Navigating the Age of Inheritance

By James Lloyd

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About this Report

This policy report is based on, and responds to, research published simultaneously by the ILC-UK called *The Age of Inheritance*[1].

The purpose of this report is to provide accompanying policy analysis and discussion to *The Age of Inheritance* for both a general and specialist readership. Its primary purpose is to provoke discussion.

Acknowledgements

This report and *The Age of Inheritance* would not have been possible without the generous support of Norwich Union[2].

The analysis for *The Age of Inheritance* was undertaken by Andy Ross and Michael Weinhardt of the National Centre for Social Research (NatCen)[3].

The author sincerely thanks all parties for their time, support and enthusiasm.

All opinions expressed in this report are the author's own and should <u>not</u> be attributed to any of the aforementioned organisations.

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[1] Ross A, Lloyd J & Weinhardt M (2008).
[2] http://www.norwichunion.com
[3] http://www.natcen.ac.uk

Executive Summary

This policy report accompanies the publication of research into changing patterns of family wealth transfers called *The Age of Inheritance*.

Chapter One - Introduction

The Age of Inheritance found that each year around 2.5% of the population receives an inheritance, and that the average value of inheritances received is increasing at a significant rate. In addition, analysis found:

- The receipt of inheritance varies by age and socio-economic group.
- The average inheritance received by those aged 50+ increased from £30,000 to £60,000 between 1998 and 2004.
- Those in higher socio-economic groups are more likely to receive an inheritance, and there is some evidence that this inheritance will be of higher value.

The proportion of property owners at the peak age of mortality will grow as successive cohorts reach this age, suggesting that the volume of wealth transferred as inheritance across society will continue to increase despite fluctuations in house prices.

The effect of family wealth transfers on the life course depends on how much individuals receive, when (in terms of both age and life-stage) and what individuals do with the money ('consumption' or 'productive investment'). Family wealth transfers have both positive and negative effects for public policy. On the one hand, such transfers can reduce poverty, encourage responsible behaviour and investment in skills, as recognised by the 'asset-based welfare' agenda. On the other hand, on a variety of measures, family wealth transfers increase material inequality and inequality of opportunity.

Chapter Two – Family Wealth Transfers and Inheritance Tax

Much opposition to inheritance tax can be accounted for by the 'bequest motive'. A first step in considering reforms to inheritance tax is to better understand the scope and incidence of the 'bequest motive'. As society becomes richer and family wealth transfers become the norm, the bequest motive may actually become increasingly prevalent as perceptions grow as to what level of family support and wealth is required to achieve average outcomes.

Given the unpopularity of inheritance tax, the Government has little to lose from exploring how an estate tax could be made popular by hypothecating it to a particular cause that would generate some 'utility' and satisfaction for those leaving estates. More generally, reform of inheritance tax should start from the existing estate allocation preferences of individuals, and explore how these can be used to build a framework for directing family wealth transfers to uses that are the least damaging to public policy objectives.

Chapter Three – Family Wealth Transfers and the Property Market

Family wealth transfers are a critical source of new wealth that enables property purchases and drives rising property prices, alongside transfers from the state and future population income allocated to property. Each of these sources of wealth are interdependent, in that an increase in one will usually cause an increase in another. Alongside rising values of mean inheritance transfers identified in *The Age of Inheritance*, the number of buy-to-let mortgages has increased dramatically, and the proportion of first-time buyers assisted by parents has also grown significantly.

It appears that family wealth transfers have contributed to these trends, both of which have served to boost the value of the estates of the oldest cohorts, further increasing the value of inheritance transfers.

All the conditions are therefore in place for a circulation of wealth around the property market and estates of the oldest cohorts. However, given the potential of family wealth transfers to prompt more transfers from the state and more future population income to be allocated to property, this circulation of wealth could be characterised as a 'property vortex'. Crucially, since the decision to use family wealth transfers for property purchases is not based solely on investment criteria, but reflects the critical role of home ownership in key life course developments, this effect may continue even in a period of stagnant property prices.

Limited responses are available to the Government, but include undertaking more research into the use of family wealth transfers in property purchases, limiting the scope of 'affordable homes' which serve to transfer resources from the state to the property market, and exploring other tax and regulatory options.

Chapter Four – Family Wealth Transfers in an Ageing Population

The fact that older cohorts are able to leave increasingly valuable inheritances needs to be considered in debates around how to pay for an ageing population. It is important all stakeholders realise efforts to 'protect' older people by shifting fiscal responsibilities to the state may only serve to protect the value of bequests, and that there may be opportunities for older people to enhance retirement by using some of this value, rather than passing it on.

'Housing equity annuities', in which individuals use a share of their property wealth to purchase an annuity, could prove more popular than traditional equity release products. Given the problems of 'longevity poverty', the Government should explore how a two-step annuitisation of wealth in retirement incorporating annuitisation of property wealth may improve the incomes of those over-75, and how tax and social policy frameworks could enable this to happen. In addition to housing equity annuities, some individuals may prefer to exchange part of the value of their property for a service, such as the installation of assistive technology in their home.

Conclusion – A Policy Framework for the Age of Inheritance

Although inheritance transfers are increasing in value, the receipt of such transfers is not universal, and public policy should always recognise this fact. Family wealth transfers generate both positive and negative externalities for public policy, and there is scope to direct the use of such transfers to minimise negative externalities.

Decumulation remains a hugely neglected topic. Enabling individuals to decumulate as much of their wealth as they wish should be an objective of social policy. Since annuities are the best retirement income product, all stakeholders should now address themselves to the 'Total Annuitisation' challenge: the challenge to enable individuals to annuitise all of their wealth in retirement if they so choose.

The inherent unpredictability, fluctuations and other probems associated with the operation of the housing market have long been a barrier to decumulation. Fixing these problems will be the first task in the age of inheritance.

Foreword

The Age of Inheritance research, carried out by the ILC-UK and NatCen, highlights a key area of personal finance which, until now, has been massively under-researched, yet has significant influence on people's finances throughout their lifecourse, and how they plan ahead. Family wealth transfers, and specifically inheritances, will have a huge influence on the financial plans and well-being of those who receive them, yet attention is often given only to how they are taxed, not the social and economic consequences of how they are used.

The UK's ageing population will put increasing pressure on the finances of individuals, their families, and society as a whole. Helping people make the most of their wealth, at any stage of their life, will be crucial in ensuring the UK can meet the challenge of demographic change, and ensure everybody has a comfortable safety net in retirement. Understanding patterns of inheritance – which groups are likely to receive them, and when – will help the financial services industry and government policymakers shape their products and policies around modern trends in family finance.

The Age of Inheritance brings to life one of the consequences of the recent property boom. Increasing amounts of the country's wealth is tied up in property – wealth which is often only realised on someone's death. What effect will increasing reliance on property wealth have on patterns of inequality? What will this mean for people's wealth in retirement, their children's and grandchildren's financial opportunities throughout life? What can industry and Government do to help people make the most of their assets throughout their lives? Increasingly, it is the older groups who receive the bulk of the inheritance transfers, and this will have an impact as we rethink retirement strategies.

This research gives Norwich Union a great insight into the financial challenges and changes our customers face throughout their lives, and provokes a number of broad questions the government and financial industry would do well to debate as we shape policies fit for 21st century demographics.

Brian Bussell
Director of Post-Retirement
Norwich Union

Contents

Chapter 1: Introduction

Family wealth transfers have long been a major influence on life course outcomes. Research from the ILC-UK called The Age of Inheritance explored patterns in family wealth transfers in the UK.

Background

Income in retirement is determined not just by a person's choice of pension annuity at the age of 65. Lifetime earnings, propensity to save, and the performance of a person's invested wealth, both in liquid investments and illiquid property, will all determine the retirement income available to a person, on top of any pension provided by the state.

However, it is not just financial and employment factors that determine retirement income; such factors are linked to multiple other aspects of people's lives. Lifetime earnings are determined significantly by educational attainment, which in turn is determined by an individual's aptitudes, family resources and educational opportunities. Moreover, mulitple other complex events, choices and accidents, anticpated and unforeseen, deliberate and externally driven, will ultimately determine the outcomes that a person experiences when they reach the threshold of what society deems to be '*old age*'. Such is the boundless complexity of the 'life course'.

This policy report, and the research it accompanies, is motivated by an interest in an important factor affecting someone's progress through the life course and their retirement outcomes: family wealth, and the transfers of wealth within familes.

The receipt of family wealth during the life course can determine outcomes in old age in many ways. Family wealth transfers may determine when someone is able to purchase their first home and climb on the property ladder, which in turn will affect decisions around family formation and the scope to begin pension saving. Indeed, the impact of family wealth transfers may be traceable right across the sweep of someone's life.

Nevertheless, family wealth transfers are a largely hidden lubricant in people's lives. A person typically moves through several 'economic units' during the passing of different lifestages, whether as a child, spouse, parent or grandparent. However, the reach of family bonds typically extends beyond the definition of the temporary 'household' that informs much economics and policymaking. Families move wealth around up, down and across different generations and family lines[4]. Transfers are also 'transferrable': an inheritance received by one family member may immediately, or subsequently, become a gift to another another family member. These sorts of 'lifetime gifts' are called 'inter-vivo transfers'.

After decades of mostly uninterrupted economic growth, the UK is a rich society with average levels of household wealth unimaginable in previous eras. This fact alone would suggest that increasing amounts of wealth should be available to famillies to transfer, with consequent effects on individuals and various 'externalities' for society at large[5].

Recognising the lack of detailed long-term research on UK trends in family wealth transfers, the ILC-UK collaborated with NatCen to explore what longitudinal survey data could reveal

[4] However, research on the direction of family wealth transfers has typically found it occurs downwards from older to younger family members. For example, Rowlingson & McKay (2005) found that 51% of inheritances came from parents and 20% from partners. Also, see Fritzell and Lennartsson (2005).

[5] For a brief overview of the factors affecting the timing, value and form of family wealth transfers, see Appendix 1.

about trends in family wealth transfers. Using the limited data available for analysis, the research explored trends in both inheritance transfers on death and inter-vivo transfers.

The Age of Inheritance

The report that resulted from this research is called *The Age of Inheritance*[6]. The analysis, which controlled for inflation, used data from two large UK panel surveys:

- British Household Panel Survey (BHPS) – a panel survey of around 10,000 people aged 16 and over that has been undertaken every year since 1991.
- English Longitudinal Study of Ageing (ELSA) – a panel survey of around 10,000 individuals in England aged 50+ that has taken place biannually since 2002.

The analysis controlled for inflation using the Consumer Price Index. The key findings of the research can be summarised as follows:

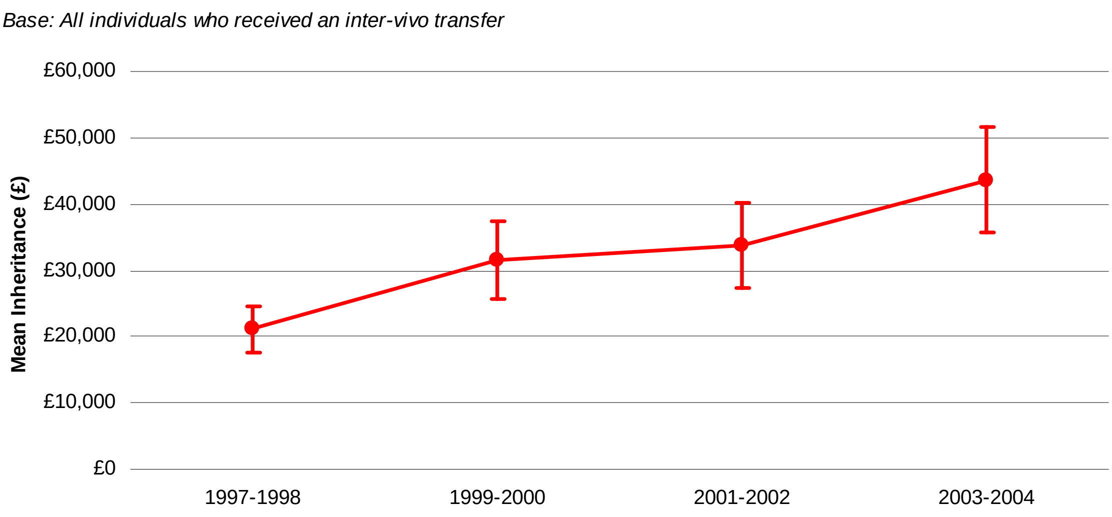
Trend in Mean Inheritance

Each year, around 2% of the UK population receive an inheritance, which can be both liquid or illiquid assets. Some individuals may receive large bequests, perhaps reflecting their status as an estate's principal beneficiary. Other individuals may receive smaller amounts, for example, when a distant relative decides to make a modest provision for a person in their will.

Overall, among those receiving an inheritance each year, it appears that the average amount that individuals such receive is steadily increasing[7].

Trend in Mean Total Inheritance (1998-2004)

Base: All individuals who received an inter-vivo transfer



In 1997-8, the average value of an inheritance receieved in the UK was just over £20,000[8]. By 2003-4, this amount was close to £45,000. This rise represents an increase in excess of 100% that has occurred in less than a decade.

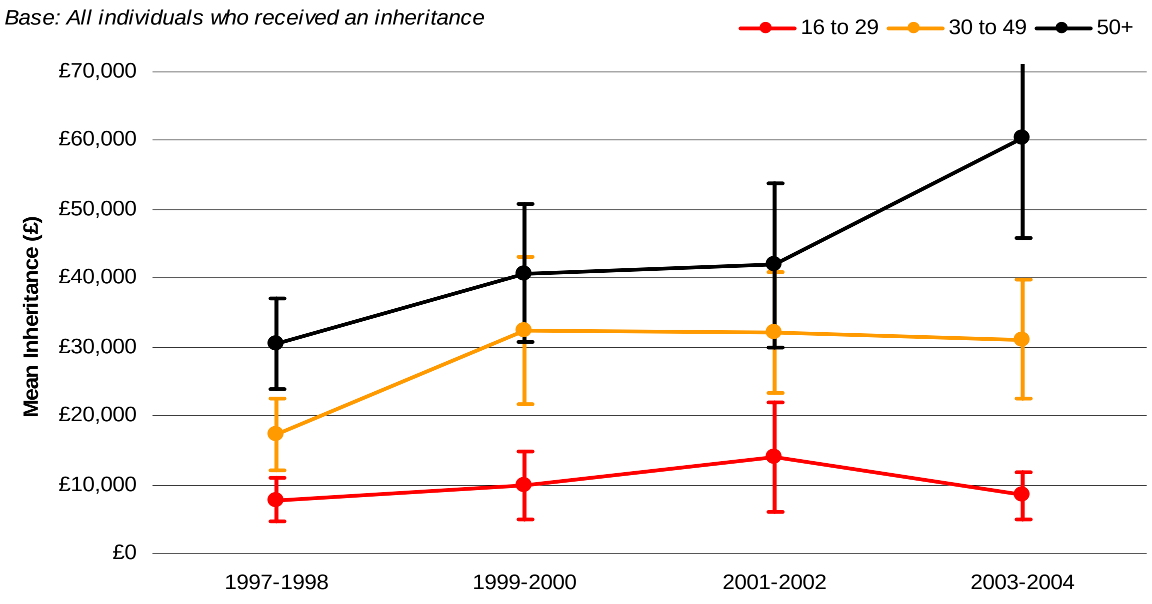
[6] Ross A, Lloyd J & Weinhardt M (2008).
[7] Questions on inheritance were only included in the BHPS from 1997 onwards.
[8] In fact, the analysis shows the total mean value of inheritance received over a two-year period. However, it is reasonable to assume that in the vast majority of cases, this involves a single inheritance transfer.

Trend in Mean Inheritance by Age

Patterns of inheritance vary by age group. Around 2.5% of those aged 50+ receive an inheritance each year, with those in younger age groups having become less likely to receive an inheritance over the period 1998-2004.

The amount that individuals receive also varies by age group. Those aged 50+ receive the highest value inheritances, followed by those aged 30-49 and aged 15-29.

Trend in Mean Inheritance by Age (1998-2004)



This chart shows that the average inheritance received by those in the 50+ age group doubled during the period of analysis. The average value of inheritances received by those in the 30-49 age group also increased, while the amounts received by those aged 15-29 showed no increase.

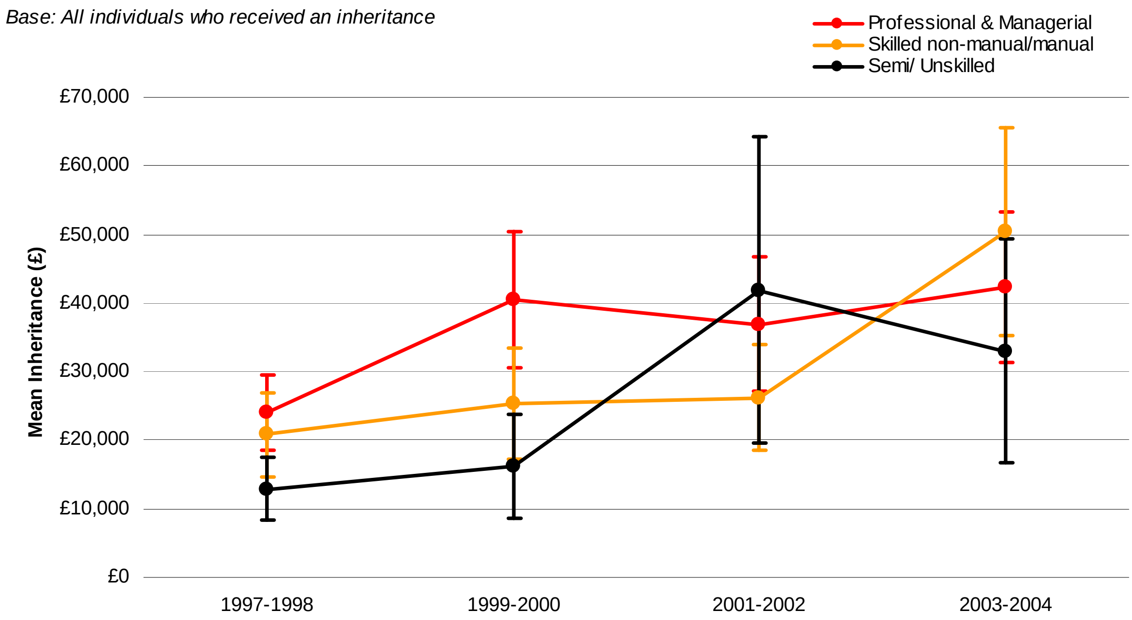
Inheritance and Socio-Economic Group

Patterns of inheritance vary by socio-economic group. Higher socio-economic groups, i.e 'professionals and managers', are more likely to receive an inheritance in any given year (3.25%), than those who are in skilled jobs (2%). Individuals who are in semi- or un-skilled jobs are the least likely to receive an inheritance (1.5%).

The trend in mean inheritance by socio-economic group is less clear, partly as a result of the very small sample sizes which are available to analyse. During 1997-2000, the findings show that higher socio-economic groups received higher value inheritances. However, for 2001-2004, this relationship is less clear[9].

[9] To the extent that these findings demonstrate a relationship between inheritance and socio-economic group, they are consistent with previous research on this topic, such as Rowlingson & McKay (2005).

Trend in Mean Inheritance by Socio-Economic Group (1998-2004)

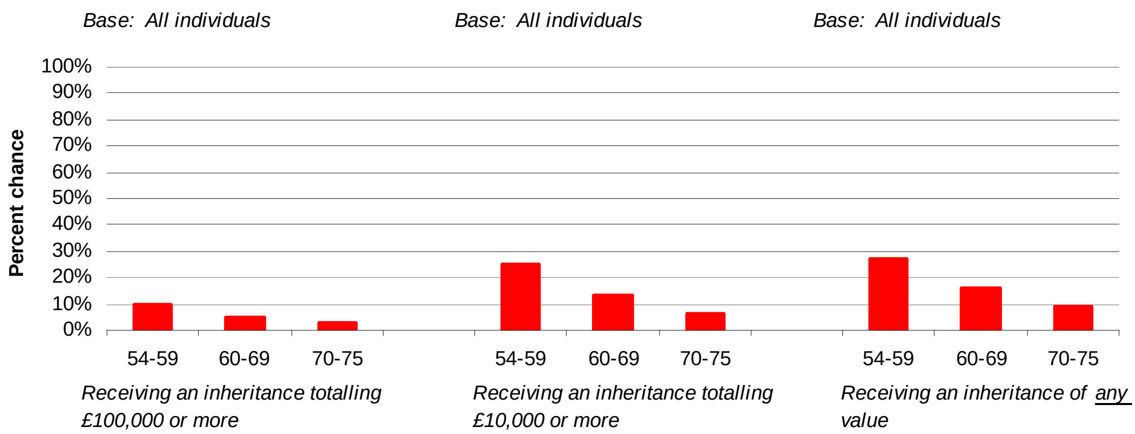


Probability of receiving an inheritance among 54+ Age Group

As the analysis shows, it is the older age group who receive the bulk of inheritance transfers in any given year. *The Age of Inheritance* therefore analysed data from the 2006 wave of ELSA. The survey includes questions about respondents' expectations around inheritance, so provides a useful source for understanding future trends.

The analysis explored the expectations that individuals aged 54-75 have for receiving any inheritance in the next 10 years.

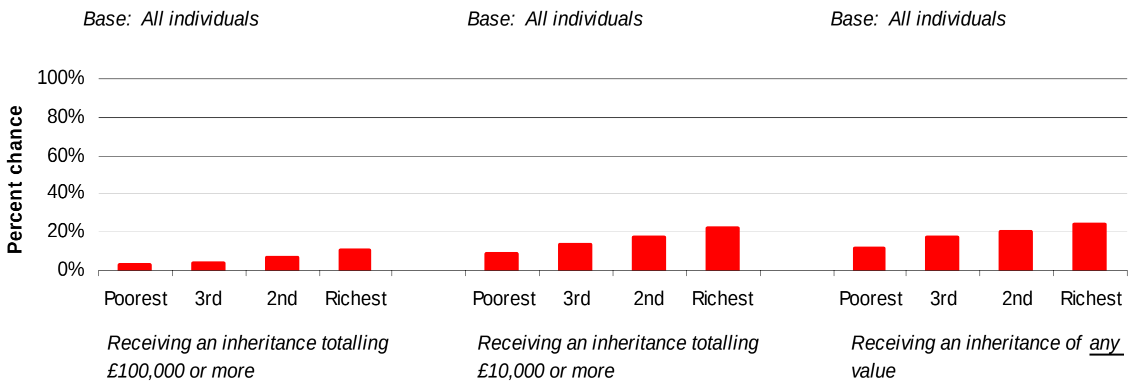
Expectation of Receiving an Inheritance in the Next 10 Years by Age Group (2006)



As would be expected, those aged 54-59 report higher expectations for receiving an inheritance than those in older age groups.

The analyis also explored individuals expectations for receiving an inheritance by wealth quartile.

Expectation of Receiving an Inheritance in the Next 10 Years by Wealth Quartile (2006)

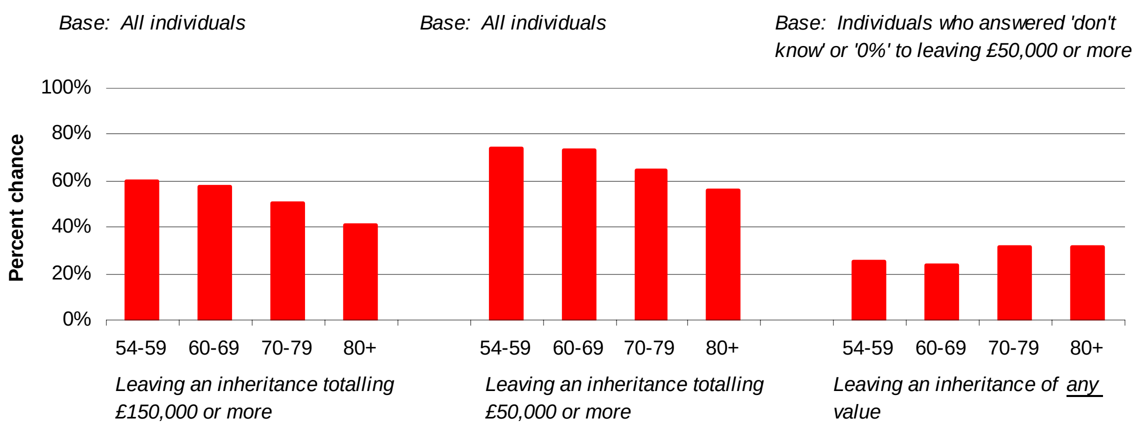


There is a strong association between an individual's existing wealth and their expectation of receiving an inheritance within the next 10 years. This finding can be seen as reinforcing the earlier BHPS finding showing an association between socio-economic group and receipt of an inheritance.

Probability of Leaving an Inheritance by Age

In addition to asking individuals about their expectations for receiving an inheritance, ELSA asks individuals about their expectations of leaving an inheritance of different amounts. The graph below shows the expectations of individuals for leaving inheritance of different amounts by age group.

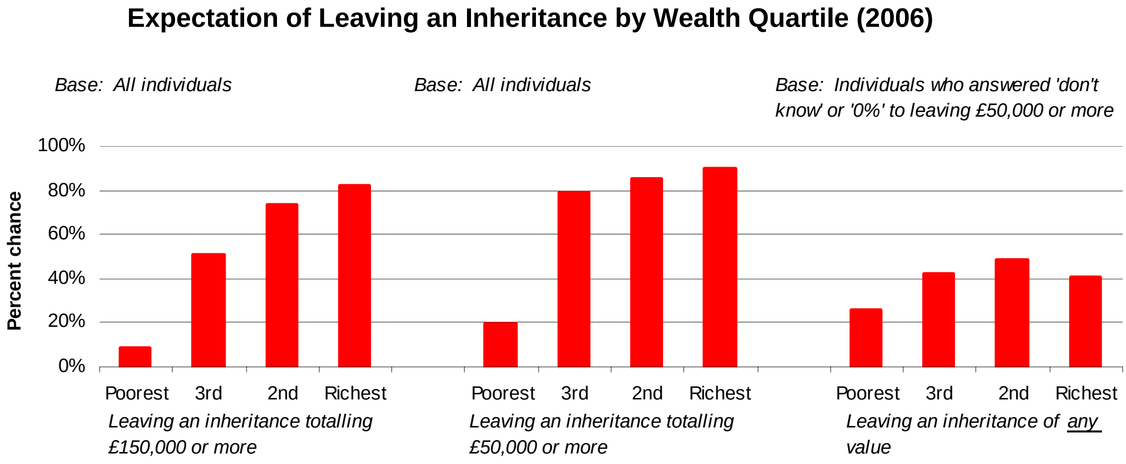
Expectation of Leaving an Inheritance by Age Group (2006)



Among those aged 54-79, on average individual reports that it is more likely than less likely (i.e. above 50%) that they will leave an inheritance totalling £150,000 or more.

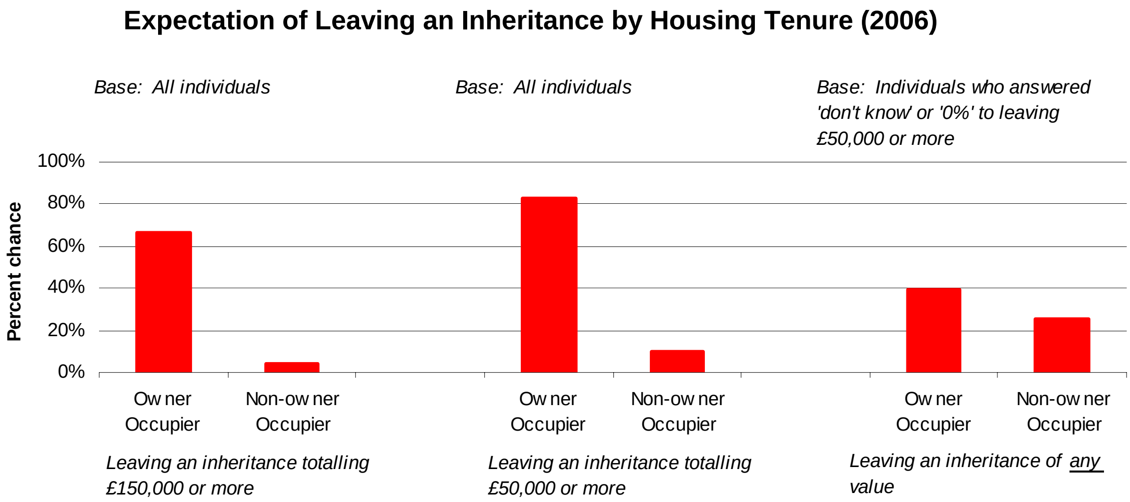
Probability of Leaving an Inheritance by Wealth Quartile

Unsurprisingly, there is a significant relationship between a person's wealth and their expectation of leaving an inheritance.



Probability of leaving an inheritance and tenure

The key role of property ownership in determining expectations of leaving an inheritance is shown by the next graph.



Rates of property ownership are lower among the oldest old, compared to the ‘young-old’. Among those aged 54-69, around 85% are owner occupiers. This figure is around 78% for those aged 70-79, and 70% for those aged 80 and over. This suggests that as subsequent cohorts reach the peak age of mortality, the proportion of individuals with an estate comprising property wealth will also increase. As a result, it is reasonable to expect the total value of inheritance transfers across society to continue to increase in coming decades, despite any short to medium-term falls in property prices.

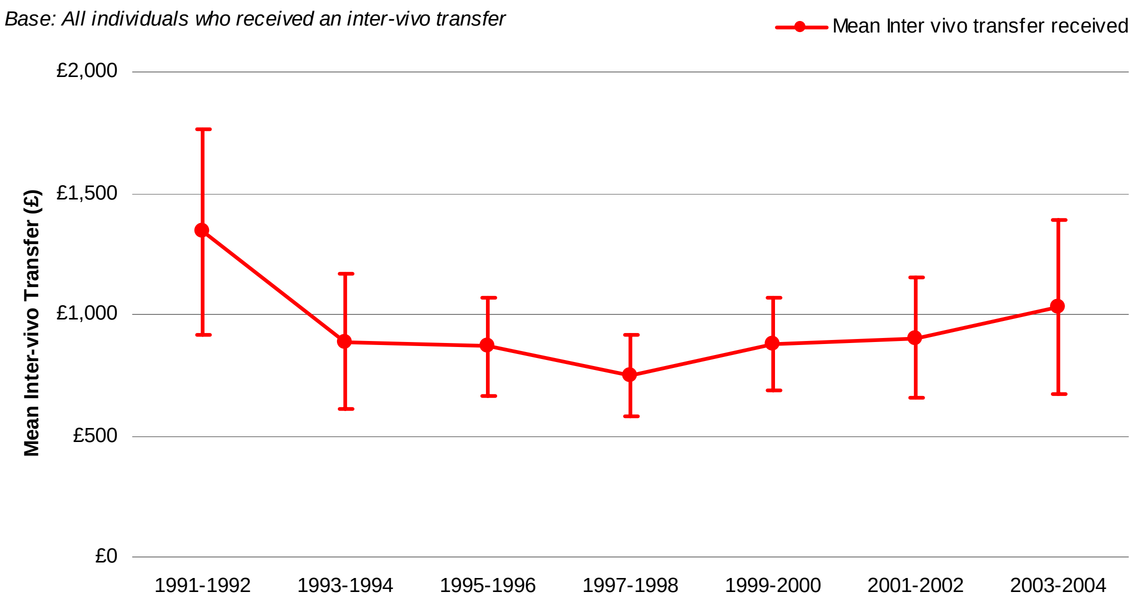
Trend in Mean Inter-vivo Transfer

In addition to analysing trends in inheritance transfers, *The Age of Inheritance* explored long-term trends in inter-vivo transfers (when the giver is alive), by analysing a question in the BHPS which asked individuals about transfers from family members not resident in the same household.

Each year, around 0.9% of the population receive an inter-vivo cash transfer from a family member who lives in a different household. Analysis found these sums can range from very small amounts to many thousands of pounds. Those aged 15-29 are far more likely than other age groups to receive such a transfer (typically around 2.5%).

The average amount received in the form of an inter-vivo transfer is shown by the graph below.

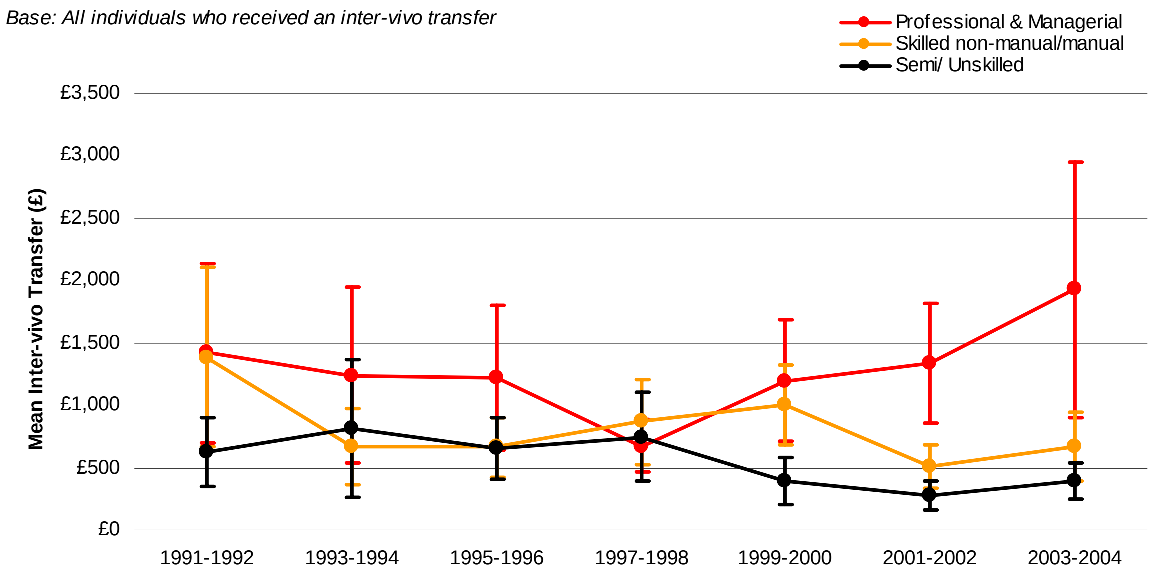
Trend in Mean Inter-vivo Transfer (1992-2004)



Trend in Mean Inter-vivo Transfer by Socio-economic Group

The chances of receiving an inter-vivo transfer do not vary significantly by socio-economic group. However, there is a suggestion that the amounts received do vary by socio-economic group, as shown by the graph below, in which those in the ‘Professional & Managerial’ group consistently appear to receive higher value transfers than those in other groups.

Trend in Mean Inter-vivo Transfer by Socio-economic Group (1992-2004)



Despite popular discussion and debate about the prevalence of 'lifetime-gifts', particularly in relation to deposits for young people to help with property purchases, there is no sign of average inter-vivo transfers increasing in value. A number of factors are worth considering here:

- Data is only available for inter-vivo gifts received from non-resident family members.
- The low-number and one-off nature of 'life-time' gifts that make identification even by large sample survey data difficult.
- When inheritences received are subsequently passed down a generation in inter-vivo form, the amount that individuals receive may be diluted by the number of siblings. Increases in the mean value of inheritances are therefore unlikely to be matched by commensurate increases in inter-vivo transfers.
- The apparently low rate of inter-vivo transfers may also result from the under-reporting of such transfers among respondents. For example, where inter-vivo transfers are hypothecated for property purchases or education, respondents may not regard them as cash gifts.

Nevertheless, the findings also suggest that significant inter-vivo transfers are lower in prevalence than commonly assumed. Indeed, although such transfers have become a topic of popular discussion, only 36% of first-time buyers received parental assistance in buying a property in 2006, up from 10% in 1995. The prominence and effect of such transfers on property prices may have contributed to popular perceptions of widespread transfers that are not in fact reflective of reality.

Key Findings

The key findings of *The Age of Inheritance* can be summarised as follows:

- The average value of inheritances received is increasing at a high rate.
- Older groups (50+) are both more likely to receive an inheritance than other groups, and for the inheritance to be of higher value. The average value of an inheritance received by this group has increased from £30,000 to £60,000 in just six years.
- There is evidence to suggest an association between socio-economic group and inheritance. Higher socio-economic groups are more likely to receive an inheritance. There is a suggestion in the data that the amount of inheritance received is likely to be of higher value than for other social groups.

- Among the 54+ age group, wealthier individuals also report a higher expectation of receiving an inheritance than poorer individuals of a similar age. A significant number of individuals aged 54+ expect to leave at least £150,000 as an inheritance.
- Inter-vivo transfers are principally targeted at the young, although there is evidence to suggest that those in higher socio-economic groups receive higher value inter-vivo transfers.

Overall, *The Age of Inheritance* shows that a major societal change is taking place in the UK. While family wealth transfers have existed for centuries, the average value of wealth transfers now being received is increasing at a striking rate, driven by the net property wealth of those at the peak age for mortality.

In some ways, these trends are to be expected. The proportion of property owners at the peak age for mortality, i.e. 75 and over, has grown significantly in the last few decades. Simultaneously, rising house prices have seen the net weath of older households also increase dramatically. In 1995, an average 75 year old had net household assets of £64,000. In 2005, the equivalent figure for a 75 year old was £186,000[10]. The result is an unprecedented volume of wealth available to transfer down the generations in the form of inheritance. Significant bequests are no longer the preserve of a small minority in the population.

It is also crucial to recognise that succeeding cohorts that will reach the peak age of mortality in 10 to 20 years display higher rates of property ownership than today's oldest cohorts. This suggests that despite fluctuations in house prices in the short to medium-term that may trim the net wealth of older cohorts, the volume of wealth across society available to transfer as inheritance will continue to increase for several decades.

Transfers of this magnitude across large swathes of society have never been experienced before by the UK and have implications across wide areas of public policy and social policy. The UK unquestionably appears to have entered a new age of inheritance.

Public Policy and Family Wealth Transfers

This policy report explores the implications of *The Age of Inheritance* for public policy. Are family wealth transfers good for public policy? What do the trends identified in the research mean for public policy? These are hugely complex questions that touch upon highly contentious issues. Family wealth transfers have both positive and negative 'externalities' for public policy.

Family wealth transfers can be enormously beneficial for the individual, and therefore, for public policy. The impact that family wealth transfers have on individuals and their life course depends principally on:

- How much individuals receive.
- When individuals receive a transfer, in terms of both age and life-stage.
- What individuals do with the money:
    - The critical distinction here is between 'consumption' (clothing, holidays) and 'investment' (saving, investment in assets such as property, education). 'Productive investments', such as undertaking a postgraduate degree, are those that are ultimately likely to provide 'returns' in some form at a subsequent stage, such as higher income or wealth. In contrast, 'consumption' is usually characterised as providing no long-term returns[11].

[10] Boreham R & Lloyd J (2007).
[11] However, this distinction is not always sharp. For example, books may appear as consumption but ultimately contribute to personal development and social capital.

Each of these factors determine the effect of wealth ownership on the life course and ultimately interact with each other[12]. In this sense, family wealth transfers can alter the 'trajectory' or 'pathway' of someone's life, and as a result, can have a significant effect on all retirement outcomes, and not just income and wealth.

Indeed, in recent years, there has been growing interest in the psychological and behavioural effects of asset ownership. Various research has argued that the possession of wealth has independent positive effects on an individual over and above their immediate or long-term financial well-being[13]. The 'asset-effect' sees individuals displaying a range of positive behaviour resulting from asset ownership[14]. The Government has taken notice of such evidence, and 'asset-based welfare' has emerged as a distinct policy area with the creation of 'child trust funds'[15].

Clearly therefore, family wealth transfers such as those identified by *The Age of Inheritance* must have positive effects for public policy. To the extent that such transfers do contribute to positive outcomes across the life course for individuals, such transfers may:

- Reduce poverty
- Reduce dependence on welfare payments
- Encourage responsible behaviour
- Improve economic competitiveness by enabling greater personal investment in skills and training

Despite these benefits of family wealth transfers for the individual, many stakeholders regard large transfers of this type as bad for society. Their concerns focus on the implications of large family wealth transfers for inequality.

Family Wealth Transfers, Inequality and Society

Do inheritances contribute to inequality in society? In part, this depends on what measure of inequality is used. At a simplistic level, as the mean value of inheritances grow, this suggests rising inequality given that there will always be individuals who never receive any inheritance in their lifetime[16].

Academic researchers have long tried to measure the effect of inheritances on inequality. This is a challenging task because of the dearth of data and the fact that wealth is not the only factor that individuals inherit from their family: 'social capital' and 'intellectual capital'

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[12] For example, early receipt of wealth can facilitate early investment in savings and shares, which may then enable someone to invest time and resources in education, which in turn raises their income right across the life course, increases the amount that they can save and dramatically changes their retirement income. Family wealth transfers can also increase choices for individual. For example, individuals may take low or unpaid jobs in the short to medium term, in the knowledge that this will result in the job of their choice in the long-term. Family wealth transfers may also enable someone to start a business.

[13] See Sherraden (2001), Bynner and Despotidou (2001).

[14] These factors include: being better prepared against unexpected shocks or need and therefore more likely to take 'productive risks', such as education; becoming more future oriented; being better able to plan for the future; being more likely to resist unemployment; being more interested in politics, and being more likely to have a strong 'work ethic'.

[15] These funds are effectively savings accounts for children born on or after September 1st 2002, who receive a £250 'voucher' to start their account. The account belongs to the child and cannot be accessed by them until the age of 18. Various tax incentives also encourage children and their families to save into these accounts during this time.

[16] A failure to receive any significant family wealth transfer during a lifetime may result from the discretion of family members. However, in the majority of cases, it is likely to reflect the low-levels of accumulated wealth among other family members. In particular, it is worth noting that rates of property ownership among any age group do not exceed around 85% suggesting that a significant minority of the population who may never benefit from the receipt of inherited parental property wealth.

transferred from parents may be just as important in determining outcomes. In addition, the key cause of inequality is often seen as differences in income and life-time earnings: set against the income someone earns over a lifetime, a typical inheritance may in fact appear insignificant. Nevertheless, a recent comprehensive academic study found that inheritance was a major contributor to inequality, alongside skill differences, 'assortative mating'[17], and wide variations in income[18].

Is inequality in society a concern for policymakers? Divergent opinion exist as to whether material inequality generates problems for societies that policymakers must address. For example, some individuals, and some research evidence, argue that material inequality is detrimental to social capital and the well-being of individuals[19].

Mainstream politics now shows little concern with equality of material outcomes. Instead, political consensus has formed around the principle of 'equality of opportunity'[20]. Across political debate, many individuals believe that there should be a reasonable degree of equality in the opportunities and barriers that individuals confront during the life course. However, to the extent that family wealth transfers are used for productive investments, as outlined above, such transfers bestow on some individuals advantages and opportunities not available to others. Evidence on the increasing value of inheritances, identified in *The Age of Inheritance*, suggest this trend is detrimental to equality of opportunity.

More broadly, family wealth transfers may compound inequality in several important respects:

- *The Age of Inheritance* demonstrated some level of association between socio-economic group and the receipt of inter-vivo and inheritance transfers. Patterns of family wealth transfers clearly therefore have the potential to ampllify the magnitude of inequality in society by boosting the means and opportunities of those already in higher socio-economic groups.
- Inequality among the oldest cohorts may be reproduced in inequality among younger cohorts through the process of family wealth transfers. As *The Age of Inheritance* shows, around 2.5% of the 50+ age group receive an inheritance each year of over £60,000, showing how patterns of wealth in one cohort may increase inequality in the cohort just below it.
- The multiple factors affecting the timing, form and value of inheritance and inter-vivo transfers also have the scope to amplify the scope of inequality in society resulting from other factors. For example, adversity that is suffered during the life course such as unemployment, ill-health, caring responsibilities and family breakdown all determine the scope for asset accumulation and the ultimate availability of wealth to transfer within a family. More benign factors can also effectively contribute to inequality. For example, research has shown a direct association between number of siblings and adult wealth ownership[21].

Public Policy in the Age of Inheritance

This brief review shows some of the dilemmas confronting all governments regarding family wealth transfers, which generate positive externalities for society as well as increasing inequality, especially when wealth is considered as a factor in determining opportunity.

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[17] The tendency for individuals to partner with someone from a similar social group.
[18] Gokhale et al. (2001).
[19] For a recent review of the different rationales for focusing on inequality, see Orton M & Rowlingson K (2007).
[20] For example, the cross-party UK House of Commons Work and Pensions Committee published a report in 2008 specifically addressing social mobility, which is a key indicator of variations in opportunity.
[21] Keister L (2003).

The Age of Inheritance shows that the average value of inheritances received is increasing markedly. As a result, the importance and signficance of policy frameworks that address and relate to the policy dilemmas arising from family wealth transfers must also be increasing.

The remainder of this report therefore explores what the key findings of *The Age of Inheritance* means for public policy in several fields.

In Chapter 3, the effect of family wealth transfers on the property market is considered, including the question of whether such transfers have resulted in a ‘property vortex’ for the UK property market.

Chapter 4 explores the implications of rising inheritance transfers for debate around paying for an ageing population, and asks how much older cohorts can expect to rely on the state in retirement, and why individuals are apparently reaching the peak age of mortality with such large estates.

Chapter 5 sets out a tentative policy framework for the age of inheritance, and challenges policymakers to enable ‘total annuitisation’ of wealth in retirement.

However, discussion of family wealth transfers has for centuries lurched quickly to debate on inheritance tax. This will therefore be the topic of the next chapter.

Key Points from Chapter 1:

- The average value of inheritances received is increasing.
- The receipt of inheritance varies by age and socio-economic group.
- The proportion of property owners at the peak age of mortality will grow as successive cohorts reach this age, suggesting that the volume of wealth transferred as inheritance across society will continue to increase despite fluctuations in house prices.
- The effect of family wealth transfers on the life course depends on how much individuals receive, when (in terms of both age and life-stage) and what individuals do with the money (‘consumption’ or ‘productive investment’).
- Family wealth transfers have both positive and negative effects for public policy. On the one hand, such transfers can reduce poverty, encourage responsible behaviour and investment in skills, as recognised by the asset-based welfare agenda. On the other hand, on a variety of measures, family wealth transfers increase material inequality and inequality of opportunity.

Chapter 2: Family Wealth Transfers and Inheritance Tax

Inheritance tax is extremely unpopular in the UK. Resentment of inheritance tax can be partly accounted for by the incidence of the 'bequest motive': the desire to provide a bequest to others. However, the interaction of the bequest motive with opposition to inheritance tax is poorly understood. As the mean value of inheritance increases, both the incidence of the bequest motive and resistance to inheritance tax are likely to increase. For public policy, this suggests that the existing preferences of individuals for how their estate is allocated may be a good starting point for thinking about reforms to the inheritance tax framework.

Background

Family wealth transfers pre-exist modern society and for almost as long, discussion of such transfers has involved debate on inheritance tax[22]. Contemporary UK society is no different. Inheritance tax[23] is rarely far from political debate.

On the one hand, recognising the role that family wealth transfers have in contributing to societal inequality, some commentators have long viewed inheritance tax as an essential measure to stem a growing tide of inequality[24]. On the other hand, many individuals deeply resent inheritance tax. Such is the 'toxic' nature of inheritance tax, it stokes strident opposition out of all proportion to both its incidence (around 6% of estates currently incur inheritance tax), and to other taxes[25]. Indeed, such is the totemic value of inheritance tax, political parties may use the issue of inheritance tax policy as a key lever with which to bolster political support, resulting in periodic political 'auctions' of inheritance tax thresholds.

Inheritance tax is opposed at both a societal level and a personal level. Critics at a societal level deploy various arguments, e.g. that it is unfair to "tax the dead", despite the fact that those deceased are least likely to feel the loss of wealth associated with inheritance tax. At a personal level, many individuals deeply resent the idea that their accumulated wealth would be taxed by the state upon their death.

It is important to analyse carefully the psychological motivations driving opposition to inheritance tax, which provide the context for debate. Few individuals gain what economists call 'utility' from knowing that their wealth will be taxed by the state upon their death. Although individuals do not typically experience much satisfaction from paying tax generally, most do acknowledge the direct and indirect benefits of public services, and therefore gain utility from paying tax, which is also usually accepted as an aspect of citizenship.

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[22] For a brief historical review of debates around estate and inheritance tax, see Beckert J (2006). Beckert cites the example of the 19th century Catholic social reformer Francois Huet whose concern with the dynastic reproduction of wealth led him to propose a restriction on wealth bequeathed from one generation being subsequently bequeathed to the next.
[23] Inheritance tax in the UK, which could more accurately be described as an estate tax, is currently charged at a rate of 40% on estates above the threshold of £312,000.
[24] For a recent articulation of such arguments, see Prabhakar R et al. (2008).
[25] However, it is important to remember that this does not mean that only 6% of individuals in the population would be liable for inheritance tax if they died; those currently at the peak age of mortality have average levels of wealth significantly lower than middle-aged cohorts. This difference between the average wealth of those 75+ and younger cohorts may explain a large part of the anomaly that many commentators observe relating to opposition to inheritance tax and the paltry number of estates that have to pay it.

In contrast, most individuals prefer, and gain more utility, from the knowledge that their estate will go to the recipient of their choice, whether a relative, charity or other third-party. In truth, many individuals would prefer their estate to go to their nearest family members, whether partners or children. In fact, many individuals in old age gain satisfaction from saving and accumulating wealth precisely in order to leave this wealth to family members.

This altruistic preference is sometimes termed the 'bequest motive', and much opposition to inheritance tax can be linked to its effect, despite difficulties in demonstrating its effect in research[26]. A consistent feature of the inheritance tax debate has been a lack of consideration of the bequest motive in terms of psychology and ageing. Two aspects deserve particular consideration.

First, as individuals age and experience cognitive and physical decline, some attach their aspirations and hopes to their closest relatives; although not a widely researched area, it is reasonable to hypothesise that as individuals experience the ageing process, the incidence of the bequest motive may become more pronounced, and with it, resistance to paying inheritance tax.

Second, where individuals wish to transfer assets to their children, this may result from parental instincts which, in the context of other life-stages, are valued, cherished, and even relied upon by policymakers. Parental instincts clearly do not end when children reach adulthood, nor would policymakers wish them to. Given that parental instincts underpin the bequest motive in many individuals, policymakers and commentator should not be surprised at the ferocity with which participants engage in debate on inheritance tax. Individuals clearly gain far more utility and satisfaction from the knowledge that their wealth will benefit their children, not the state.

The Age of Inheritance

Analysis of longitudinal data shows that the average value of inheritances received in the UK is increasing. Among those aged 50+, it has increased from £30,000 to £60,000 in the six years up to 2004. Among current older cohorts, those aged 50-79 typically consider it more likely than less likely that they will leave an inheritance of £150,000 or more.

Importantly, there is evidence that receipt of inheritance is associated with socio-economic group, suggesting that inheritance transfers contribute to inequality, which is a major cause of concern among supporters of inheritance tax.

Recommendations

- *Understand the bequest motive*

  Given the unpopularity of inheritance tax in contemporary Britain, the UK's competitive democracy ensures major reform of inheritance tax is unlikely, except to reduce its scope or incidence.

  Going forward, debate would benefit from an improved understanding of the nature of the bequest motive, particularly considered as an aspect of the complex psychological changes associated with the ageing process. Research must develop sound measures of the bequest motive and explore its variation by age, wealth, education and life-stage. This would provide a stronger basis for policymakers to consider reform options[27].

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[26] Academic researchers have struggled to measure the prevalence of the bequest motive, i.e. the number of (older) individuals whose financial behaviour is determined by a desire to maximise assets available to subsequently transfer to others. It is observed that individuals continue to save right up until the end of life, regardless of whether they have children.

[27] Commentators have repeatedly recommended the replacement of the UK's current estate tax with a tax on the receipt of capital transfers. For example, see

Prepare for an increase in the bequest motive

The desire to leave a bequest partly relates to an individual's perception of the need and merit of the potential recipient. For example, in planning their retirement saving, consumption and estate allocation, previous research has shown how individuals actively balance their needs and that of their kin[28]. Where individuals perceive their family members to be in greater need of a wealth transfer – a 'helping hand' – their bequest motive is likely to be stronger. Where need is driven by key life-stage events, such as the costs of child-rearing, the bequest motive among older individuals may be acute.

As society becomes wealthier and the value of family wealth transfers that individuals receive also increases, the amount of wealth required to advance and progress through the life course commensurate to others also increases. Put simply, as average wealth levels increase, the amount of wealth required to achieve average outcomes also increases. Where individuals planning their estate allocation perceive that relatives will only be able to achieve average or similar outcomes through receipt of a family wealth transfer, their bequest motive will be all the stronger.

This suggests an important insight: as society become wealthier and family wealth transfers increase in volume, the relative disadvantage to an individual of not being in receipt of a transfer of family wealth also increases. As a result, the desire to transfer assets to family members – the bequest motive – may also increase in incidence. This is important because it suggests that as society grows wealthier, opposition to inheritance and estate taxes will increase[29].

This creates some dilemmas for policymakers. Making society wealthier is one of, if not, the key objective of public policy. However, to the extent that opportunities and outcomes across the life course are determined by receipt of family wealth, rising levels of wealth in society will only increase opposition to inheritance tax.

Explore the case for a hypothecated inheritance tax

Traditionally governments have resisted hypothecated taxes, as such taxes threaten the legitimacy of general taxation, and the right and responsibility of an elected government to decide how taxation revenues are spent.

However, in the context of widespread opposition to 'toxic' inheritance tax, and given the political unfeasibility of expanding inheritance tax in a competitive democacy, the Government has little to lose by considering the scope for a hypothecated inheritance tax, that could in fact be presented as a 'levy' on estates.

Certain policy objectives achieve near universal support from the public, such as slowing climate change or ending child poverty. The Government could therefore explore the potential support for a universal hypothecated levy on estates. In theory, the Government could even provide individuals with a menu of hypothecated options to which an estate levy could be directed, so that an element of choice is retained.

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http://www.economist.com/finance/displaystory.cfm?story_id=10024733 and Patrick R & Jacobs M (2003). However, this reform option would also create opposition among those driven by the bequest motive.

[28] Rowlingson K (2006).

[29] It is important to recognise that this observation is not that individuals with more wealth are likely to be more averse to inheritance tax.

Use estate allocation preferences as a starting point for reform

The actual preferences of individuals regarding how their estate is allocated on their death is an excellent starting point for policymakers to review what taxes or levies can be imposed on estates that advance the objectives of public policy and achieve widespread political support.

As described above, many individuals gain utility from both being able to allocate their estate as they wish, and the knowledge that particular agents – whether relatives, friends or charities – will benefit from receiving a bequest drawn from their estate. This suggests scope for a policy framework to fit around these preferences that is nevertheless optimal given the wider objectives of public policy.

In particular, the effect of family wealth transfers on outcomes of interest to public policy depends on how such transfers are used. For example, inheritance transfers which are saved by recipients in pension accounts have less immediate impact on inequality than transfers used to buy property, which effectively make property less affordable to those not in receipt of an inheritance. Although someone who has used an inheritance to fund a pension may then be able to use a greater proportion of their regular income for other uses such as saving a deposit for a house purchase, this marginal difference in income has much less detrimental effect on the objectives of public policy[30].

This suggests that if the Government were to use the tax system to encourage individuals to put inheritance transfers into pension accounts, by reducing or eliminating the tax payable on a bequest paid directly into a nominated pension account, the Government could at least minimise the negative effects of inheritance transfers in terms of wider public policy. Developing such an approach, it is possible to conceive of a range of activities to which inheritances can be directed by the tax system, which are less detrimental to public and social policy.

The alternative is for public policy to be entirely neutral in how family wealth transfers are used. However, it is clear that where individuals have no incentives to use family wealth transfers in ways less incoherent with the objectives of public policy, this can result in collective behaviour that is distrastrous for public policy. A good example is the UK property market.

Key Points from Chapter 2:

- Much opposition to inheritance tax can be accounted for by the ‘bequest motive’. A first step in considering reforms to inheritance tax is to better understand the scope and incidence of the ‘bequest motive’.
- As society becomes richer and family wealth transfers become the norm, the bequest motive may actually become increasingly prevalent as perceptions of need grow.
- Given the unpopularity of inheritance tax, the Government has little to lose from exploring how an estate tax could be made popular by hypothecating it to a particular cause that would generate some utility for those leaving estates.
- More generally, reform of inheritance tax should start from the existing estate allocation preferences of individuals, and explore how these can be used to build a framework for directing family wealth transfers to uses that are the least damaging to public policy objectives.

[30] Indeed, there is evidence, for example Boreham R & Lloyd J (2008), that many young people have been forced to abandon pension saving in order to direct as much of their income as possible to saving for and purchasing property.

Chapter 3: Family Wealth Transfers and the Property Market

Rising property wealth among the oldest old has seen the value of inheritances increase dramatically. Simultaneously, increasing proportions of first-time buyers are receiving parental support, and the number of buy-to-let mortgages has increased tenfold in less than ten years. This chapter argues that the UK may have reached a tipping point: a 'property vortex' in which the volume of wealth now being recycled through inheritance transfers and the property market may continue to inflate property prices, regardless of market sentiment.

Background

The Government wants "everyone to have a decent home at a price they can afford whether they own or rent it"[31]. Do family wealth transfers help or hinder this policy objective? Rising property prices are clearly a function of supply and demand. A key aspect of demand in a period of rising prices is the increasing amount of capital that individuals draw upon to buy properties. The funding of this demand – literally, the capital that is used to purchase property – can come from several sources, including family wealth transfers. These funding sources can be characterised as follows:

- *Population income*

The primary source of new wealth that is channeled into the property market is current and future population income leveraged through mortgages. When individuals obtain a mortgage, they effectively take a portion of their current and future income and wealth and use this capital to purchase a property[32].

A second trend in the UK property market has been a growth in buy-to-let mortgages and investments. In this section of the market, buy-to-let investors borrow on the future rental income to be derived from properties, which in turn is dependent on the future income of potential tentants. In this way, buy-to-let mortgages also capture a portion of current and future population income and use this income to purchase a property.

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[31] See http://www.communities.gov.uk/housing/

[32] Over the last few decades, the UK has seen individuals borrowing increasing amounts of money to fund their mortgages. Previous research from the ILC-UK has shown that in 1995, an average 30 year old property owner had household mortgage debt of around £50,000. Ten years later, the equivalent figure was £94,000; but, average incomes for this age group did now show a commensurate increase (Boreham R & Lloyd J: 2007). Indeed, the increase in mortgage debt cannot be simply explained by the fact that each £1000 increase in (average) income can enable the borrowing of around an extra £3000 to buy a property. Instead, there has been a long-term trend toward an increasing ratio between income and mortgage debt among first-time buyers. According to the UK Council of Mortgage Lenders, the income multiple for first-time buyers was 2.18 in 1974, but had increased to 3.36 in 2007. It is worth highlighting the huge importance of such trends for public policy. When individuals obtain proportionally larger mortgages, the current and future income they use in this way is clearly at the expense of both consumption (leisure, clothing) and productive investment (money spent on education, pension saving). This foregone consumption and investment represents both the value of the loan, and the interest that must be paid on it. During the course of a long-term mortgage, the interest payable on a mortgage loan can be equal to the value of the loan. So, in a period of rising property prices, the lost consumption and income for buyers that results from an increase of £100,000 in the price of a property may be £200,000.

- *The state*

When rising property prices undermine affordability for younger and first-time buyers, the state may subsidise such buyers by transferring its own resources into the property market. Under shared ownership schemes, individuals who might otherwise struggle to purchase a property are enabled to part-buy and part-rent a home. An individual might buy 50% or 75% of a property, and rent the remaining share. Subsequently, an individual might purchase a bigger share of a property. The remaining share of a property is usually owned by a local housing association.

Since such policies to help first-time buyers would clearly be unworkable if they were available to all, eligibility for shared ownership schemes is usually restricted to individuals who qualify as 'key workers'.

- *Family wealth transfers*

Families are actively transferring wealth to those family members who wish to purchase a property, in order that this wealth can be as a deposit on a property. The Council of Mortgage lenders estimates that 36% of first-time buyers in 2006 received parental assistance. Why would families be motivated to transfer wealth for property purchase? Home-ownership is not just a financial investment, but is associated, and for many people a pre-requisite, to enabling other crucial life course activities, such as family formation. Home-ownership also has various psychological and emotional benefits. These benefits accrue not just directly to individuals, but to their familiy.

In addition to family wealth transfers assisting in property purchases for first-time buyers, family wealth transfers may be used to fund buy-to-let investments, when some individuals use inheritances they have received as a deposit for this type of mortgage, or to purchase properties outright. The number of buy-to-let mortgages has increased from 120,000 in 2000 to over 1 million in 2007.

It is important to recognise that these three sources of wealth that fund rising property prices are interdependent: given the competitive nature of the property market, an increase in one source of wealth encourages an increase in funding from the other sources. For example, governments transfer wealth from the state into the property market precisely because so much private family wealth and population income is channelled into the property market, making homes unaffordable to some key workers.

Indeed, the use of family wealth transfers as deposits for property purchases in particular has the effect of channelling greater population income into the property market. This is because most mortgage lenders will lend borrowers higher multiples of their income when borrowers are able to put down substantial deposits on a property.

The Age of Inheritance

Rising property wealth among the oldest old has seen the average value of inheritances received increase dramatically. Receipt of inheritance varies by age group, with those aged 50+ more likely to receive an inheritance, and of higher value. Around 2.5% of the 50+ age group receive an inheritance each year, the average value of which has doubled in the last decade. This suggests that the volume of inherited wealth available to this age group that may be used to fund property purchases is increasing.

Discussion

The 50+ age group are receiving increasingly large bequests, driven by the rising property wealth of those aged 75+[33]. Having received such bequests, evidence indicates that some in this group are using this wealth in the property market for:

- The purchase of second properties:
  - At a rate of 17%, the peak age for ownership of a second property is 50-59[34].
  - The number of buy-to-let mortgages has increased from 120,000 in 2000 to over 1 million in 2007.
- Helping children with property purchases:
  - The proportion of first-time buyers under-30 receiving parental assistance in purchasing their first home increased from less than 10% in 1995 to around 36% in 2006[35].

Data showing the precise percentage of bequests that are subsequently used to fund property purchases is unavailable. However, the evidence outlined above does strongly suggest that bequests from the oldest old are being used to fund property purchases, either as assistance to first-time buyers, buy-to-let investments or second homes.

The result is stretched affordability for first-time buyers, particularly for first-time buyers, who in turn are forced to borrow higher income multiples and seek parental assistance. This in turn further boosts property prices and the illiquid property wealth of the oldest old, which further increases the average value of inheritances to the 50+ age group.

In short, all the conditions are present for the operation of a circular streaming of wealth via bequests and the property market. This circular loop could be characterised as a ‘property vortex’, given the scope for such bequests to suck in further population income[36] and state subsidies into the property market.

Importantly, the average value of inheritances from the oldest old may continue to increase as succeeding cohorts with higher rates of property ownership reach the peak age for mortality and transfer their wealth downwards as inheritance[37]. The volume of wealth being transferred as inheritance may increase in the future, despite any fall in house prices.

A ‘property vortex’?

How will this cycle of wealth respond to a downturn in house prices? In a period of stagnant or declining property prices, the use of bequests for investments in property, such as buy-to-let investment, may also decline, as individuals see such investments as offering high-risks and low-returns. This reflects the fact that buy-to-let investments are financial decisions and investment choices.

However – crucially – it is not clear that families deciding whether to assist each other with property purchases make such purchases using solely investment criteria. Even when property prices are falling, families will be motivated to maximise outcomes for other family members that can be achieved through transferring wealth for property purchases. For example, grandparents may be extremely keen for grandchildren to spend their early life in

[33] The average net household wealth of those aged 75+ increased from £62,000 in 1995 to £139,000 in 2005.
[34] Boreham R & Lloyd J (2007).
[35] Tatch J (2007).
[36] As noted, borrowers in receipt of significant family wealth transfers for use as deposits for a property purchase are usually able to borrow a higher multiple of their income.
[37] The value of estates at death is primarily determined by property wealth, which is around 70% of total net assets for the oldest age groups (Boreham & Lloyd: 2007). Critically, rates of property ownership are increasingly high among those cohorts that will reach mortality age in the coming decades.

safe – and more expensive – residential areas, given both residential area and tenure are key determinants of quality of life and other outcomes.

Given such temporal life course constraints – children are not children forever, couples cannot wait forever to start a family – family wealth transfers used for property purchases are not motivated by a desire to maximise long-term financial outcomes, but by a desire to maximise other outcomes, such as child development. This reflects the fact that homes are not just investments, but essential sites for other life course outcomes, and investments in human and social capital.

As such, families will continue to be willing to reduce their own consumption or saving for the benefit of other family members in assisting property purchases, and this may involve the use of bequests. In short, changes in sentiment in the property market may have only limited impact on the the use of family wealth transfers to fund property purchases.

Recommendations

- *Research on family wealth and the property market*

The evidence summarised above indicates that bequests may be a key source of wealth for funding property purchases[38]. Given its objective of affordable housing and more generally the negative outcomes that result from high house prices, the Government should invest in research to understand more about the role of family wealth in the property market. Although the Council of Mortgage Lenders provides data on the extent of assisted first-time buyers, bequests may be being used to fund and assist a range of property purchases, including purchases by those who are already several steps up the property ladder and those for whom receipt of a family wealth transfer removes the need for a mortgage.

In particular, more research is required to understand whether the UK property market has reached the tipping point at which family wealth transfers will continue to be invested by families regardless of trends in property prices, because of the availability within families of liquid wealth to transfer, low levels of affordability, and the desire for this wealth to aid key life course outcomes that occur as a result of property ownership.

- *Limit affordable homes*

As described, policies to increase affordability often involve shared ownership schemes, which act to increase the wealth that is being channelled into the property market, in effect supporting property prices. While providing short-term relief, shared-ownership ultimately exacerbates the problem it seeks to address. The Government can always argue that if housing costs risk a shortage of key workers in particular areas, such as nurses or teachers, the effects for society would be catastropic. Nevertheless, the Government could consider alternative policies such as subsidising rentals costs for key workers, or in fact, raising their salaries in targeted areas.

- *Encourage other uses for bequests*

If a ‘property vortex’, so described, is in operation, how could the Government halt it? It would be extremely difficult for the Government to block the use of family wealth transfers to fund property purchases. Instead, the Government could look at taxes and other

[38] Popular discourse now talks of the ‘Bank of Mum and Dad’ to describe young people receiving inter-vivo gifts from parents at or around retirement age. The implication of such discussion is that some individuals may be risking their own retirement resources to support their offspring. However, in many instances the ‘Bank of Mum and Dad’ may in fact only be a ‘holding facility’ for bequests from elderly relatives.

incentives that would encourage individuals to direct the money elsewhere. As described in the previous chapter, the Government could institute tax relief for bequests placed directly into nominated pension saving accounts. The Government could also look at penalising the use of family wealth in property, whether through taxes on deposits as a replacement to stamp duty, or for the introduction of a capital gains tax on primary homes. Alternatively, the Government could regulate the income multiples that mortgage providers lend to borrowers, so that those in receipt of family wealth transfers cannot borrow significantly more than those not in receipt of such a transfer. However, each of these approaches would problematic.

Key Points from Chapter 3:

- Family wealth transfers are a critical source of new wealth that enables property purchases and drives rising property prices, alongside transfers from the state and future population income allocated to property. Each of these sources of wealth are interdependent in that an increase in one will cause an increase in another.
- Alongside rising values of mean inheritance identified in *The Age of Inheritance*, the number of buy-to-let mortgages has increased dramatically, and the proportion of first-time buyers assisted by parents has also grown significantly. It appears that family wealth transfers have contributed to these trends, both of which have served to boost the value of the estates of the oldest cohorts, further increasing the value of inheritance transfers.
- All the conditions are therefore in place for a circulation of wealth around the property market and estates of the oldest cohorts.
- However, given the potential of family wealth transfers to prompt more transfers from the state and more future population income to be allocated to property, this circulation of wealth could be characterised as a ‘property vortex’. Crucially, since the decision to use family wealth transfers for property purchases is not based solely on investment criteria, but reflects the crucial role of home ownership in key life course developments, this effect may continue even in a period of stagnant property prices.
- Limited responses are available to the Government, but include undertaking more research into the use of family wealth transfers in property purchases, limiting the scope of ‘affordable homes’ which serve to transfer resources from the state to the property market, and exploring other tax and regulatory options.

Chapter 4: Family Wealth Transfers in an Ageing Population

An ageing population creates a set of fiscal challenges for society. Debate on how to pay for an ageing population seeks to balance responsibility between the individual and the state, and between one generation and the next. What do patterns of family wealth transfer mean for this debate?

Background

The UK population is ageing. Allowing for changes to the state pension age, the number of pensioners in the UK will increase from 11.3 million in 2006 to almost 15 million by 2031. The numbers of individuals in the oldest age bands will increase the fastest. In 2006, there were 4.7 million people in the UK aged 75 and over. This number is projected to increase to 8.2 million by 2031[39].

A key issue posed by an ageing population is the declining elderly support ratio. This is the ratio of the number of individuals of working age to the number of individuals of pensionable age. Allowing for the rise of the state pension age to 66 for both sexes by 2026, the number of people of working age for every person of state pensionable age will reduce from 3.32 in 2006 to 2.91 by 2031[40].

The declining elderly support ratio poses a major challenge for policymakers and society. Most taxes are a tax on some form of economic activity, whether earning money (income tax and national insurance) or spending it (VAT). A key effect of a declining elderly support ratio in the UK will be a relative reduction in the tax base available to pay for public expenditure, even as an ageing population increases pressure on public spending.

The problem is compounded by the fact that some public services are used principally by those over the state pension age, such as the NHS[41]. The fiscal and public expenditure implications of demographic change have resulted in an ongoing debate about how the UK can best pay for its ageing population, while ensuring the dignity, welfare and human rights of older cohorts.

This debate involves a set of dilemmas and choices for society. First, how much can individuals expect to rely on the state in retirement, as opposed to using their own means and resources? Second, how much can policymakers place the cost of paying for an ageing population on the working-age population, both within and beyond the current functioning of the intergenerational contract (i.e. the NHS and state pension), without risking negative outcomes for the working-age population, e.g. pension under-saving?

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[39] ONS (2008).
[40] ONS (2008).
[41] Perhaps the biggest challenge is for the National Health Service (NHS), which is entirely funded through general taxation, but whose resources are mostly consumed by those in old age: the majority of health resources that an indiviual consumes during their lifetime is in the latter stages of life (Seshmani & Gray: 2004). An increasing number of older people in society therefore implies greater societal expenditure on healthcare. However, over the coming decades, technological and scientific advances in healthcare may see increases in the cost of healthcare that individuals expect or wish to receive. A symptom of this that is already visible are the regular cases of individuals seeking potentially life-saving treatment or medication, but which the NHS is unavailable to pay for. For these reasons, many commentators are worried as to how the NHS will adapt to demographic change.

Further questions abound over risk-sharing functions of the state, and whether certain services, such as long-term care, should be funded through the state, private insurance or other mechanisms, such as social insurance funds[42]. In addition, given both increases in the overall net non-pension wealth of older cohorts that has occurred in the last decade, and the proportion of this wealth accounted for by illiquid property wealth[43], how can policymakers access this wealth, both directly and through facilitating individual consumption of it?

Complicating all these questions are a number of related issues:

- The wide disparity in income and wealth across older cohorts, suggesting that single solutions will not be appropriate across all groups, and an inevitable recourse to assesments of means.
- The declining cognitive capacities – and therefore financial capability – of older cohorts potentially limiting participation in publicly and privately organised financial products or schemes[44].
- The fact that most pension income rises with inflation but not average earnings, meaning that the longer someone lives, the further below the societal average their income will be[45].
- The substantial institutional and popular resistance to consideration of housing wealth as an aspect of the wealth of older cohorts[46].

What do patterns of family wealth transfers mean for these policy challenges?

The Age of Inheritance

Historical trends in the receipt of inheritance show average inheritances increasing in value, and that this is partly associated with age. Among the 2.5% of the 50+ age group that receive an inheritance each year, the average amount received has increased from around £30,000 to £60,000 between 1998 and 2004.

Analysis found that a large proportion of older cohorts expect to leave significant amounts of inheritance. Individuals aged 50-79 typically report that the probability of leaving an inheritance worth over £150,000 is more than 50%.

Discussion

The Age of Inheritance showed that the average amount of inheritance received is increasing, and older people continue to expect to leave significant bequests in the future. Indeed, expectations of leaving an inheritance correlate strongly with property ownership and rates of property ownership are higher among the succeeding cohorts reaching the peak age of mortality.

These findings provide an important insight for debate on how to pay for an ageing population: when individuals do not consume their (property) wealth in retirement, much of this wealth is passed on as inheritance, with associated externalities for equality of opportunity and the housing market outlined in previous chapters, as well as social policy more generally.

[42] Lloyd J (2008).
[43] Boreham R & Lloyd J (2007).
[44] Banks J et al. (2004).
[45] Boreham R & Lloyd J (2007).
[46] For example, eligibility criteria for pension credit ignores the value of someone's primary home, meaning that an individuals owning a property worth in excess of a million pounds could be eligible to pension credit. In reality, retirement income is closely associated with liquid and property wealth, suggesting that the number of individuals in this category would be very small.

Recommendations

A new debate about paying for an ageing population

The rising value of their property assets has seen today's older cohorts, particularly the 'young-old', becoming by far the wealthiest cohort in history. Future fluctuations in house prices may see some of this accumulated wealth depleted. However, older cohorts are likely to remain significantly wealthy in asset terms, even while many experience retirement incomes that fall progressively further behind average population incomes and nudge them into poverty.

This shows that where stakeholders and public policy either seeks to protect, or does not consider, the overall wealth of older cohorts, the result is not necessarily to protect older people themselves, but to protect their bequests. Two key factors contribute to this outcome:

- A widespread belief common among many older people and policymakers in the 'inalienable right to property'[47].
- The fact that illiquid property wealth is difficult for older people to access. Many older people have no wish downsize or move house. The use of 'equity release' products is limited.

The general absence of demcumulation among older cohorts leads directly to increases in the value of bequests individuals receive, with associated implications outlined in previous chapters, for social policy, inequality and the housing market.

Going forward, these observations suggest a more nuanced debate on the challenges of paying for an ageing population is required. More stakeholders must recognise that if individuals do not decumulate their wealth in retirement, this results directly in increasingly valuable inheritance transfers. At the very least, the research suggests that new consideration should be given to how housing wealth can be used to fund retirement.

Equity release

If the rising property wealth of older cohorts is contributing to sharp increases in the mean value of inheritances, how could this wealth instead be used to pay for an ageing population? The dominance of illiquid wealth in the assets of older cohorts has seen an ongoing debate about how to enable older people to consume this wealth. Multiple stakeholders across the private, public and charitable sectors are keen to explore the potential role of equity release products.

Equity release products are financial products for older people that enable them to release part of the value of their home as a lump-sum or income, without having to move house. Discussion of 'equity release' typically lumps together two entirely distinct financial products, albeit ones which achieve largely the same outcome:

- 'Lifetime mortgages' – an individual takes out a loan secured on their home. The individual does not make payments to repay the loan, but the loan does accrue interest. When a person eventually dies, the loan is paid off through the sale of the property[48].
- 'Home reversion plans' – an individual sells all or part of their home for a cash lump-sum, which is eventually repaid when the house is sold.

[47] This was a finding of research by Finch J and Mason J (2000). However, some research provides evidence of a pragmatism regarding the of property wealth (Rowlingson: 2006).
[48] Modern products now typically impose limits, such that the value of the loan with accured interest cannot exceed the value of the property.

Despite the apparently favourable conditions present in the UK, the size of the equity release market is negligible. Low awareness and trust in equity release products has been a factor. Lifetime mortgages suffer from the fact that many older people no not like to accrue compound interest on a loan, and are not comfortable with being in debt while in retirement, particularly having spent years paying off their mortgages. Conversely, home reversion plans, most of which involve the payment of a cash lump-sum, necessarily involve a value paid for a share of a person's home that is usually well below the market value, making the products unattractive for many potential users. Research has also found that some individuals prefer the idea of trusts or charities organising equity release products[49].

Numerous studies and reviews of equity release products have been undertaken by the private and charitable sector. Nevertheless, the potential role of such products in paying for an ageing population must be explored further. The Government should also ensure that the complete regulatory framework required for the growth of the equity release market is in place.

Public, private and charitable sector stakeholders must also explore whether the design of equity release products can be improved. This may be in relation to branding, the use of government-backed bonds to provide low-cost capital, and a framework that improves the attractiveness of products for individuals at different stages of retirement.

Annuitising housing wealth

An annuity is a financial product that individuals buy around the point of retirement using their accumulated pension saving. An annuity is effectively an insurance product: it pays a regular income until death whenever this occurs, and allows individuals to pool the principal risk associated with planning their retirement income, i.e. not knowing how long they will live. For this reason, most stakeholders regard annuities as the best financial product for retirement income, despite being unpopular with some sections of the public. This is also why tax relief is granted to pension saving accounts, which are tied to their eventual use for purchasing an annuity.

The annuitisation of pension savings is the most commont type of annuitisation, although any cash lump sum can be annuitised in old age, including the cash lump-sum resulting from a home reversion scheme.

However, no financial or equity release product allows individuals to annuitise housing wealth directly. This suggests an interesting opportunity for a new kind of equity release product that enables individuals to annuitise a portion of the value of their home. For example, by annuitising 40% of the value of their home, an individual would receive a regular income up until their death, in addition to their pension income, and be able to remain in their home until death, having reduced the percentage of their home that they actually own outright.

Given that the income provided by an annuity is completely open-ended, individuals may see such products as better value than current home reversion plans or lifetime mortgages. 'Housing equity annuities' could provide an important opportunity that the Government and the private sector should explore, and which may enable individuals to consume more of their wealth in retirement, rather than simply leaving it as a bequest.

Using housing wealth to beat 'longevity poverty'

Annuities, the bulk of which are bought using accumulated pension saving, have a major limitation from the perspective of public policy: the income provided by annuities is linked to inflation, not average earnings. Given that average incomes increase faster than

[49] Rowlingson K (2006).

inflation, the longer that someone lives, the further their pension income falls behind average incomes. This is, in effect, the recurring problem of pensioner poverty: the longer someone lives, the more excluded an older person becomes from the levels of consumption that the rest of society takes for granted[50]. This 'longevity poverty' – the poverty that results from longevity – is perhaps the biggest public policy challenge posed by an ageing population.

There is wide-ranging interest in cracking the problem of longevity poverty. For example, some stakeholders have proposed the use of annuities specifically designed to addess the problem of longevity, and which provide an income from the age of 75 and over[51].

However, the dominance of illiquid property wealth over liquid wealth and income in the retirement wealth holdings of older cohorts, together with the potential for the annuitisation of property wealth, suggests a range of new policy options that might address the challenge of longevity poverty.

Given that equity release products are most effective for the short to medium-term, and given that longevity poverty is more acute over the age of 75, the annuitisation of property wealth could be targeted at this age, effectively creating a 'two-step' annuitisation of wealth in retirement at the ages of both 65 and 75.

Within this framework, various scenarios could be conceived. Recognising the risk of longevity poverty, the Government could provide tax relief for the use of housing equity annuitities by those over 75. The Government could also explore the provision of low-cost capital by the state to make products more attractive[52].

Nevertheless, it is important to recognise that the possession of housing wealth in retirement is associated with liquid wealth, as well as personal and state pension wealth. The wider absence of decumulation among older households and the potential of equity release should not therefore be seen as a simple remedy to pensioner poverty, nor as negating the responsibility of society to provide a good state pension.

Housing with services

Many individuals in old-age continue to save a regular portion of their income right up until death. This illustrates an interesting aspect of retirement behaviour: individuals adapt to lower incomes and adjust their expectations and consumption accordingly. As a result, some individuals will not actually consider themselves as being in poverty or in need of higher income. This suggests a challenge to any future use of housing equity annuities.

However, in line with the ageing process, older individuals may recognise their need for particular kinds of tangible services including, but not limited to, social care. This suggests that in addition to the use of housing equity annuities, there may be scope to develop products for which housing equity is exchanged under shared ownership for a service. For example, where individuals recognise they would benefit from the installation of assistive technology – widely anticipated to be a feature of many older people's homes in the future – individuals may be willing to exchange part of the value of their home for such services that allow them to remain independent and in their own home. The Government and other stakeholders should explore these opportunities.

[50] This feature of retirement income was demonstrated by research published by the ILC-UK (Boreham & Lloyd: 2007). This analysis showed that from the age of around 60 and above, individuals experience flat real incomes when taking account of inflation.
[51] http://www.lifetrust.com
[52] Indeed, it is interesting to note that although equity release provision is made through a some local authorities, 'shared ownership' with the state remains focused on those at the bottom of the property ladder.

Key Points from Chapter 4:

- The fact that older cohorts are able to leave increasingly valuable inheritances needs to be considered in debates around how to pay for an ageing population. It is important that all stakeholders realise that efforts to ‘protect’ older people by shifting fiscal responsibilities to the state may only serve to protect the value of bequests.
- ‘Housing equity annuities’, in which individuals use a share of their property wealth to purchase an annuity, could prove more popular than traditional equity release products.
- Given the problems of ‘longevity poverty’, the Government should explore how a two-step annuitisation of wealth in retirement may improve the incomes of those over-75, and how tax and social policy frameworks could enable this to happen.
- In addition to housing equity annuities, some individuals may prefer to exchange part of the value of their property for a service, such as the installation of assistive technology in their home.

Chapter 5: Conclusion - A Policy Framework for the Age of Inheritance

> *More than ever before, family wealth transfers are a reality with both positive and negative effects on public policy. What sort of policy framework is required in this new era of inheritance? What should the Government encourage individuals to do with family wealth transfers?*

In *The Age of Inheritance*, family wealth transfers are a reality. How should the Government respond? Policymakers confront several fundamental challenges in formulating an approach:

- How to draw a balance between the positive and negative externalities of family wealth transfers for public policy.
  - Such externalities are not easily measurable and comparable, and it is extremely difficult to achieve political consensus on the true value or effect of these externalities, such as inequality of opportunity.
- How to insert policy interventions into family wealth transfers.
  - Unlike most taxes, which fall on some form of economic transaction, whether on a salary payment or purchase of alcohol, family wealth transfers are considerably more difficult to catalogue and measure as they occur.
- How to distinguish family wealth transfers from other forms of individual wealth.
  - Any attempt to limit the use of family wealth transfers received, perhaps to maintain equality of opportunity, cannot distinguish their use from the other capital available to a person, for example, resulting from individual saving. In fact, it is not just the possession of wealth but also the expectation of it that has the potential to positively affect behaviour and outcomes.
- Family wealth transfers are inherently varied and unpredictable
  - Although *The Age of Inheritance* has shown average trends in family wealth transfers, wide variations exist across different groups resulting in particular from the discretionary nature of both inter-vivo transfers and the allocation of estates involved in bequests. It is therefore difficult for policy to be formulated on the assumption that individuals have access to significant family wealth transfers.
- Family wealth transfers are political.
  - Both bequests and inter-vivo transfers are often motivated by powerful parental instincts. Any attempt to increase the incidence of taxation on family wealth transfers is always likely to meet strong opposition which politicians will ultimately be able to use for boosting political support.

Recommendations

Recognise that family wealth transfers are not universal

On various different measures, family wealth transfers undeniably increase societal inequality, particularly given tentative evidence in *The Age of Inheritance* that such transfers are associated with higher socio-economic groups. Moreover, given the scope of family wealth transfers for use as ‘productive investments’, family wealth transfers are inconsistent with attempts by policymakers to deliver equality of opportunity.

Given the unpopularity of taxing inheritance transfers explicitly, this suggests that policymakers should focus on ensuring that the absence of such transfers does not confer disadvantage on the life course. Clearly this approach is already visible in many aspects of social policy, but its importance is underlined by the growth in family wealth transfers now being experienced.

Direct the use of family wealth transfers

The receipt and use of large family wealth transfers can generate positive and negative externalities for public policy. This suggests that the use of family wealth transfers for different purposes will be either more or less coherent with the objectives of public policy. For example, as outlined in Chapter 4 of this report, the excessive use of family transfers to fund property purchases generates negative effects above and beyond the implications for a single individual. At the other extreme, family wealth transfers used to fund trivial consumption, such as CDs or clothes, have limited effects for public policy.

A key task for policymakers is therefore to address the question: what should public policy encourage individuals to do with family wealth transfers? For example, as this report has identified, although the use of bequests for pension saving may allow recipients to reduce other forms of pension saving, the use of family wealth transfers for this purpose is significantly less negative for public policy than other uses.

Decumulation and social policy

Family wealth transfers have the potential to reproduce the inequality that exists across the oldest cohorts among younger cohorts, and to compound the forms of adversity that limits wealth accumulation, for example long-term ill-health. The failure to decumulate among older cohorts has a social policy cost.

Rising property prices have driven the increasing household wealth of older cohorts These price rises reflect increasing average earnings, and ultimately, economic prosperity. In the absence of both widespread decumulation in retirement or an increase in the scope of inheritance tax, it seems the result of economic prosperity will be growing inequality.

Traditionally, social policy has focused on cash transfers to the poorest groups to limit the scope of disadvantage and enhance equality of opportunity. However, as the average value of inheritances received exceed far beyond a level at which the state can meaningfully enact compensatory social policies, the nature of social policy may have to change[53]. The first step in this process is to ask the question: why are individuals dying with such high levels of wealth? Why do individuals not decumulate?

A remarkable aspect of political and public policy debate is how little attention is given to decumulation. Economic and social policy focuses on increasing general levels of wealth and individual accumulation. Rarely does discussion look at enabling individuals to consume their wealth within their lifetime, or the difficulties individuals confront in decumulating their wealth in retirement. The topic of enabling individuals to decumulate their wealth has received comparatively negligible attention and comment, particularly by those concerned with the social effects of family wealth transfers.

This suggests that a key objective for social and public policy should be: to enable individuals to decumlate as much of their wealth as possible during their lifetime. In a world in which individuals decumulated – i.e. consumed – all of their wealth in their lifetime, inheritance tax would be obsolete.

[53] For example, although asset-based welfare and ‘child trust funds’ may achieve positive pyschological and behavioural change in individuals, the value of a typical child trust fund cannot compete against the size of private transfers increasingly available to many individuals.

The 'Total Annuitisation' Challenge

The first challenge in decumulating wealth at the end of life is uncertainty over how long life will last. For this reason, annuities exist, and although rarely discussed in such terms, are an essential tool for social policy, not least because they enable individuals to consume their wealth in their lifetime, and are transferrable to partners, but not children[54].

The second difficulty in decumulating wealth for many older people is the fact that so much of it is locked in the value of their property. Few, if any, older individuals wish to sell-up completely and become renters in retirement, and traditional equity release products are not generally popular.

However, from a public policy perspective, and certainly from the perspective of social policy, the objective should be clear: to give individuals the opportunity to annuitise 100% of their wealth in retirement, if they so wish, including property wealth. This is the 'Total Annuitisation' Challenge to which policymakers and the financial industry must now step up.

Total Annuitisation implies being able to annuitise some or all of the value of your home in retirement, most likely through some form of shared ownership or 'home equity annuitisation' product, that enables individuals to remain in their home. Within this framework, a whole range of regulatory and tax policy options can be conceived to enable and encourage annuitisation, particularly around the notion of a two-stage annuitisation in retirement in which property wealth is annuitised at 75, rather than 65, which is the traditional age for the annuitisation of pension saving. Focusing on Total Annuitisation should also be politically acceptable among all stakeholders, since this approach implies individuals consuming their wealth, and paying tax on the goods and services they consume, rather than paying a tax after death.

The housing market

A key challenge to the decumulation and annuitisation of property wealth are the uncertainties that exist in property markets. Large fluctuations in house prices, both up and down, represent a failure in public policy. A number of the recommendations in this report would benefit, or even require, a more predictable housing market. Decumulation of property wealth would also be better enabled by reforms to the sale of and purchase of properties.

Few areas of the economy are therefore as ripe for reform as the housing market, with its multiple inefficiencies and information asymmetries. Fixing the operation of the housing market will be a vital part of enabling individuals to decumulate and annuitise their retirement wealth, and a key task for Government in the age of inheritance.

Key Points from Chapter 5:

- Although inheritance transfers are increasing in value, the receipt of such transfers is not universal, and public policy should always recognise this fact.
- Family wealth transfers generate both positive and negative externalities for public policy, and there is scope to direct the use of such transfers so as to minimise negative externalities.
- Decumulation remains a hugely neglected topic. Enabling individuals to decumulate as much of their wealth as they wish should be an objective of social policy.

[54] It is sometimes observed that annuities can appear poor value and rather unfair for those who die shortly after purchasing them. However, various measures enforced by regulation can address these dilemmas.

- Since annuities are the best retirement income product, all stakeholders should now address themselves to the ‘Total Annuitisation’ challenge: the challenge to enable individuals to annuitise all of their wealth in retirement if they so choose.
- The inherent unpredictability, fluctuations and other probems associated with the operation of the housing market have long been a barrier to decumulation. Fixing these problems will be the first task in the age of inheritance.

Appendix

Transfers of family wealth are highly complex and determined by many factors. What follows is a non-exhaustive list of some of the main factors involved.

Variations in Inheritance

What factors explain variations in the amount and timing of receiving inheritance? Factors affecting the value of an estate include:

- Life-time earnings
  - Time of entry and exit from the labour market.
  - Earning power, related to skills and personality.
  - (Un)employment history.
  - State of labour market (opportunities) when of working age.
  - Incidence of factors forcing exit from labour market such as ill-health and caring responsibilities.
- Lifetime earnings from investments and asset (house) price inflation.
  - Choices about when and how to invest money, determined in part by financial capability.
  - Attitude and perceptions of risk.
- Choices about consumption and saving both pre- and post-retirement.
- Choices about types of savings.
- Family circumstances
  - Incidence of family breakdown (divorce, separation) and associated costs.
- Mortality – the age at which someone dies will affect the value of an estate.
  - The value of an estate will be determined by someone's age, in the sense that the longer someone lives, the greater their opportunity to accumulate wealth. More importantly, the value of an estate will be determined by whether someone is in the wealth accumulation or decumulation stage of life at time of death. Traditionally, the 'life-cycle model of consumption' has assumed that individuals accumulate wealth before retirement and decumulate wealth from the moment of retirement. Indeed, this model has informed academic research on inheritance transfers[55]. However, accumulation can be driven by external factors resulting in ongoing increases in net wealth in retirement. For example, this may occur during a period of sustained and significant rises in property prices, that may result in individuals accumulating as much wealth post retirement as pre-retirement[56].

Factors determining the value of an inheritance received include:

- Family stuctures
  - Membership of a larger family structure may involve sharing an estate with multiple siblings or relatives.
- Attitudes to wealth transfer
  - Bequeathors may regard receipt of large amounts of inherited wealth as potentially demotivating or inappropriate, so instead opt to allocate their estate to charity, political parties, etc.
- Perceptions of need and merit
  - How individuals allocate estates may depend on perceptions of need and merit among family members.

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[55] For example, see Gokhale J et al. (2001).

[56] Arguably this occurred in the decade after 1995, as shown by Boreham R & Lloyd J (2007).

- Relationships at death
    - The strength of family bonds over the life course can vary significantly, and decisions around estate allocation may depend on the nature of family relationships at the time of death, or perceptions of other exchanges that have taken place, for example, in the context of care[57].

Variations in Inter-vivo Transfers

What factors explain variations in the inter-vivo transfers? First and foremost, this is determined by the level of liquid wealth available to transfer. Most households have income, liquid wealth (savings, bonds, shares) and illiquid wealth (property). However, unless individuals downsize or use an equity release product for the purpose of transferring wealth, the value of funds available to transfer inter-vivo will be largely determined by levels of household income and liquid wealth at any moment during the life course.

What factors explain the (potential) value of inter-vivo transfers?

- Liquidity
    - How much of a household's overall assets and wealth are liquid.
- Choices and perceptions regarding current and future income and consumption needs.
    - For example, perceptions of retirement income need and expected provision will determine levels of inter-vivo transfers.
- Lifetime earnings from employment and investments.

What factors explain the timing and incidence of inter-vivo transfers?

- Financial capability
    - Inter-vivo transfers may require a level of financial capability to implement, and the ability to liquify assets.
- Attitudes to wealth transfer
- Perceptions of need and merit
    - Among individuals both making and receiving inter-vivo transfers, perceptions of whether a transfer is needed or deserved will determine the scope of inter-vivo transfers.
- Perceptions of obligation
    - Inter-vivo transfers within families may occur in response to the exchange of time and effort, such as care provision or home maintenance.
- Taxation stucture affecting inheritance and gifts[58]
    - Some inter-vivo transfers may occur precisely to avoid incurring inheritance tax. More generally, the structure of taxation for inheritance and inter-vivo transfers will affect the timing and value of family wealth transfers.

This brief thumbnail review serves to show the complex and multiple determing factors that affect the value, scope and nature of family wealth transfers. Ultimately, such wealth transfers are as complex and unpredictable as human behaviour, and as messy and uncertain as human relationships.

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[57] However, qualitative research by Izuhara M (2004) found limits to the private commodification of family care in this way.
[58] Research, such as Bernheim et al. (2004), has demonstrated empirically the effect of changes to estate taxation on inter-vivo transfers.

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