waves 1 and 6.

fact, the rate of increase was similar in the rest of England (although average housing wealth remained much lower than in London and the South East).

The implication of that increase in wealth for the inheritances younger generations will receive depends on what the current elderly intend to do with their wealth. Figure 2 provides evidence that higher wealth has indeed fed through to an intention to leave more wealth to their children. Focusing again on households where all members are 80 or older, it shows the percentage of households expecting to leave any inheritance, expecting to leave more than £50,000 and expecting to leave more than £150,000 in both 2002–03 and 2012–13.⁵ Note that the monetary amounts stay the same in cash terms over time (this is how the underlying survey questions were asked), and so some of any increase in the percentages can be explained simply by inflation. The share of elderly households expecting to leave some inheritance has increased from 60% in 2002–03 to 72% in 2012–13, and the share expecting to leave at least £50,000 has risen from 44% to 62%. But perhaps most dramatic is the near-doubling of the share of elderly households expecting to leave at least £150,000 in inheritance, from just 24% in 2002–03 to 44% in 2012–13. Of course, not all those who intend to leave a large inheritance will in fact do so: for example, unexpected costs associated with end-of-life care might leave some households with less wealth to bequeath than they expected.

Figure 2. Percentage of households where all members are 80 or older expecting to leave an inheritance of different sizes



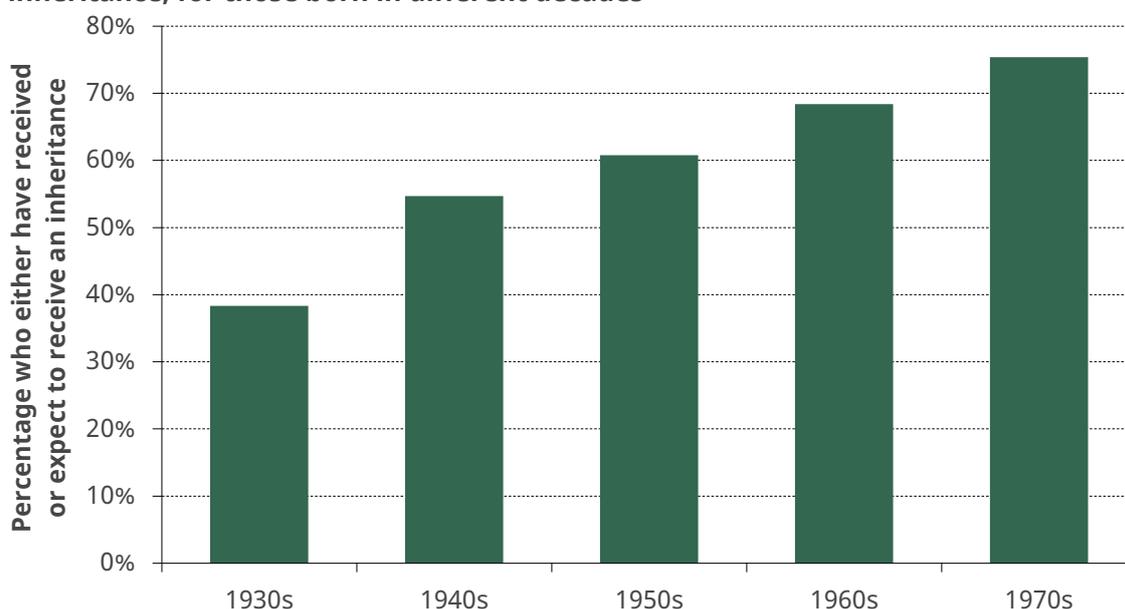
Note: Households containing more than one benefit unit are excluded from the sample. Figures are adjusted for inflation using a variant of the CPI that includes mortgage interest payments. England only.

Source: Authors' calculations using ELSA, waves 1 and 6.

⁵ Expectation questions are asked to each individual, but for those living in couples they elicit the probability of either the individual or their partner leaving an inheritance, so we take the average of the expectations of the two members of a couple. The figure will slightly understate the share of households expecting to leave any inheritance, as those reporting a positive probability of leaving £50,000 or more are not asked for their expectation of leaving any inheritance, and so we simply use the probability that they will leave at least £50,000.

This increase in the proportion of elderly households expecting to leave an inheritance is matched by an increase in the proportion of younger generations expecting to receive one. Figure 3 shows the share of individuals born in different decades (different ‘cohorts’) who either have received or expect to receive an inheritance (including inheritances received or expected by other members of their household). For those born in the 1950s or earlier, this is calculated using the English Longitudinal Study of Ageing (ELSA). For those born in the 1960s and 1970s, the calculations are made using the Wealth and Assets Survey (WAS), as data on those cohorts are not available in ELSA.⁶ For those cohorts for which data are available in both surveys, the relative importance of inheritances across cohorts looks similar (although the absolute proportions that have received or expect to receive an inheritance are slightly lower in WAS).

Figure 3. Percentage of individuals who either have received or expect to receive an inheritance, for those born in different decades



Note: Figures for 1930s, 1940s and 1950s cohorts are calculated using ELSA and figures for 1960s and 1970s cohorts are calculated using WAS (see text for further details). Inheritances received or expected by other household members are also included. England only.

Source: Authors’ calculations using ELSA, wave 6, and WAS, various years.

The trend shown by Figure 3 is clear. The proportion of individuals who have received or expect to receive an inheritance has risen rapidly across cohorts: of those born in the 1970s, 75% either have received or expect to receive an inheritance, compared with 68% of those born in the 1960s, 61% of those born in the 1950s, 55% of those born in the 1940s and less than 40% of those born in the 1930s. In other words, the share of individuals who have received or expect to receive an inheritance has doubled between those born in the 1930s and those born in the 1970s. Of course, it is possible that some of the expectations of younger generations may not be realised. But the much higher homeownership rates

⁶ In WAS, we define an ‘expected inheritance’ as one that is deemed ‘fairly likely’, ‘very likely’ or ‘definite’. In ELSA, we simply use the subjective probability elicited by the survey. In both cases, we assume that each member of the household gives their subjective likelihood of receiving an inheritance themselves, and that if one member of a household receives an inheritance this does not have an impact on the chance of the other members receiving an inheritance.

among the parents of younger generations provide at least one good reason to expect a much greater share of those generations to inherit.

In summary, there is strong evidence that inheritances will be much more important for younger generations. The proportion of individuals who have either received or expect an inheritance has roughly doubled between those born in the 1930s and those born in the 1970s. And inheritances are also likely to be larger relative to other sources of income for younger generations. The average wealth of elderly households (where all members are 80 or older) increased by 45% between 2002–03 and 2012–13. Over that same decade, median household income among those aged between 30 and 59 did not increase at all.⁷

⁷ Source: authors' calculations using Family Resources Survey, 2002–03 and 2012–13.

3. Inheritances and Inequality within Each Generation

Having demonstrated the growing importance of inheritances for younger generations overall, we now assess their likely impact on inequalities *within* generations. In the first part of this section, we focus on inheritances and inequality among current pensioners – most of whom have already received any inheritances that they will get. In the second part, we look at inheritances (received and expected) and inequality among the current working-age population.

3.1 Inheritances and inequality among current pensioners

The first way of getting a sense of how inheritances might ultimately be distributed among younger generations is to look at how they were distributed among the older generation. In this subsection, we look at how the amount current pensioners inherited over the course of their lives varies with the amount of income they received over their lives.⁸

‘Lifetime income’ is calculated by adding together total after-tax earnings between the ages of 18 and 65, total expected income from the state pension (given life expectancy) and total expected income from private pensions (again given life expectancy).⁹ We assume that people received the relevant rate of jobseeker’s allowance (JSA) in periods when their earnings were below that level and include that in our measure of income, but we do not include other sources of unearned income because data on these income sources are not available.¹⁰ When adding up income across different periods, we adjust for CPI inflation and in addition, as is standard, we apply a real discount rate (of 3% per year) to account for the fact that income received earlier is of more value than income received later.

⁸ In previous work (R. Crawford and A. Hood, ‘Lifetime receipt of inheritances and the distribution of wealth in England’, *Fiscal Studies*, 2016, 37, 55–75), we have looked at the impact of lifetime inheritances on the distribution of wealth. We found that while inheritances reduce inequality in marketable wealth, this effect disappears once state and private pension wealth are included. However, as we have previously argued (in section 5 of R. Crawford and A. Hood, ‘A tale of three distributions: inheritances, wealth and lifetime income’, IFS Working Paper W15/14, 2015, <https://www.ifs.org.uk/publications/7694>), the effect of inheritances on wealth inequality is unlikely to be a reliable guide to their impact on inequality in lifetime economic resources (primarily because the rich save more). It is for that reason that we look here at the relationship between lifetime inheritances and lifetime income.

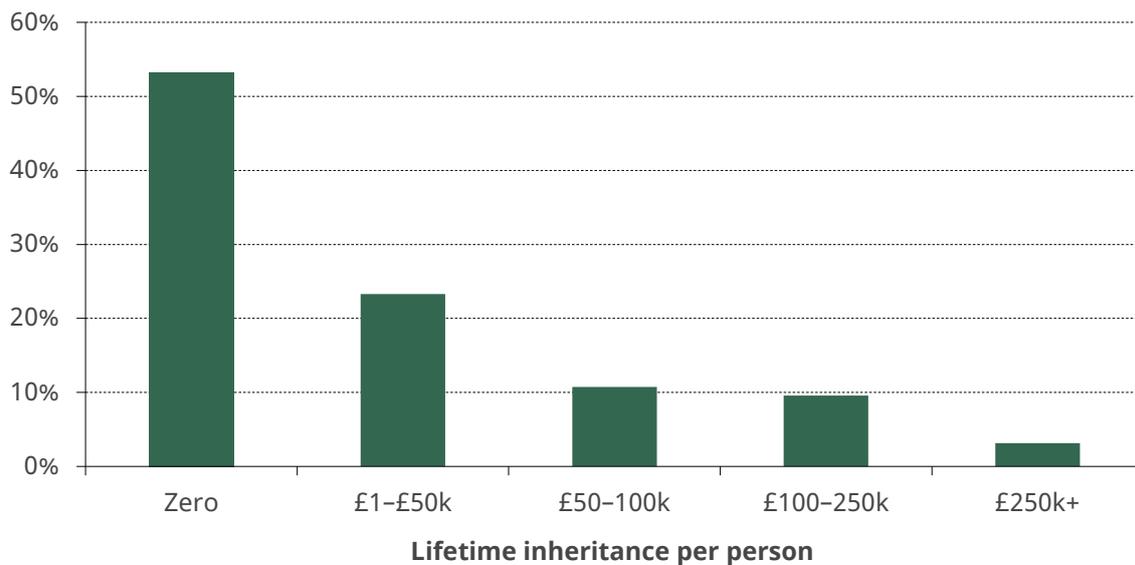
⁹ Ideally, we would exclude any private pension income that was the result of contributions made out of net earnings (to ensure that the income is not double-counted, when it is earned in working life and then enjoyed in retirement), but since this is unknown we make the assumption that all pension contributions were either made by the employer or came from gross earnings. This is likely to be a reasonable approximation for this cohort of individuals.

¹⁰ For further details on how this measure of lifetime income is constructed, including the estimation of full earnings histories, see section 2 and appendix A of R. Crawford and A. Hood, ‘A tale of three distributions: inheritances, wealth and lifetime income’, IFS Working Paper W15/14, 2015, <https://www.ifs.org.uk/publications/7694>. The only significant difference between the methodology laid out there and that used in this briefing note is that ELSA data (covering the period from 2002–03 to 2012–13) are used to complete the earnings histories from administrative records (which only cover the period up to 2002–03).

We are able to calculate these measures of lifetime income and lifetime inheritances for a group of individuals born in the 1930s and the 1940s, using a combination of data from the English Longitudinal Study of Ageing and linked administrative National Insurance records. This link is not available for all individuals in the data and provides insufficient information for others. Full details of the sample selection are given in the appendix. The main way in which the sample is unrepresentative is that we cannot include divorced or widowed individuals (since we do not know the past earnings or inheritances of a deceased or previous partner). For pensioners in couples, we take a family-level view: we add together the incomes and inheritances of both members of the couple, and then express both incomes and inheritances in per-person terms (i.e. we divide them in half).

Figure 4 shows the distribution of inheritances this group of current pensioners have received over the course of their lives. For this generation, inheritances were not a significant source of economic resources for the majority of individuals. Around half have not benefited from inheritances at all, and a further 23% have received less than £50,000. On the other hand, a small number of individuals have received very substantial inheritances: 10% have received between £100,000 and £250,000, and 3% have inherited more than £250,000, over the course of their lives.

Figure 4. Distribution of lifetime inheritances per person

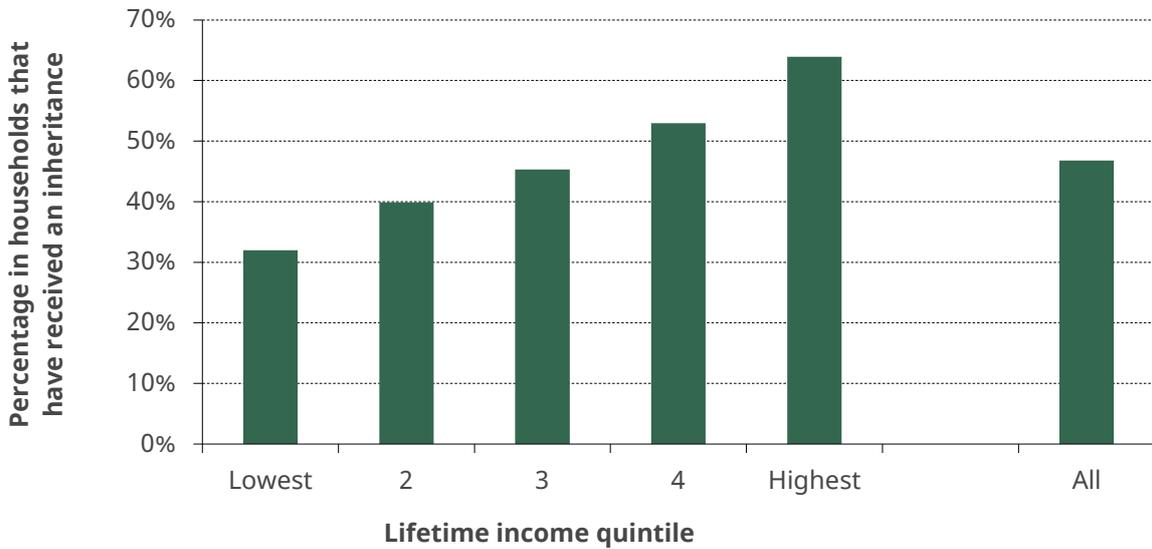


Note: Sample of individuals aged 65 to 80 in ELSA wave 6. Only those individuals for whom household earnings can be satisfactorily calculated are included. Lifetime totals are calculated using a 3% real discount rate, with inflation measured using a variant of the CPI that includes mortgage interest payments. England only.

Source: Authors' calculations using ELSA, wave 6.

Figure 5 shows how the chance of receiving an inheritance varies with lifetime income. We divide our sample of current pensioners into five equally-sized groups (quintiles) according to the lifetime income of their household (as defined above) and plot the share of individuals in each group who have received an inheritance (including inheritances received by a partner). The figure shows that, on average, about half of this group have received an inheritance, and the likelihood of inheriting is strongly related to lifetime income: those in the highest-income fifth are twice as likely to have received an inheritance as those in the lowest-income fifth (64% compared with 32%).

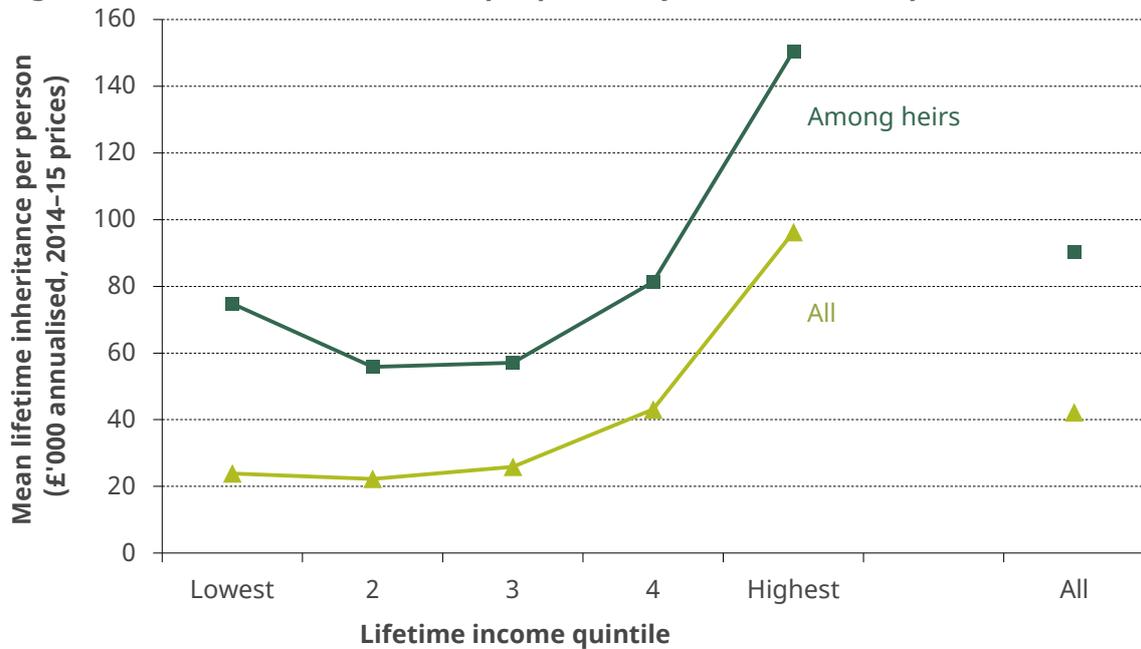
Figure 5. Percentage of individuals who have received an inheritance, by lifetime income quintile



Note: Sample of individuals aged 65 to 80 in ELSA wave 6. Only those individuals for whom household earnings can be satisfactorily calculated are included. Lifetime totals are calculated using a 3% 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). England only.

Source: Authors' calculations using ELSA, various waves, and linked administrative data.

Figure 6. Mean lifetime inheritance per person, by lifetime income quintile



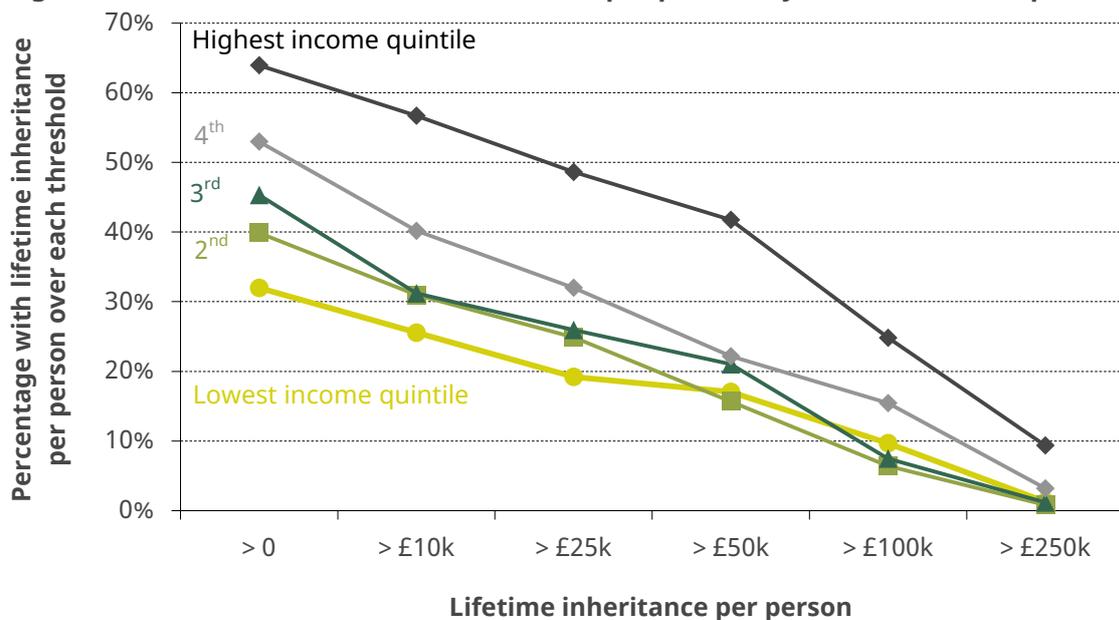
Note and source: See Figure 5.

As well as being more likely to receive an inheritance, individuals with the highest lifetime incomes also receive larger inheritances on average. Figure 6 shows the mean value of lifetime inheritances across lifetime income quintiles, both for the whole sample and just among those who have inherited something (heirs). Looking first at average inheritances among heirs, it is noticeable that those in the top quintile inherited much more on average – around £150,000 per person – than those in the other four quintiles, who received an average of between £55,000 and £80,000 per person. Outside the top quintile, however, there is no consistent relationship between lifetime income and the average size of inheritance among heirs, even though the likelihood of being an heir in the first place does increase steadily with income.

Putting all this together, Figure 6 also shows the pattern of average lifetime inheritances by lifetime income across all individuals (heirs and non-heirs). Across the bottom half of the lifetime income distribution, average lifetime inheritance is between £20,000 and £25,000. This nearly doubles to an average of £43,000 in the fourth quintile, and then more than doubles again to an average of £96,000 in the top quintile. In an absolute sense, inheritances have clearly increased inequality among this generation – those with higher lifetime incomes have inherited much more, on average.

The higher average lifetime inheritances of those in the top lifetime income quintile are in part driven by the fact that they are much more likely to have received a very large inheritance than those with lower lifetime incomes. This is illustrated by Figure 7, which plots the proportion of individuals in each quintile who have inherited more than a number of different cash thresholds. For example, it shows that 40% of those in the top lifetime income quintile have inherited over £50,000, compared with around 20% of those in the other four quintiles. Perhaps most striking is the fact that nearly 10% of the top lifetime income quintile have inherited over £250,000. This compares with 3% of those in the fourth quintile, and around 1% of those in the bottom three quintiles.

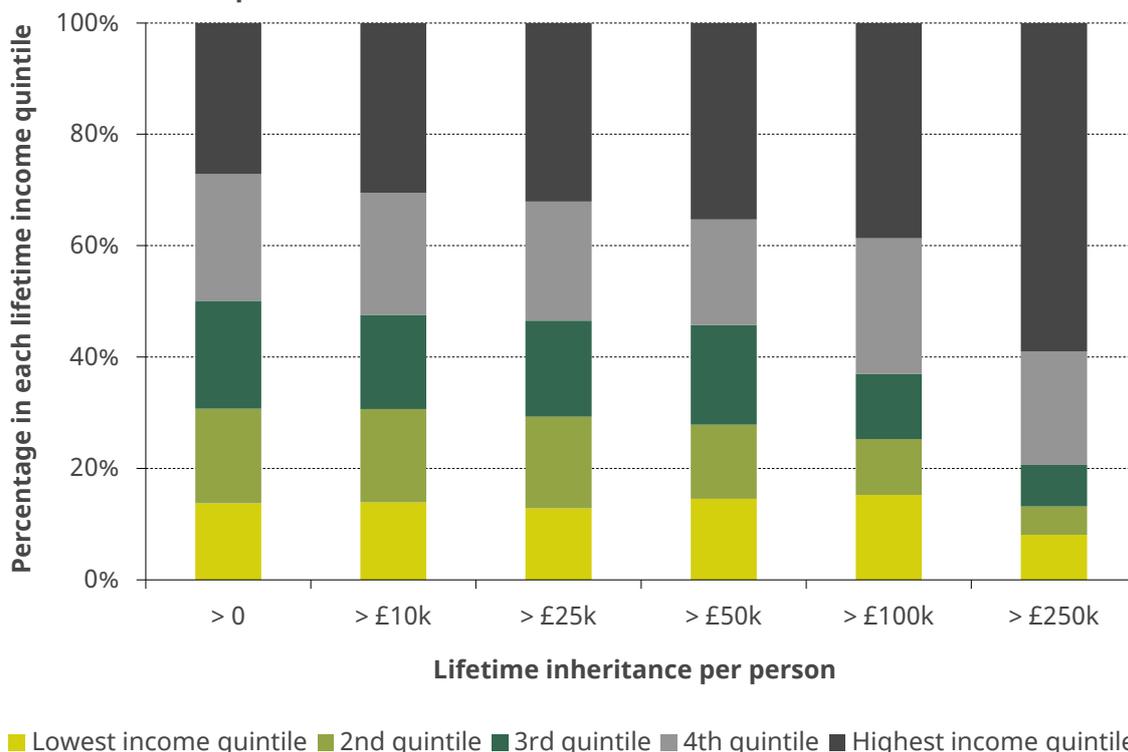
Figure 7. Distribution of lifetime inheritance per person, by lifetime income quintile



Note and source: See Figure 5.

Figure 8 provides an alternative way to look at the relationship between lifetime income quintile and lifetime inheritance shown in Figure 7. It shows how likely an individual is to end up in each fifth of the lifetime income distribution, conditional on inheriting a certain amount (note that these two things are not automatically related as inheritances are not included in our measure of lifetime income). For example, those who inherit something are around twice as likely to be in the highest-income fifth of the population (27%) as in the lowest-income fifth of the population (14%). Again, it is the strong relationship between the very large inheritances and high lifetime incomes that is the most striking. If an individual has inherited more than £250,000 over the course of their lives, they have a 60% chance of also being in the highest-income fifth of the population.

Figure 8. Share of individuals in each quintile of lifetime income, by lifetime inheritance receipt

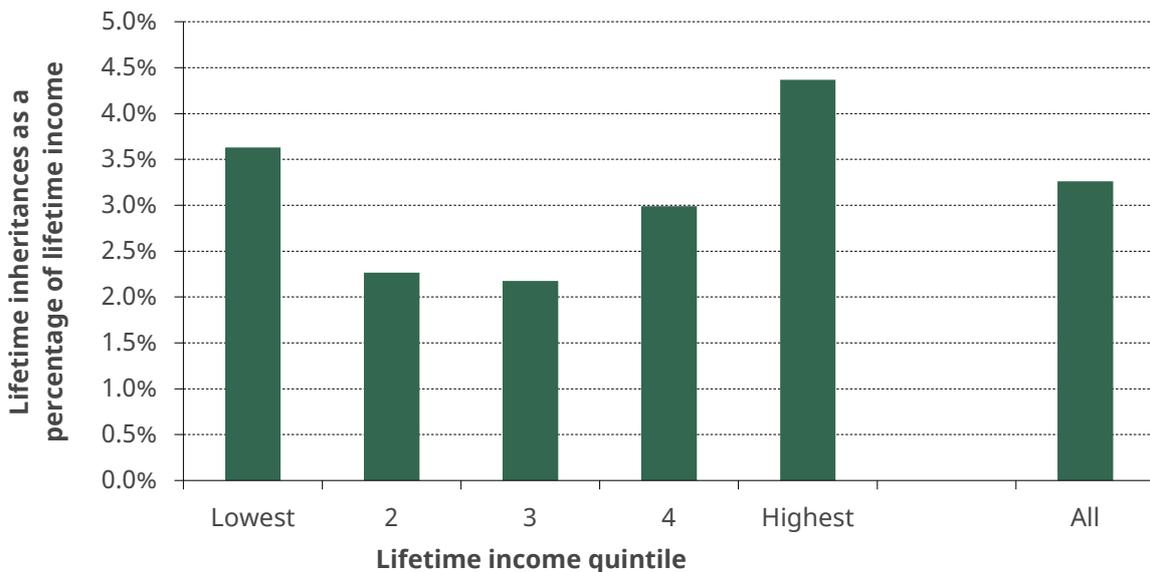


Note and source: See Figure 5.

In order to assess the impact that inheritance receipt has had on lifetime inequality among this group of current pensioners, it is useful to consider inheritances not only in absolute terms but also as a proportion of lifetime income. This comparison is provided by Figure 9, which shows lifetime inheritances as a percentage of lifetime income for each quintile of the lifetime income distribution. The first thing to note is the scale – while average inheritances among this generation are quite large in cash terms, they are a relatively small fraction of the total income from earnings and pensions these individuals have received (and expect to receive) over the course of their lives (3.3% on average). The figure shows that lifetime inheritances are the biggest share of lifetime income for the top income quintile, at 4.4%. But rather than that share declining gradually with lifetime income, the figure depicts a ‘U shape’: lifetime inheritances are nearly twice as large as a share of lifetime income for the bottom quintile (3.6%) as for the second and third quintiles (around 2%). This is the result of the fact that average inheritances are broadly

similar across the bottom half of the lifetime income distribution in cash terms: because the bottom quintile have lower lifetime incomes, the same cash-terms inheritance is a larger share of lifetime income for that group. To the extent that we were able to include working-age benefits (other than JSA) in our measure of lifetime income, the 'U shape' would become less pronounced, as those benefits would provide the largest boost to the incomes of those with the lowest lifetime incomes on our measure.

Figure 9. Lifetime inheritances as a share of lifetime income, by lifetime income quintile



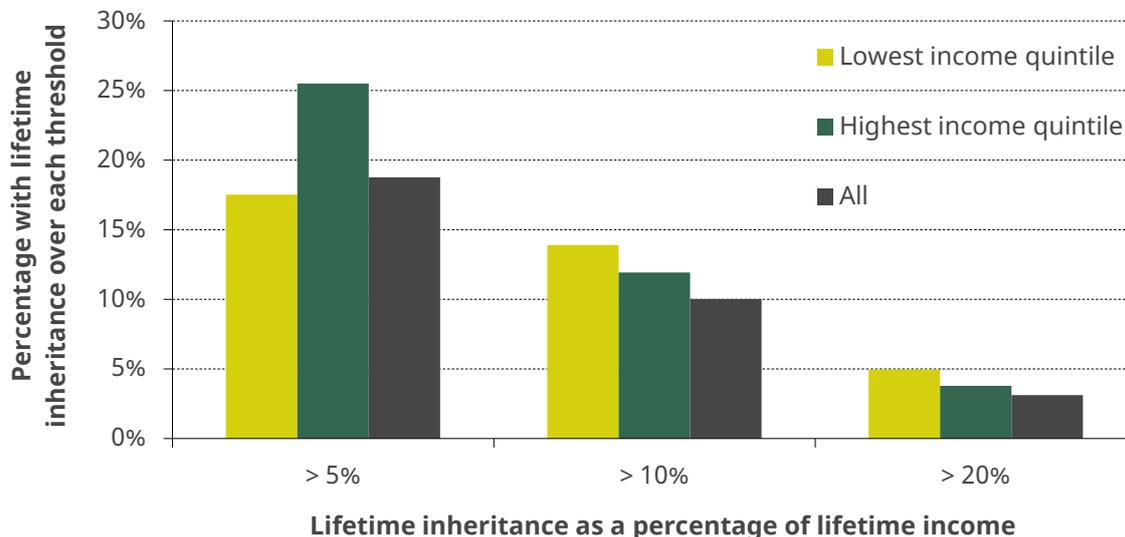
Note and source: See Figure 5.

The relative importance of lifetime inheritances for the top lifetime income quintile is driven by the fact that a large share of that group have received substantial inheritances. By contrast, the relative importance of lifetime inheritances for the bottom quintile is driven by a small number of individuals in that group who have inherited a very large amount relative to their lifetime incomes. This difference is illustrated by Figure 10, which shows the percentage of individuals whose lifetime inheritance is greater than a certain share of their lifetime income (from 5% up to 20%) for the whole sample, the bottom quintile and the top quintile. The figure shows that 26% of those in the top lifetime income quintile have received inheritances worth more than 5% of their lifetime income, compared with 18% of those in the bottom income quintile. But 5% of those in the bottom lifetime income quintile have inherited more than 20% of their lifetime income, compared with 4% of the top quintile (and 3% of the population overall).

A similar point is illustrated by looking at how lifetime inheritances relate to the average yearly income received from employment, across the lifetime earnings distribution. Figure 11 shows that, across this group of current pensioners as a whole, 12% have inherited more than 5 years' worth of net (post-tax) earnings and 4% have inherited more than 10 years' worth of net earnings. If one looks solely at those in the top quintile of lifetime earnings, those numbers are unchanged. But among those in the bottom quintile of lifetime earnings, 16% have inherited more than 5 years of net earnings and 9% have inherited more than 10 years of net earnings. The inheritances of those with lower lifetime earnings are much smaller in absolute terms (averaging around £25,000 for those in the

bottom quintile compared with around £100,000 for those in the top quintile), but among those who receive an inheritance they are larger relative to earnings.

Figure 10. Distribution of lifetime inheritances as a share of lifetime income, by lifetime income quintile



Note and source: See Figure 5.

Figure 11. Distribution of lifetime inheritances measured in years of earnings, by lifetime earnings quintile



Note: Sample of individuals aged 65 to 80 in ELSA wave 6. Only those individuals for whom household earnings can be satisfactorily calculated are included. Lifetime totals are calculated using a 3% real discount rate, with inflation measured using a variant of the CPI that includes mortgage interest payments. Earnings quintile groups are derived by dividing individuals into five equally-sized groups based on lifetime net household earnings per person. England only.

Source: Authors' calculations using ELSA, various waves, and linked administrative data.

In summary, evidence from the current pensioner population suggests that people who have higher incomes over their lives also tend to receive more in inheritance, as one might expect. The difference in inheritance receipts between the highest-income individuals and the rest is particularly stark. When looking at the sizes of inheritances relative to lifetime income, however, the story is slightly different. In those proportional terms, inheritance receipts boost lifetime resources the most for the highest *and* lowest income groups, on average. But there are also big disparities in access to inheritances between people with similar incomes.

3.2 Inheritances and inequality among younger generations

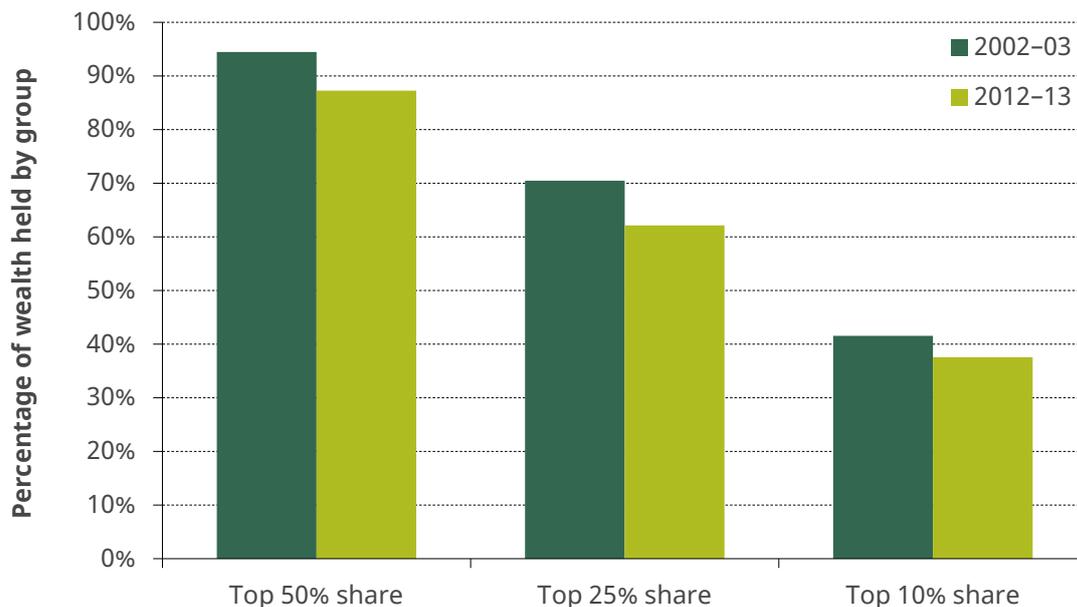
What will be the impact of inheritance receipts on inequality within the current working-age population? This is more difficult to answer than the same question for current pensioners: most working-age adults have living parents and so are yet to receive any inheritance. In this subsection, we bring together data on the distribution of wealth of elderly households and the inheritance expectations of different income groups within younger generations to build up a picture of the likely effect of inheritance on inequality among younger generations.¹¹

The growing stock of wealth held by elderly households (shown earlier in Figure 1) is very unevenly shared, suggesting that receipt of inheritances within the younger generations will be uneven too. For example, 20% of current elderly households (those households in which all members are 80 or older) have net wealth of less than £10,000, while 9% have wealth of more than £500,000 (including financial and housing wealth, but excluding pension wealth). A more comprehensive picture of wealth inequality among elderly households is provided by Figure 12, which shows the share of total wealth held by the top 50%, top 25% and top 10% of households in this group. There are two key things worth noting from this figure. First, a large share of the wealth currently held by elderly households is likely to flow to a small group of individuals in the younger generation. The top half of elderly households hold around 90% of the wealth, implying that the vast majority of inheritances from this group are likely to go to a ‘lucky’ half of individuals in the younger generation. The top 10% of elderly households hold around 40% of the wealth, implying that nearly half of the wealth held by the current elderly will flow to only 10% of individuals in the younger generation.

However, the second thing to note from Figure 12 is that wealth inequality among elderly households fell slightly between 2002–03 and 2012–13. The share of wealth held by the top 25% of households fell from 70% to 62% over that decade, and the share held by the top 10% fell from 42% to 38%. The primary reason for this decline in wealth inequality is that homeownership among today’s elderly is more widespread, and hence less the preserve of the richest groups, than it was among the same age group ten years ago. In 2012–13, 71% of elderly households were homeowners, up from 60% in 2002–03. The consequence is that, while still very unequal, inheritances look likely to be somewhat more evenly distributed (at least excluding the very richest households) in future than they have been in the past.

¹¹ Of course, expectations about inheritances can themselves have an impact on inequality by affecting choices about how much to work and save. Ongoing work at IFS is seeking to understand these effects by incorporating inheritances into a life-cycle model of consumption, saving and labour supply.

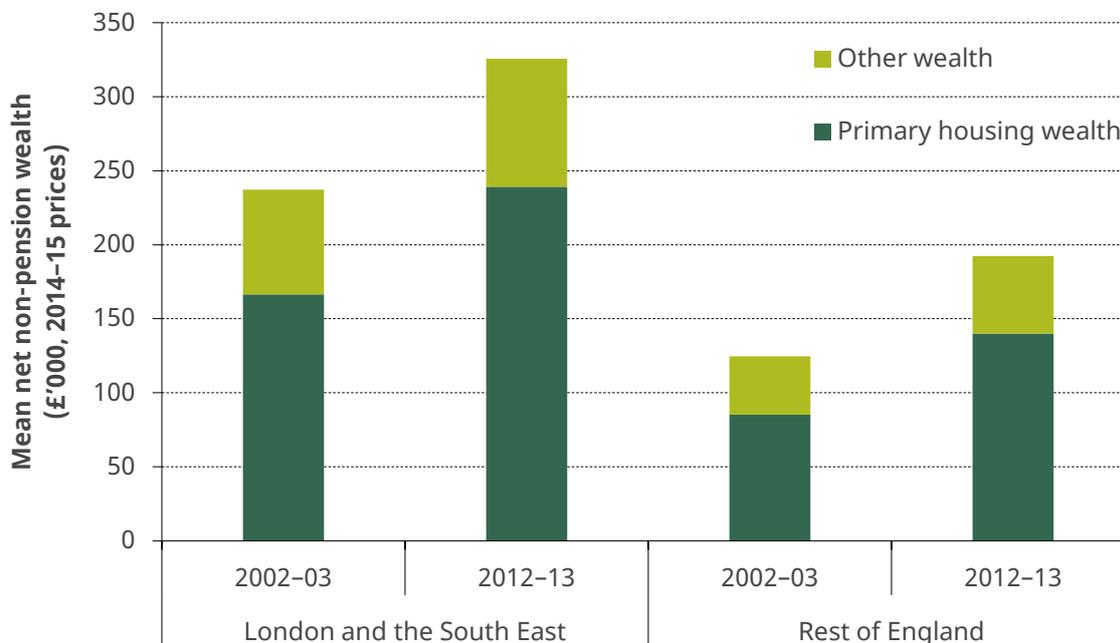
Figure 12. Top wealth shares among households where all members are 80 or older



Note: Households containing more than one benefit unit are excluded from the sample. Figures are adjusted for inflation using a variant of the CPI that includes mortgage interest payments. England only.

Source: Authors' calculations using ELSA, waves 1 and 6.

Figure 13. Mean net non-pension wealth of households where all members are 80 or older, by region of England



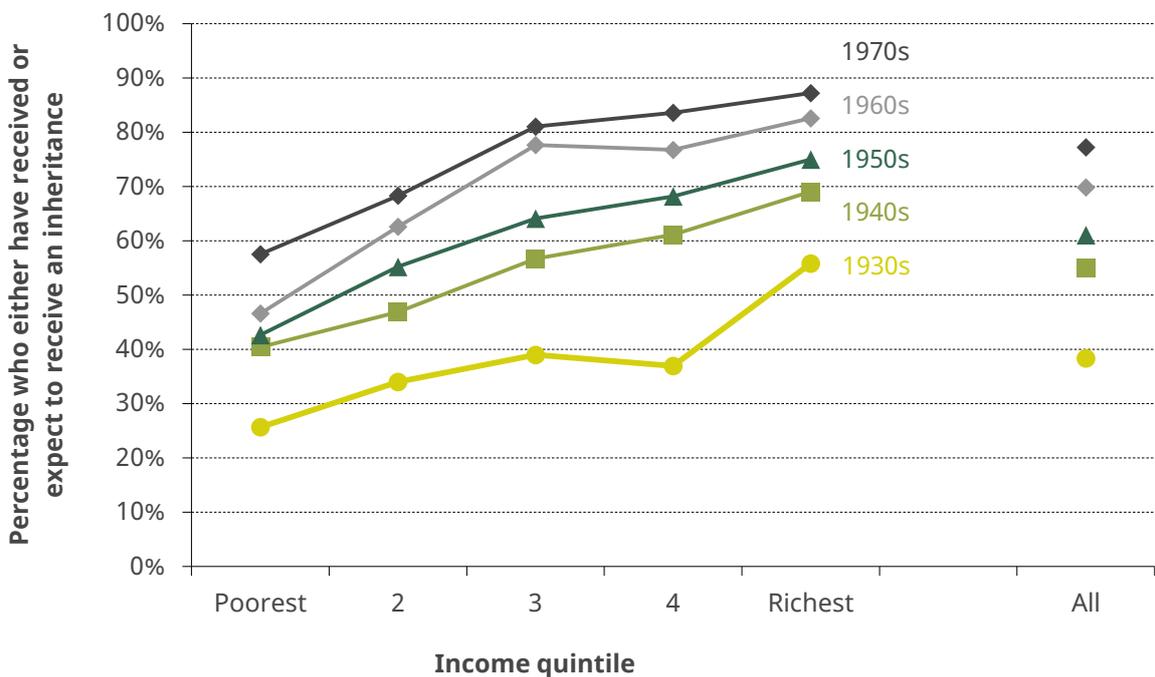
Note: Households containing more than one benefit unit are excluded from the sample. Figures are adjusted for inflation using a variant of the CPI that includes mortgage interest payments. England only.

Source: Authors' calculations using ELSA, waves 1 and 6.

One reason for the large inequalities in the wealth different households are likely to leave to their children is the regional variation in property prices. This is illustrated by Figure 13, which shows the average non-pension wealth of elderly households in London and the South East, compared with those in the rest of England. In 2012–13, the mean wealth of elderly households in London and the South East was £330,000, compared with an average of £190,000 across the rest of England. As one would expect, the majority of the difference is driven by the higher primary housing wealth of those households living in London and the South East.

The impact of inheritances on inequality among younger generations depends not only on wealth inequality among the current elderly but also on which households receive an inheritance. In Figure 14, we investigate how the likelihood of having received or expecting to receive an inheritance at some point in life varies with current income. We divide those born in each decade between the 1930s and the 1970s (each ‘cohort’) into five equally-sized groups (quintiles) according to their current income, and plot the proportion in each quintile and each cohort who have either received or expect to receive an inheritance (including inheritances received or expected by a partner). As with Figure 3, we use ELSA for those born in the 1950s or earlier, and WAS for those born in the 1960s and 1970s, as data on those cohorts are not available in ELSA. The details of the calculations are the same as described in the text accompanying that figure.¹²

Figure 14. Percentage of individuals who either have received or expect to receive an inheritance, by income quintile, for those born in different decades



Note: Figures for 1930s, 1940s and 1950s cohorts are calculated using ELSA and figures for 1960s and 1970s cohorts are calculated using WAS (see text around Figure 3 for further details). Inheritances received or expected by other household members are also included. Excludes individuals with missing household net income. England only.

Source: Authors’ calculations using ELSA, wave 6, and WAS, various years.

¹² The one difference is that (for obvious reasons) Figure 10 excludes households for which we cannot calculate household income (which includes all multi-benefit-unit households in ELSA).

Figure 14 clearly shows that within each cohort, those with higher current incomes are significantly more likely to either have received an inheritance or expect to receive one at some point in future. For example, among those born in the 1970s, 87% of those in the top income quintile have received or expect to receive an inheritance, compared to 58% of those in the bottom income quintile. This pattern fits with the past patterns of inheritance receipt among current pensioners (see Section 3.1). The figure also reveals that inheritances will be of greater importance for younger generations right across the income distribution. Among the bottom income quintile of those born in the 1960s, for example, 47% either have received or expect to receive an inheritance, compared with 26% of the poorest fifth in the 1930s cohort. In fact, the poorest fifth of those born in the 1970s are more likely to have received or expect to receive an inheritance than the highest-income fifth of those born in the 1930s. The proportional difference in inheritance receipt between high- and low-income households is actually lower for younger generations. Among those born in the 1930s, those in the top income quintile are more than twice as likely as those in the bottom income quintile to have received or expect to receive an inheritance. Among those born in the 1970s, those in the top income quintile are 50% more likely than those in the bottom income quintile to receive an inheritance. This is to be expected: higher homeownership rates mean a larger share of the parents of younger generations have some wealth to bequeath. But note that it does not imply that the *amounts* inherited are becoming more equal over time.

4. Conclusion

Today's elderly have much more wealth to bequeath than their predecessors, primarily as the result of rising homeownership rates and rising house prices. At the same time, today's young adults will find it harder to accumulate wealth of their own than previous generations did, due to the sharp fall in homeownership, the dramatic decline of defined benefit pensions in the private sector and the stagnation in household incomes. Together, these trends mean inherited wealth is likely to play a more important role in determining the lifetime economic resources of younger generations, with important implications for inequality and social mobility.

Looking at current pensioners, we find that those with the highest lifetime incomes are also those who have inherited the most across the course of their lives. High-lifetime-income individuals are around twice as likely as low-income individuals to have inherited something, and many times more likely to have inherited hundreds of thousands of pounds. There is evidence that these patterns are likely to be maintained among younger generations: those with higher incomes are much more likely to either have received an inheritance or expect to receive one in future. An assessment of how inequality in the amounts inherited will differ for younger generations would require the collection of new data, but would be a worthy topic for future research.

Appendix

This appendix documents the selection of the sample used for the analysis in Section 3.1.

There are 4,170 individuals aged between 65 and 80 who responded to the Wave 6 ELSA survey (conducted in 2012–13), as is necessary for the calculation of lifetime inheritances. We exclude 241 of these individuals because they have a partner below the state pension age, and a further 283 who have a state or private pension they have not yet begun to claim. These restrictions are imposed to simplify the calculation of lifetime pension income, and leave us with 3,646 individuals.

We can link 1,953 of these 3,646 individuals to their National Insurance (NI) records. However, this is insufficient for the calculation of earnings histories in a number of cases. We exclude 113 self-employed individuals whose earnings cannot be calculated from the NI records, along with a further 18 individuals who do not appear for a sufficient number of years in the data for our calculations to be reliable. Most importantly, we exclude 551 individuals who are currently single but were previously married, as we cannot access the earnings histories of previous spouses. These restrictions leave us with a final sample of 1,271 for the analysis.