The giving age
inheritance in the context of an ageing population

A report from

The International Longevity Centre UK

Prepared by

the future foundation

Introduction

The net value of household wealth in the UK is over four trillion pounds, up from two and a half trillion in 1987[1]. Yet, surprisingly little is known about how this wealth is accumulated or held. As Banks and Tanner noted a few years ago:

> '*Remarkably little is known about how much households save or the forms in which they save. Unlike income or expenditure, there is no official individual or household survey collecting detailed information on saving and wealth holdings on an on-going basis.*'[2]

Equally, not much is known about what these assets are used for. There are a number of reasons why people might wish to accumulate such an asset pool. They include: helping 'smooth' receipts and expenditures over the course of their lives (for example, by saving up for retirement)[3], saving up for specific future events (a holiday or their children's education, for instance) or for helping other family members (like children) – either through the course of their lives or through the mechanism of inheritance. Research suggests that all these motivations apply in different circumstances[4].

But there is almost no information to date on the transfer of assets within families – and certainly not on the specific issue of inheritance. This is important as around £35 billion a year is left in estates. This is a huge amount, the equivalent of over 5% of consumer spending in any one year and an understanding of its distribution and usage is important to government and the financial services industry alike. This report aims to provide some illumination on this and the impact the receipt of inheritance has on people's lives. It involves a special analysis of a unique data source – the British Household Panel Study (BHPS) – that provides the first seriously quantified information on some of these issues ever published in the UK (see Appendix).

The importance of inheritance – how large it is on an annual basis, the nature of the recipients and the impact it has on them - is thrown into starker contrast when one considers some of the social changes also taking place. In particular, the increase in longevity that has already happened over the last 100 years - and is forecast to, if anything, accelerate over the next – could have profound implications for the nature of, attitudes to and implications of inheritance. For example, as longevity increases, so there are more four, or even five, generation families. Anecdotal evidence suggests some families are already 'skipping' generations to pass inheritance onto younger members who, for instance, need help to get into the housing market. But how prevalent is this? This study allows us to make some first tentative assessments of this.

[1] *Social Trends*, Office of National Statistics
[2] *Household Saving in the UK*, James Banks and Sarah Tanner, Institute of Fiscal Studies, 1999
[3] See, for example, the 'life-cycle model' of savings as proposed by Franco Modigliani and others
[4] See, for example, Future Foundation work for Abbey National on life-cycle cashflows and for Abbey's mass affluent service Inscape on the accumulation and use of liquid assets.

In this report we address five issues:

- How much do people receive from inheritance in any given year?
- Who does it go to?
- What impact, if anything does it have on the recipients – financially, socially and psychologically? And how much does this depend on the amount received?
- What issues does this raise for government and the private sector?
- What further research is needed?

Inheritance according to the Inland Revenue

The Inland Revenue collects detailed figures on the values of estates for Inheritance Tax purpose. To date these have been the only substantive figures on inheritance available to researchers. The data provide a good picture of the value of assets held by many individuals in the United Kingdom (people with less than £5,000 do not have to go through the probate process). But, no-one to date has been able to assess where this money goes and how the receipt of such money might affect people's lives. Now, thanks to the BHPS, we can do that. Before we get on to these new data and analyses, let us consider the key figures from the Inland Revenue data set.

Around 600,000 people die each year but in tax year 1999-00 (the last for which detailed breakdowns are available), the Inland Revenue collected data on 282,570 estates that had combined net capital assets of £34.6 billion. The assets in the estates break down as follows:

Securities	Cash	Loans etc	Insurance policies	UK residential buildings	Other buildings and land	Other assets
23%	23%	1%	6%	37%	2%	7%

Much of this huge amount comes from a few very large estates. For example, the top 1% of estates account for 15% of the total and the top 3% for nearly 30%. Over half (54%) of the £34.6 billion comes from a mere 14% of the Inland Revenue returns. The average estate is worth £127,000.

But, of course, not this entire large amount is available for inheritance. First, the Inland Revenue takes its cut via inheritance tax (the reason, after all that it collects such comprehensive figures). This currently amounts to around £2 billion each year. The other major 'call' on the estates is the growing area of legacy income where money is donated to charities on death. At the moment this is running at about £1.5 billion per annum.

If we deduct these figures from the total Inland Revenue figure we should have a reasonable estimate of the amount of money available each year for inheritance. But, we also want to make that figure comparable to the data coming from the BHPS and for reasons discussed in the appendix these are drawn from a four year period 1996-2000. The value of estates had been growing rapidly over that period – up from £25.2 billion in 1996/97 to the £34.6 for 1999/00 (a 45% increase). So to get comparable data to the BHPS we need to average the Inland Revenue data for the four tax years from 1996-2000. The average value of estates over this period was £28.8 billion. If we then take away the inheritance tax and legacy contributions (discounted somewhat for the earlier periods) we get a total figure for inheritance of perhaps £25.5 billion per year over the 1996-2000 period. But how does this compare with the figures from the BHPS?

Comparison with the BHPS data

According to the BHPS, in any one year around 2.5% of the adult population receive an inheritance of some sort – about 1 in 40 people - with the average amount received between 1996 and 2000 being £17,500. This points to a figure of around £22 billion being received in inheritance across the country as a whole – a significant contribution to the wealth of those receiving it.

This should be directly comparable to the Inland Revenue figures from above but, as can be seen, is somewhat lower than that figure of around £25.5 billion. That said, the difference – a shortfall on the BHPS estimates of around 15% - is not to our mind of undue concern. The reasons for the shortfall are not the subject of this research project (although it could well justify a separate study) but we suggest briefly three possible explanations. First, monies from the estates may be slipping 'out' of the system: either going on expenditures, post-death, that we have not considered; or, possibly, leaving the country (specially with some of the larger estates). Second, it is quite possible that the BHPS is under-representative of very high wealth people. Although representative of the population as a whole it is quite likely that few people in the 'super-rich' category – who, despite their low numbers, account for a significant proportion of the estates – are willing to take part in a survey like the BHPS. Third, a certain amount of inheritance must be going to people aged under 16 who are not asked the relevant question in the BHPS survey. Given, as we outline later, the relatively small sums currently going to 16-29 years olds this is unlikely to be the whole reason for the shortfall but it could account for as much as much as £1-1.5 billion. With these caveats in mind, we believe that the relatively close match between the BHPS and Inland Revenue figures shows that in the BHPS we have a robust analysis of what is happening - as far as the receipt of inheritance is concerned - to the vast majority of the British population.

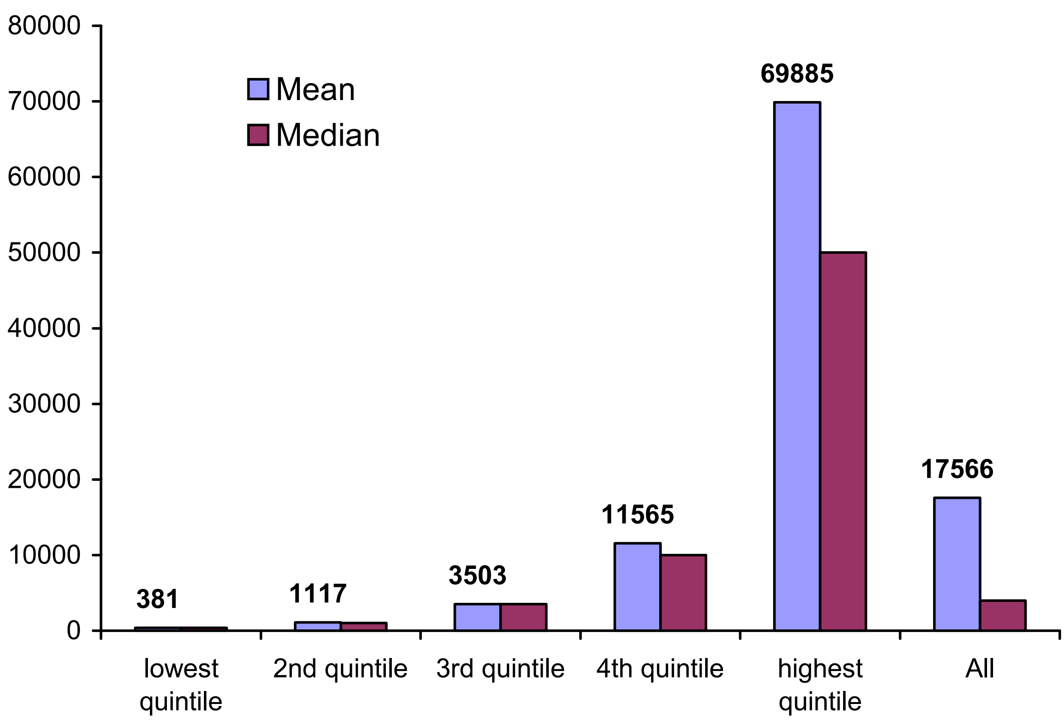
Before going on to look at who is receiving these inheritances each year, there is one last comparison that can be made with the Inland Revenue data. As we noted earlier, over 250,000 estates pass on death each year. Yet the BHPS suggests there are around 1.2 million adults being recipients – suggesting that each estate is distributed, on average, to between four and five people. This can also be considered from the monetary point of view. After considering the deductions noted earlier (tax and legacies) the average estate over the 1996-2000 period was around £90,000 but the average receipt according to the BHPS was £17,500 – suggesting the average estate is distributed to about five people, a similar figure to that calculated using recipients rather than amounts.

Who inherits?

Before discussing whom it is who inherits it is worth making the point that there is a substantial range in the value of bequests. The lowest quintile of inheritance (the 20% of the recipients who had the smallest amounts) has a mean value of £381 and a median value of £400. The highest quintile (the 20% receiving the most) has a mean bequest of almost £70,000 and median of £50000. The middle three quintiles of inheritance have mean values ranging from £1117 to £11565. So, many people are receiving fairly small amounts – 50% receiving less than £3500; a welcome sum no doubt, but hardly enough to change their lives. On the other hand, 30% of people received over £10,000 and 10% over £50,000 – enough to certainly make a difference by, for example, providing a deposit for a new home.

1. The value of inheritance

Mean and median inheritance by inheritance quintile group



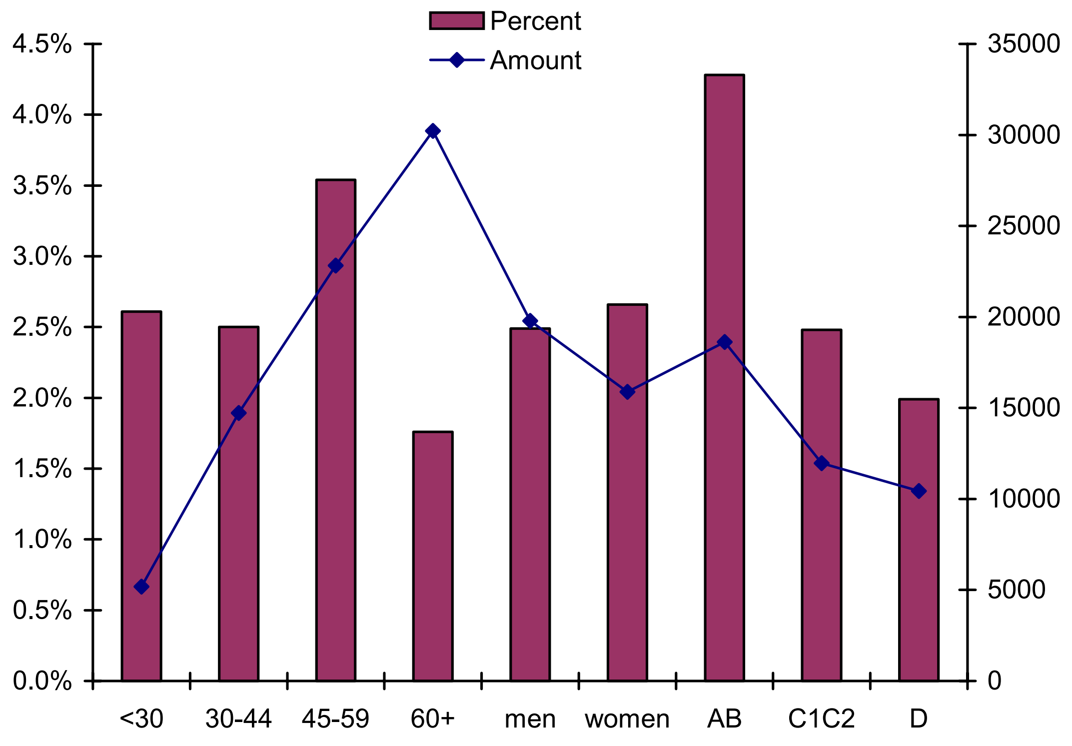
Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

But who is most likely to inherit in any given year? The results are not that surprising. While those in social grade AB are more likely to inherit than Ds they also inherit more. ABs who inherit receive a mean bequest of about £18000 compared to a mean of £10,000 for social grade D. In terms of gender, there is no difference between men and women.

Most interest arises when we look at the results by age group. Again unsurprisingly, those who are most likely to be recipients are those aged 45 to 59 – a function of demographics as these people's parents are probably 75 or older. But two things are striking from the chart. First, even though those aged 60 or over have the smallest likelihood of inheriting, they receive the largest amounts, presumably from their, by then, very old parents. This may be a function of middle-class and richer people living longer but it might also be because these very elderly people are leaving more of their money to their direct child/children. If the latter is so, whether this is based on perceived need (if retired people receive an inheritance it is, on average, higher than other groups) or a certain set of attitudes (developed in a different era) is unclear.

2. Who inherits?

Percentage inheriting in a year and amount received



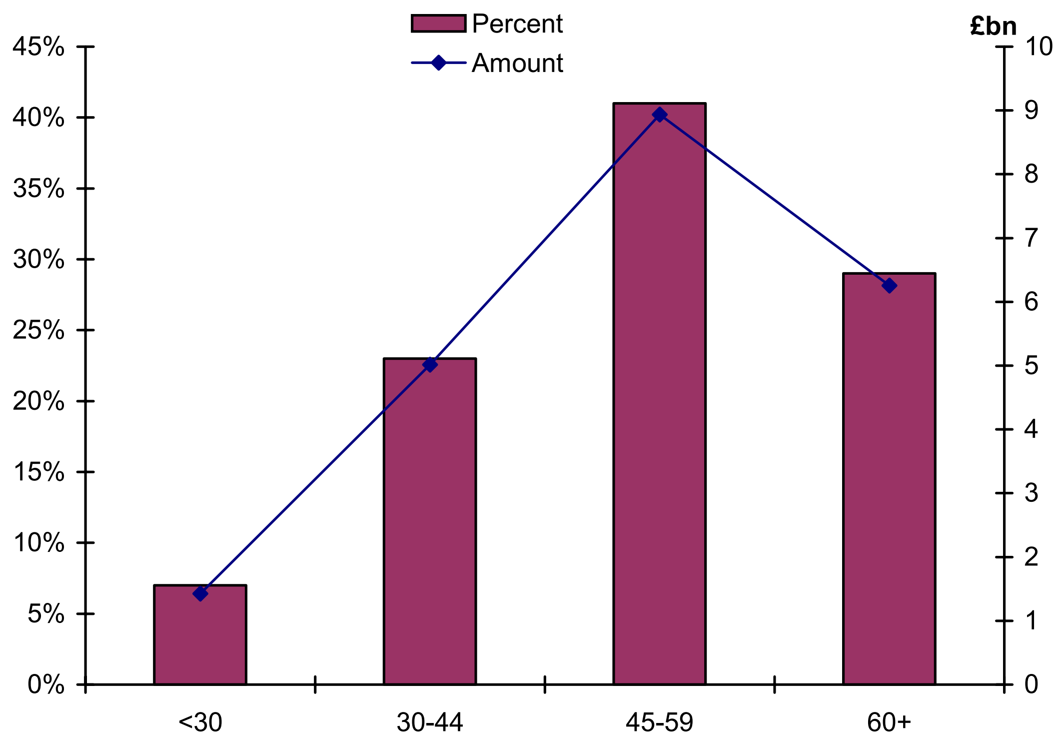
Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Equally, if not more interesting, are the relatively high proportions of people at younger ages being beneficiaries - around one in 40 of both the 30- 44 year olds and the under 30s. They receive significantly smaller amounts particularly the younger age group. The older of these two groups, of course, may include some who are receiving – sadly - from a parent but most people here are surely receiving from the estates of grandparents (most likely) or aunts, uncles or more distant relatives.

The data are presented in a different way in the next chart to illustrate the amount of money going to these younger age groups. Here it can be seen that those under 45 get around 30% of the total amount inherited by adults in any one year with those under 30 getting 7%. When these are expressed in monetary terms – with for example the under 30s receiving around £1.5 billion – it can be seen that this is a not insignificant amount. As we noted earlier, many of these bequests are relatively small but a few people are receiving quite large amounts. According to the BHPS estimates, in any one year around 17,000 people under the age of 30 could be receiving over £20,000 in inheritance (and over 50,000 between the ages of 30 and 44).

3. Skipping a generation?

Proportion and total amount of annual inheritance accounted for by different age groups



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

So there are clear indications here that a reasonable amount of inheritance is already skipping a generation. It is difficult to be precise because we do not know exactly who people have, in fact, inherited from but it appears (by making broad, if not bold, assumptions - and about the 35-44 year old age group in particular) that as much as £4 billion per year could be doing such a thing.

Clearly this whole area of who, in the family chain, is receiving such help from older generations and what it is being used for would benefit from further research.

The impact of inheritance

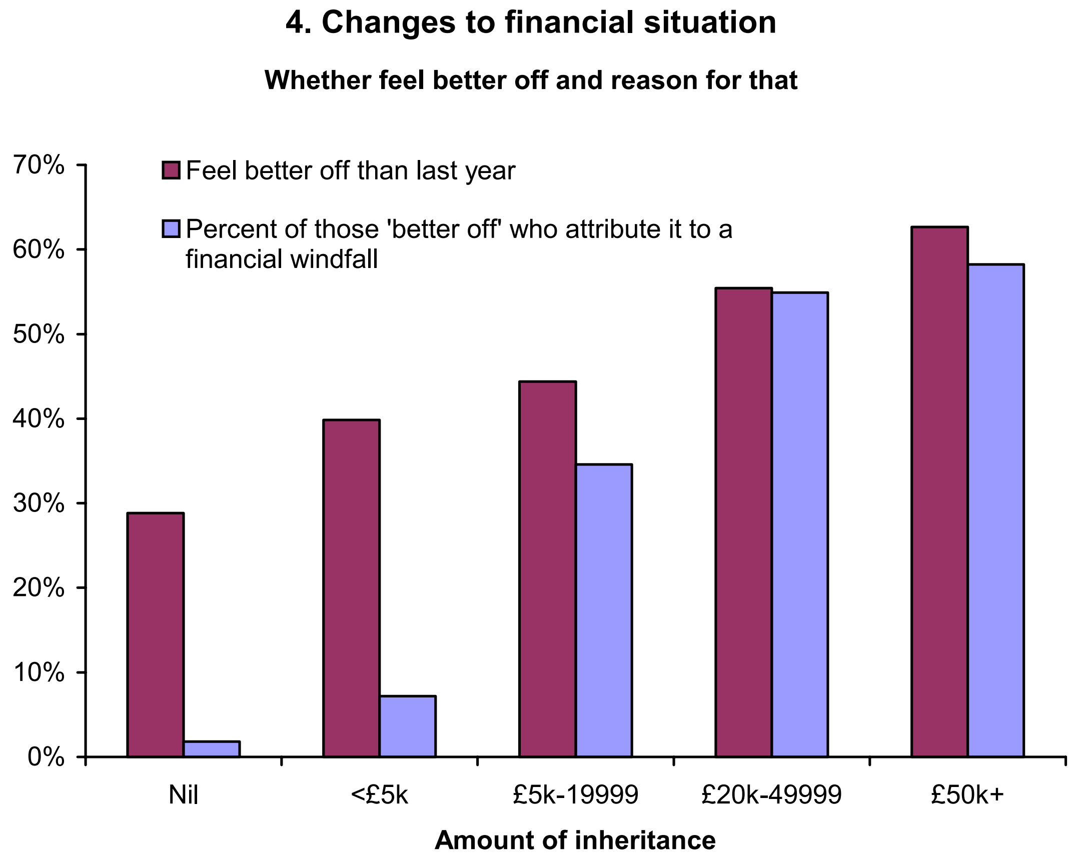
As well as considering who receives inheritance and how much, we also looked at what impact, if any, it had on people's lives. We are able to do this because of the unique nature of the BHPS. As a panel, where the same people are interviewed each year, we can see how someone's circumstances have changed – what 'transitions' they have made. By doing this for people who have inherited and those who have not (and for different levels of inheritance) we can make some assessment of the impact of receiving a small of large bequest (see Appendix for further details). Of course, other factors are at play here and a further, more complex analysis would help to assess these in more detail. But the exercise for this project allows us to develop at least some initial views on the possible impact of inheritance. We looked seven distinct areas:

- Happiness with own financial situation
- Working hours
- Savings behaviour
- Housing
- Consumer goods
- Life satisfaction
- Psychological well-being.

Changes in perception of financial situation

Respondents in the BHPS are asked to compare their financial situation to the same time in the previous year. Cross-tabulation against amount inherited shows a clear positive relationship. Unsurprisingly, the higher the amount inherited the more likely respondents are to see themselves as 'better off'. Even a relatively small bequest makes a substantial difference to the likelihood of improvement. Under a third of people receiving nothing report being better off compared to 40% of those who have inherited up to £5,000. Nearly two-thirds of those who have inherited £50,000 or more report an improvement.

While the majority of those who inherit substantial sums report being better off or the same financially there is a significant minority in all inheritance categories who report being worse off. Even amongst those who have inherited £50,000 plus some 15% say they are worse off than the same time in the previous year. This might relate to some of the other impacts of inheritance, for example moving house, that we discuss later.



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

The fact that this improvement in perception of financial well-being is the result of the inheritance itself is confirmed by a subsequent question that asks the main reason people attribute for this development. The second set of bars in the chart shows the proportion that ascribed their improvement to a financial windfall.

But even amongst those receiving an inheritance of more that £50,000, only some 60% attribute the main change in their circumstances to their cash windfall, so other reasons are at play too, the most important of which is increased income (which, of course, conceivably comes in part from investment income on the inheritance).

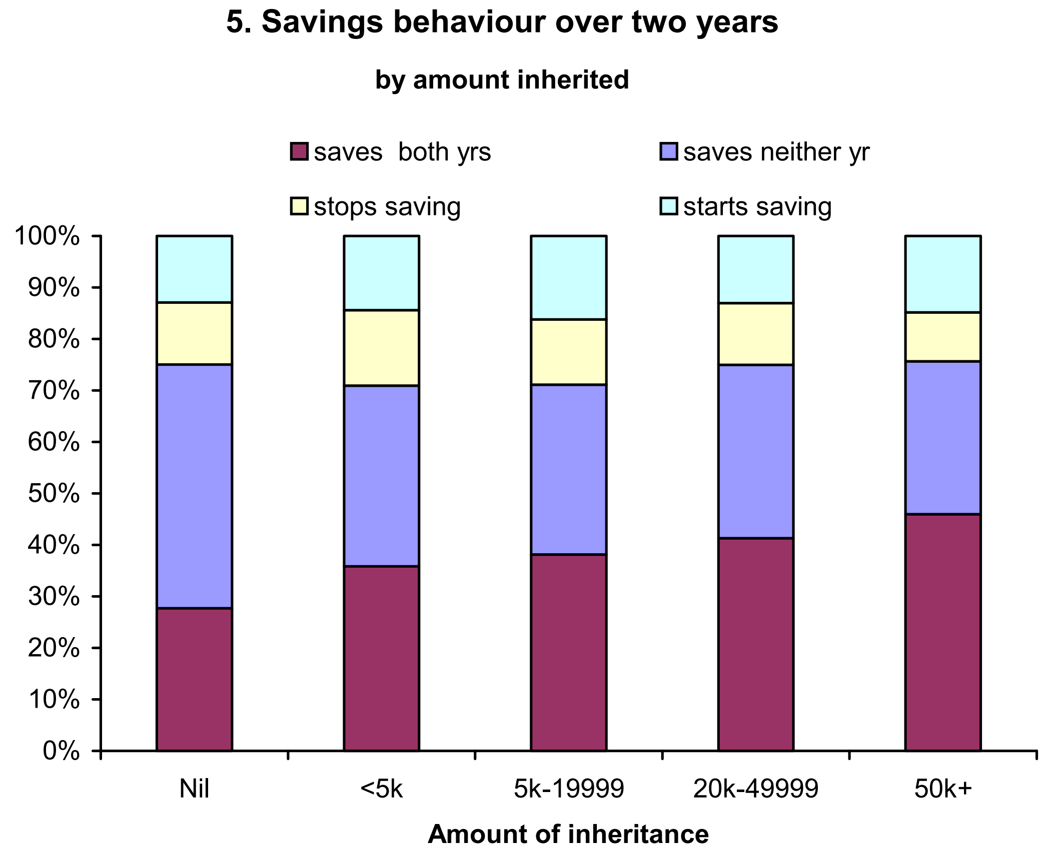
Working hours

There does not appear to be any strong co-relation or distinctive pattern between receiving an inheritance and reducing working hours.

Other than those receiving a bequest of £50,000 being the least likely to increase their working hours, inheritance does not seem to play a significant part in short term working patterns. This, however, almost certainly reflects the higher ages of those receiving larger amounts.

Savings behaviour

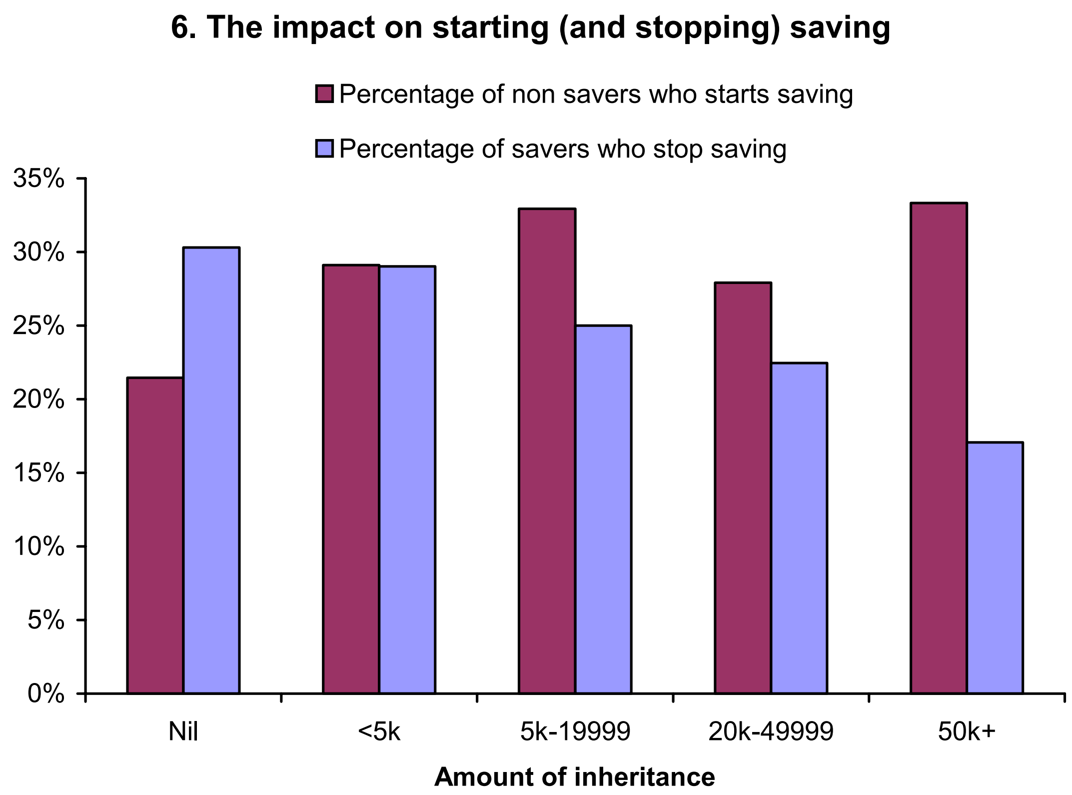
There are some differences in savings behaviour between inheritance groups. However, this is as likely to be because of the prior financial situation of recipients, as with the amount inherited.



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

If savings behaviour over two consecutive years is correlated to inheritance in the second year it becomes apparent that those who inherit the most were already likely to be regular savers. This is because, as previously seen, those most likely to inherit are those in social grade AB and aged in their mid forties to late fifties (and therefore in work) – exactly the same groups who typically are already regular savers.

If, savings behaviour prior to inheritance is controlled for, the 'true' effect of inheritance can be identified. Amongst non-savers in two consecutive years those most likely to start saving in year two are those who inherit the most. By contrast, amongst savers in year one, those most likely to stop saving in year two are those who inherit nothing.



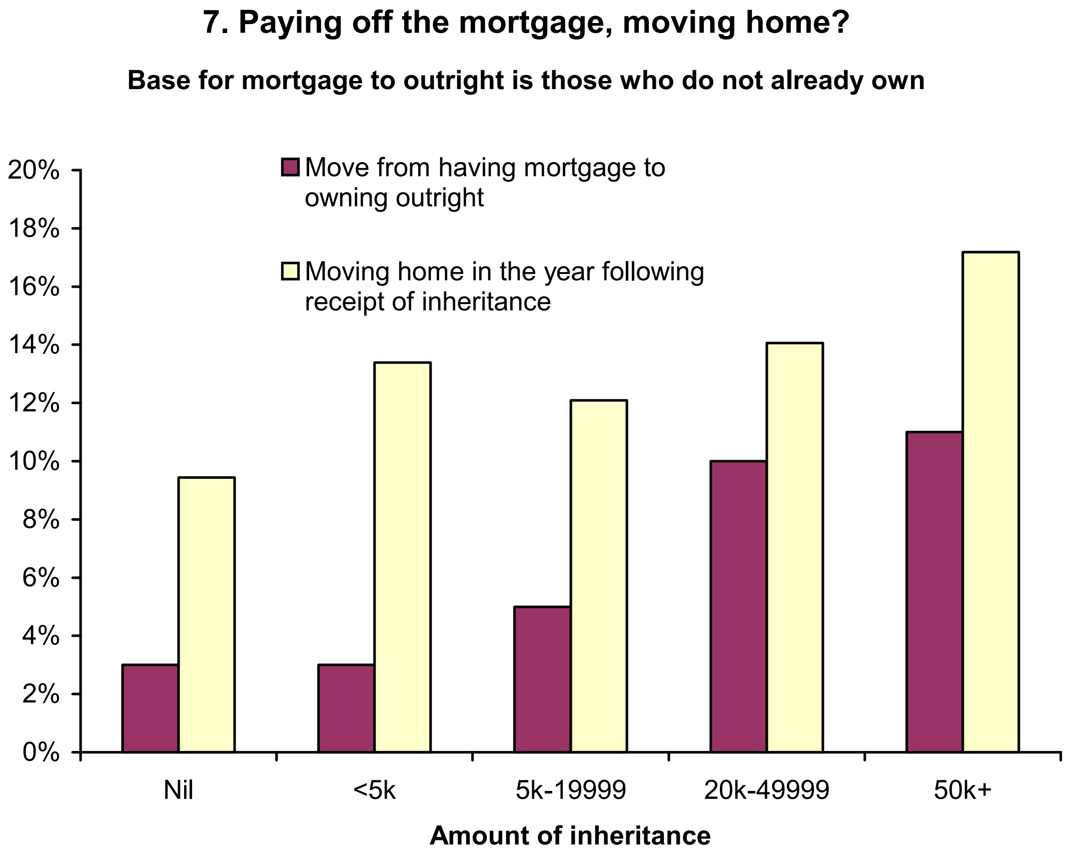
Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

We can see that although inheriting money does increase the likelihood of saving somewhat, it does not seem to be dramatic. The money must also be used for other things.

Housing

Once again the effect of inheriting a large sum of money is confounded by the fact that the wealthiest groups are the most likely to inherit. Amongst those inheriting £50,000 plus some 40% are already outright homeowners, compared to 20-25% for other inheritance categories. Many people, whatever their level of inheritance, continue to pay a mortgage, at least during the initial year following inheritance. But, there is a small but significant group of people who pay off their mortgage in the year after their inheritance and particularly those receiving over £20,000, as the chart shows.

Inheritance is also associated with the likelihood of moving home albeit not greatly so. Those with the largest inheritance are a bit more likely to move. As these are also more likely to own outright are they swapping a mortgage on one house with outright ownership of another?



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Those who inherit the most are already also more likely to be owners of a second property. But, although the numbers are small making concrete conclusions difficult, there is some evidence that some people use inheritance to acquire a second home. Whether this is for investment purposes, others in their family or for their own use we do not know.

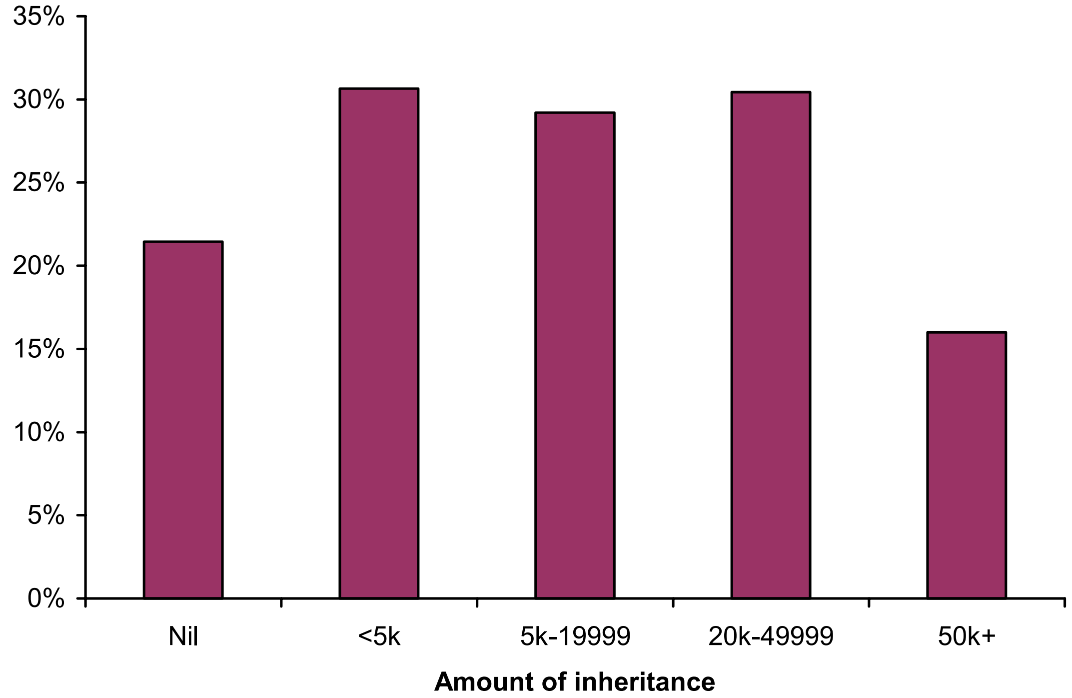
Purchase of consumer goods

The BHPS lists 12 main consumer items and asks respondents if the household has purchased any new items in the previous year. Analysing separate items discreetly does not show any clear pattern other than those who inherit middle categories of money (£5,000 to £49,999) are typically the most likely to purchase new goods. Personal computers, VCRs and televisions seem to be particular favourites.

Aggregating the number of new items purchased again suggests that inheriting a reasonable amount of money increases the likelihood of purchasing two major consumer items compared to those who do not inherit. Given their age, lifestage and existing wealth, it is perhaps not surprising that those receiving the largest amounts buy the least consumer goods.

8. Buy, buy, buy?

Proportion of each group buying two or more consumer goods in the year after inheritance from a list of 12 items



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Life satisfaction

The BHPS carries a number of measures of life satisfaction: health, leisure, income, home, partner, social life and so on. We looked at them all and found in some areas little evidence that the receipt of inheritance, whatever the size, had a great influence on life satisfaction. There were, though, some instances where it seemed to have some impact. In the following analyses we use a net figure for those saying that they are more satisfied than there were a year ago minus those saying they were less satisfied.

First, inheritance does not appear to change satisfaction with health. In every category those saying they were less satisfied outnumbered those saying they were more, a function, no doubt, of our increasingly health obsessed society that, despite in reality being healthier is convinced it is not.

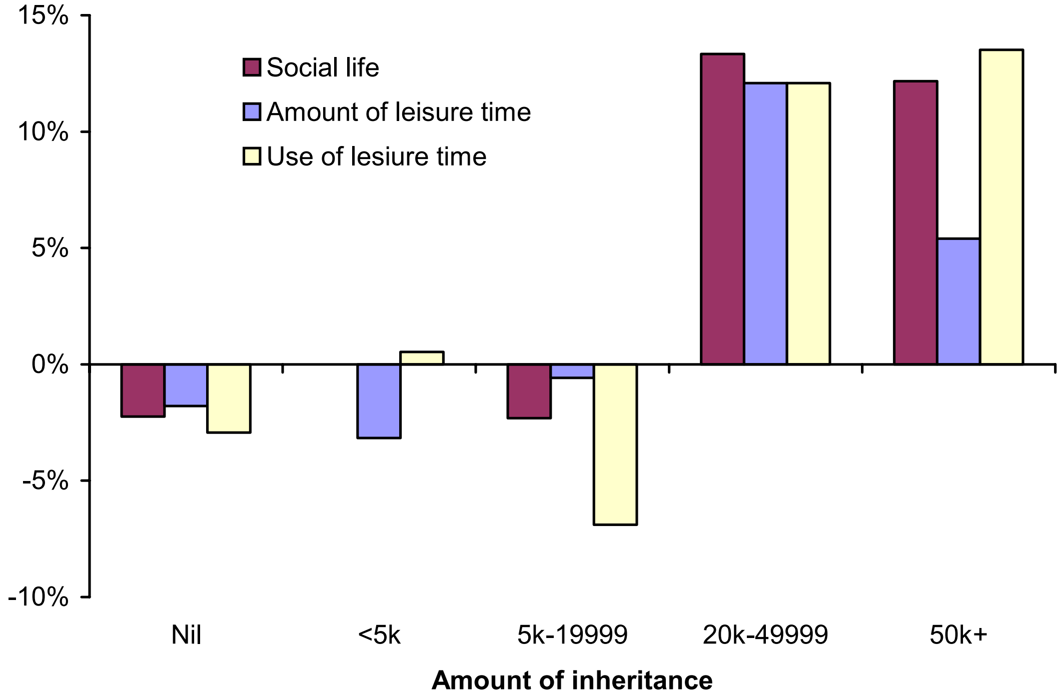
Not surprisingly, as we have already shown such an association, there was a correlation between amount inherited and satisfaction with household income with those receiving the largest amounts having the highest 'net' score or more minus less satisfied.

Satisfaction with the home is little different in the year of inheritance but there is some evidence that those receiving the highest amounts were more satisfied the year after; perhaps not surprising since they were more likely to be active in the housing market as we discussed earlier.

Where there are most differences are in people's social lives and leisure time. The chart shows the results for three questions: satisfaction with social life, the amount of leisure time and use of it. Clearly there are age and lifestage factors at work again here with those receiving the largest amounts of inheritance being in those periods in their lives where some of the stresses and strains of work and family are dissipating. But, it does seem from this that receiving a reasonably large inheritance can lead to an improvement in this important aspect of people's lives. Why it may be is another question beyond the scope of this report.

9. A good life?

Net difference between those saying they are more satisfied with the aspect minus those saying they are less satisfied



Source: British Household Panel Study, Institute of Social and Economic Research/Future Foundation

Psychological well being

The BHPS contains a shortened version of the General Health Questionnaire (GHQ) a well validated measure of mental and emotional well being. The higher the score the higher the likelihood of the respondent being under emotional or mental stress.

Comparison of pre and post inheritance scores did not highlight any major changes in psychological well-being although there was some suggestion that middle-aged people receiving larger bequests were more likely to see an improvement on this measure. Interestingly, a reasonable number (around a third) of those receiving £50,000 or more reported appeared to experience a worsened condition. It is unclear why this might be. It could be that these people, as we said at the start, are more likely to be receiving money from deceased parents and may still be feeling the loss or to have found the whole process of probate and sorting out the affairs of their deceased parent a difficult situation. Equally, it could also be related to the moving of home that the additional wealth can allow – often an exciting but stressful experience.

Conclusions

It has long been known from Inland Revenue statistics that in any one year a large amount of inheritance is available for distribution among the British population. But this research has for the first time provided an insight into not only who is receiving it and how it is distributed but also how it impacts on the recipients' lives. Most estates are being spread about – typically to around five people, who receive on average around £17,5000. So in that sense there is a redistribution of wealth. But many people only receive small amounts while others obtain significant sums. It is impossible to be sure, but it appears that a typical estate benefits the immediate offspring – daughters and sons – but provides smaller amounts for younger generations. In this sense, there is some indication of generation skipping and the total amounts are not insignificant. We estimate that as much as £4 billion could be being passed onto younger generations in this way, representing perhaps 15% of the total inheritance pool (as we define it here) in any one year.

There is no single obvious use of inheritance money. There are indications that some save it, while others use it to pay off their mortgage or buy a new home. A few people buy a second home as a result. Some of those receiving smaller amounts treat themselves to new durable goods.

Unsurprisingly, the receipt of inheritance generally has a positive impact on people's perception of their financial well-being, the more so the larger the amount received. But the effect on other aspects of life satisfaction is less clear-cut, although the extra money seems to allow a better appreciation of social life.

Discussion and possible implications

These facts about inheritance – the huge amounts and large numbers of people involved each year and the evidence of some ‘skipping’ of generations - raise important issues for both government and the private sector particularly in the context of increasing longevity.

Increasing longevity is likely to impact on the inheritance process since, as Jonathan Gershuny has pointed out[5], longer lives increase the motivation for wealth accumulation to fund a longer period of physically and intellectually active life. This has important implications for inheritance since, as Gershuny notes:

> ‘*The growth in life expectancy implies later inheritance, and hence more pressure for human capital formation among the children of the wealthy. And it implies also a diminished certainty about inheritance of parents’ wealth (because of the increased likelihood of its dissipation during extended retirement).*’

Gershuny’s point is that this effect will promote among younger and middle-aged people an increased desire to build up earning potential during their working life so that their own ‘nest-egg’ is larger, helping to promote the savings pool. But, what is unclear is what exactly this might mean for inheritance.

One view, as noted by Gershuny, is that as people live longer they will use up more of their own assets and so have less to pass on – something that would be exacerbated if current suggestions about pension under-funding were proved to be correct. At the same time, what inheritance there is might be more likely to skip a generation. This might come about if longer life spans meant that the fit children of the oldest generation were still working, in reasonable financial health and less needing of assistance. Their children (the grandchildren) might, however, be entering an increasingly expensive housing market and a more complex and possibly competitive work environment and therefore have more pressing needs. The impetus might then be for the inheritance to skip a generation to help those most in need. Of course, some people will continue to die prematurely and if they have a larger savings pool (in expectation of a longer period of retirement) then the value of their estate will be that much higher. There is some support for this in our BHPS analysis where 20% of the £50,000 plus inheritances went to those aged 30 to 44. In this way, bequests may occur even though there is not a bequest motive per se.

All these possibilities might be altered, however, by evidence that some people may be ‘oversaving’. By ‘oversaving’ we mean people building up a larger savings pool than would be implied by the life-cycle savings model as postulated by, among others,

[5] *Wealth: its use level, inheritance and change – in relation to human capital*, Working Papers of the Institute of Social and Economic Research paper 2002-16, October 2002

Franco Modigliani[6]. This proposes that people save on the whole to smooth their cashflow over their life cycle and that an individual 'neither expects to receive nor desires to leave any inheritance'[7]. There is a major debate about how much the assets people accumulate results from such life cycle 'smoothing' or whether it is also a reflection of both a precautionary (to guard against unforeseen future financial shocks) and a bequest motive. While there is no clear consensus on the relative importance of each motive it is generally accepted that all three have a role. But some studies[8] have suggested that the precautionary and bequest motives explain nearly all the wealth accumulation.

Certainly, the Future Foundation's own research into why people save shows that 15% of those aged 45 and over claim to be saving specifically to pass something onto their children (as opposed to 6% of those aged under 45). Among professional and managerial households nearly one in four claim to do this. In any case, the fact that inheritance is so large in Britain clearly points to an accumulation of assets far in excess of those that are actually needed by a significant number of older people.

For these reasons, despite longer lives suggesting longer retirement and a greater running down of savings, it is quite possible that total inheritance in future years might increase in real terms with the number of larger estates increasing too.

Already, pensioner assets are quite high, as Mark Stewart has shown[9]. In 1995-96, the average pensioner had £74,000 of wealth made up of financial assets (26%), housing wealth (47%) and non-state pensions (27%). The difference between these assets is important since, as Stewart notes, '*pension wealth is non-tradable, financial wealth is typically fairly liquid and housing wealth lies somewhere in between.*' Housing as a proportion of total assets is higher among pensioners than the population as a whole. We estimate that in 1995/96 housing accounted for 36% of total household wealth (compared to the 47% for pensioners identified by Stewart). But that proportion (for all households) has since risen to perhaps 48% suggesting that housing might be a more important aspect of wealth going forward. And while current house prices increases are unsustainable the long-term problem in Britain of limited supply and growing demand suggests that in the medium to longer term housing assets will continue to rise in real terms. This suggests that housing may in the future represent a greater proportion of older people's wealth.

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[6] F Modigliani, *The role of intergenerational transfers and life-cycle saving in the accumulation of wealth*', Journal of Economic Perspectives, Spring 1988

7 K Dynan, J Skinner and S Zeldes, *The importance of bequests and life-cycle saving in capital accumulation: A new* answer, paper to American Economic Association Annual Meeting 4 January 2002; http://www.econ.lsa.umich.edu/~jlaitner/skinner_new.pdf

[8] K Bolin & A-M Palsson, *The Importance of non-lifecycle saving – are men and women different*? School of Economics and Management, Lund University, Report No. 11, 1999, http://www/lri.lu.se/pdf/uppsatser/persfinance/no11.pdf

[9] M Stewart, *Asset accumulation and the impact of working life factors on pensioner poverty*', (mimeo) University of Warwick, 2001

It is not only housing which is potentially affecting the mix of older people's assets. It has been estimated that currently there is an annual £27 billion shortfall in pension contributions each year. (It is interesting to note that this is more than covered by the total amount of annual inheritance.) Yet, total net household wealth has risen by two-thirds in real terms over the last ten years and despite stock market falls stands at an historically high level suggesting that the total savings pool may be healthier than implied by pension funds alone. There is also some anecdotal evidence– certainly among wealthier households – that people are seeking both more flexibility in savings products (than purely having a pension can provide) and a wider portfolio of assets within a general savings pool. As pension wealth is, on the whole, non-tradable, a reduction of the importance of pensions and a shift into other products might then result in an increase in inheritable wealth.

Altogether then, an increase in 'oversaving' (quite possible as perceived uncertainties about people's own and their children's futures develop) and a changing mix in the financial assets in an individual's saving pool points to inheritance growing potentially quite significantly in the future.

This suggests a number of possible developments:

- A growing pressure for a change in the pension regime to make it more adaptable to individual needs;
- An increased interest in better and more flexible equity release products;
- In general, the financial services industry may need to develop more flexible and better targeted products built around the idea of a portfolio of assets that would make up an individual's savings pool.

A scenario of increasing annual inheritance raises issues of taxation too. Since, as we have shown, a significant amount of inheritance goes into saving in some form (including housing assets) then it goes some way to aiding the perceived savings 'crisis' and points to a 'benign' attitude to inheritance tax. Also, higher taxes may disincentivise the accumulation of assets through the life course (with the result that there is more tax exempt gifting, for example).

At the same time, it seems highly likely that not only is inheritance remaining in wealthier families (that is the going to families with reasonable amounts of assets already) but that this phenomenon might, as Gershuny implies[10], become more pronounced in the future. A government with an eye to addressing inequalities in society may therefore be tempted to increase inheritance tax as a redistributive measure.

[10] Gershuny, Ibid.

This highlights the choices. Increased inheritance taxation might be more distributive (with the tax revenue contributing to the general good) but it may well disincentivise saving too. So, a key issue for government is understanding the actual distribution of inheritance, its usage and its economic impact. And when looking at the future development of inheritance it might be sensible to consider a range of tax regime scenarios.

All this raises some fundamental questions:

- How much is the asset base of older people likely to grow (or not) over the next 20 years or so?
- What will be the asset mix of that 'pool'?
- What might the tax and regulatory environment be?
- What are future patterns of inheritance distribution and usage likely to look like?

This project has been the first step in assessing some of these issues but it has also raised some important questions for both government and the private sector in terms of both policy and products. More research is needed to understand better the current situation and to consider some possible scenarios in the future. With this in mind we would identify some specific research projects that could be conducted:

Further analysis of BHPS

This initial analysis of the BHPS has demonstrated that it is a unique and exceptional tool for analysing the importance and impact of inheritance. There is a range of other, more in-depth, analyses of that data source that could be conducted.

1. First, more complex statistical models could be developed to explain both the receipt of inheritance and then what it is used for. This would allow us to 'take out' the age and class effects discussed in this paper and then to develop probability models for what the monies might be used for (saving, house purchase, durable goods, for example).

2. Alongside this analysis, it would be worthwhile looking forward more than one or two years after inheritance (the time period used in this study) to look at longer-term impacts, either emotional or economic (does it allow younger people to enter the housing market three or four or more years later, for example). As the BHPS continues, a more robust and useful set of data is generated for purposes such as this.

3. A specific area that could be analysed is whether, other things being equal, more expensive homes are bought after inheriting a reasonable amount of money (the BHPS collects data on the value of properties owned or bought).

Economic analysis

4. Using the data described in this project there is merit in assessing the economic impact of inheritance and the multiplier effects that occur from money taken from estates being distributed in varying amounts to a wide group of people. As part of this, it would be interesting to assess the redistributive impact of inheritance given the numbers involved (roughly five per estate) and the amount of money. A starting point to this would be a more detailed analysis of the relationship between human capital, lifetime asset accumulation and inheritance as proposed by Gershuny[11].

5. There is also merit in developing forecasts of the value of inheritance in coming years and the economic implications of these. It would also be useful to consider within such forecasts, how the recipient base might change and the impact that increased generation 'skipping' might have. As part of this, scenarios could be developed of the growth in wealth (or not) and the potential implications of, for example, more assets being used to fund longer lives as opposed to greater wealth accumulation being available for inheritance. The variable inputs into the scenarios would include but not be limited to growth rates by asset class, mix of assets in saving pools and various tax and regulatory environments.

Original research

6. Although this study and the BHPS generally provides unique information about the receipt of inheritance it does not, and cannot, address the issue of the rationale behind, and exact execution of, inter-generational transfers. Of importance here are those transfers that take place both before as well as after death. A study, which included qualitative and quantitative research that probed the motivations and exact strategies taken would be of great benefit in understanding inter-generational transfers and hence how these might develop as longevity increases.

The International Longevity Centre (UK) would be very interested in discussing these and other research possibilities with collaborators and potential sponsors.

[11] Professor Jonathan Gershuny, Ibid.

Appendix

The British Household Panel Study

The BHPS is a yearly large scale survey of some 10,000 individuals, living in 5500 households that was started in 1991. It is conducted and managed by the Institute of Social and Economic Research at Essex University. It has several key aspects that make it of particular value for the analysis of financial behaviour, attitudes and outcomes. These are as follows:

1. ***Financial variables:*** The BHPS contains detailed and comprehensive financial information regarding incomes, savings and other assets, financial behaviour and expectations, credit and debt and other financial outcomes including specific questions regarding windfalls and inheritance.

2. ***Broad themed survey:*** It is a broad themed survey that includes detailed questions on labour market experience, consumption patterns, household formation and dissolution, housing, socio-demographics, education, values, opinions and attitudes.

3. ***Inclusion of all household members:*** The BHPS is a household based survey. All members of an identified household are interviewed. This allows respondents to be matched with other household members for analysis purposes. This allows interaction effects between household members to be identified. For example the effect on individuals' financial behaviour of their children leaving home can be identified. Of particular value is the ability to track financial transfers between members of households.

4. ***Longitudinal design***: The same respondents are re-interviewed each year (the survey is now entering its 11th year). This allows individuals to be tracked over time and dynamic models of financial behaviours and outcomes to be built. For example, changes in savings behaviour can be identified at the individual level. Because the survey is a representative sample of the British population, differential changes in saving behaviour across different age groups at different points in time can be identified. These can then be modelled against other transitions within respondents' lives, and the events that 'trigger' such behavioural change can be identified. The potential for dynamic longitudinal analyses is extended even further by the inclusion of all members of the household in the survey.

5. ***Reliability:*** The BHPS has a year on year response rate of somewhere between 97% and 98%making it exceptionally reliable. Because of this there are still over 7000 of the original respondents recruited in 1991 taking part in the survey. Where differential attrition effects on respondents have been identified weighting techniques have been developed.

The Future Foundation has a special collaborative arrangement with the Institute that provides not only access to the BHPS data sets but also to the specialist research support required to maximise its considerable potential.

This analysis is based upon a 'pooled' sample of the last four years of the British Household Panel Study (1997-2000). These four years were chosen because:

1. They cover the only sustained period when questions concerning inheritance are asked over consecutive waves of the survey – allowing before inheritance/after inheritance comparisons on other variables.

2. Aggregating four waves of data creates a large enough sample of inheritees for meaningful analysis

3. The last four waves provide up to date information.

Transition methodology

The same variables from two consecutive years data were matched by individual, for example: 1998/1999, 1999/2000, 2000/2001. These three 'paired' files were then merged vertically to provide a transition file of some 32,000 cases. Transition variables were then constructed and co-related against each other. For example, employment status was tracked across two years to provide a matrix of combinations, a simplified version illustrated below.

Employment in year 1	Employment in year 2	Transition
Working	Working	Constant employment
Working	Not working	Exits work
Not working	Not working	Always not working
Not working	Working	Enters work

This was then be related to whether or not the respondent had inherited in that year of previous year. Similar, more complex comparisons were made between inheritees and non inheritees on a wide range of other variables including: house move, life satisfaction measures, working hours, perceptions of financial situation, consumer goods purchase, second home ownership, measures of mental well-being.

For pragmatic comparison inheritance amounts have been banded into four groups: <£5000, £5000-£19,999, £20,000-£ 49,999 and £50,000 and over.