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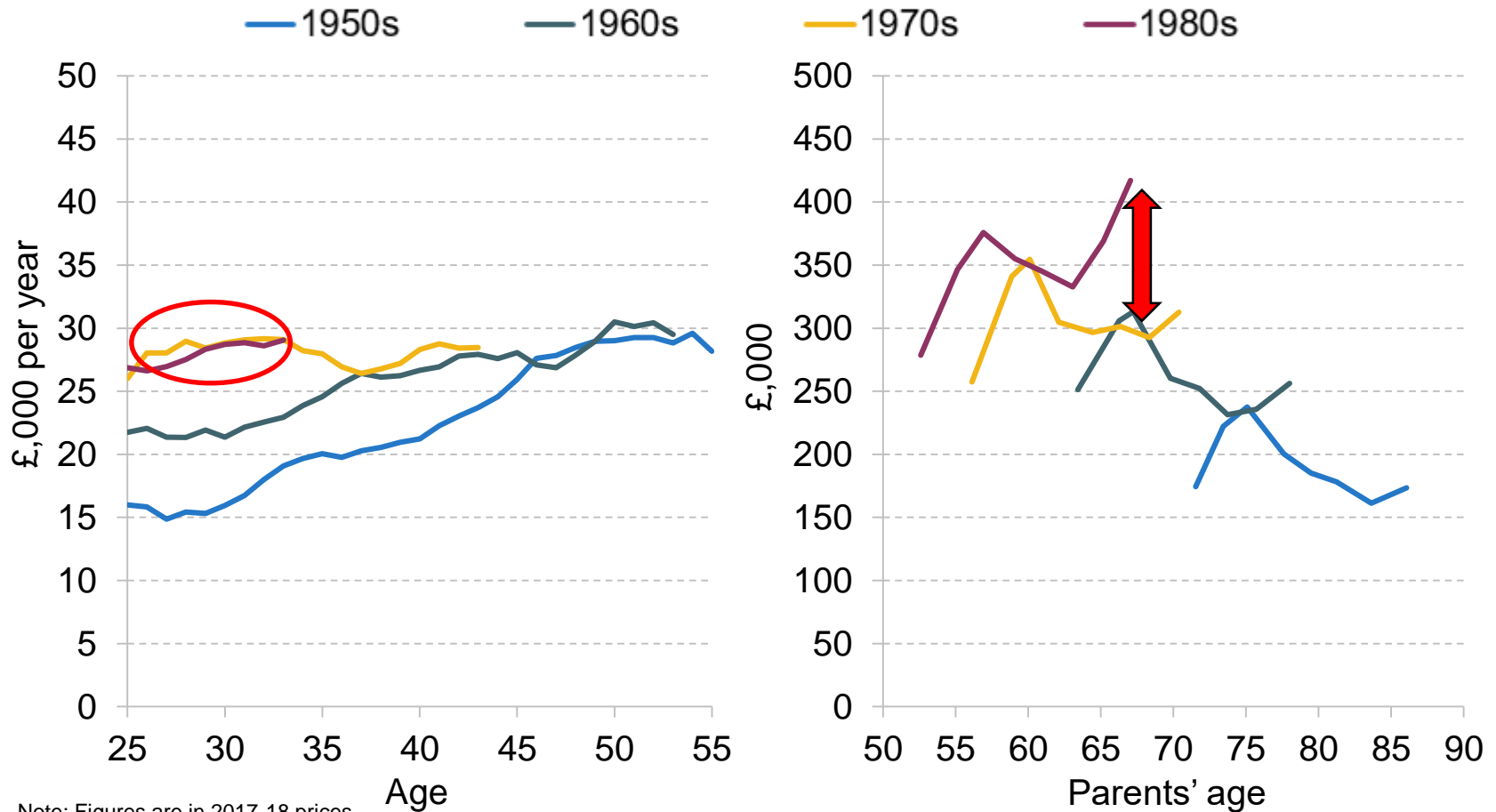
29 April 2021

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Inheritances and inequality over the lifecycle

Younger generations' incomes are stagnating while their parents' wealth grows

Median equivalised household income (left) and median wealth of parents (right)



Note: Figures are in 2017-18 prices.

Source: Figure 1.1 of Bourquin et al. (2021)

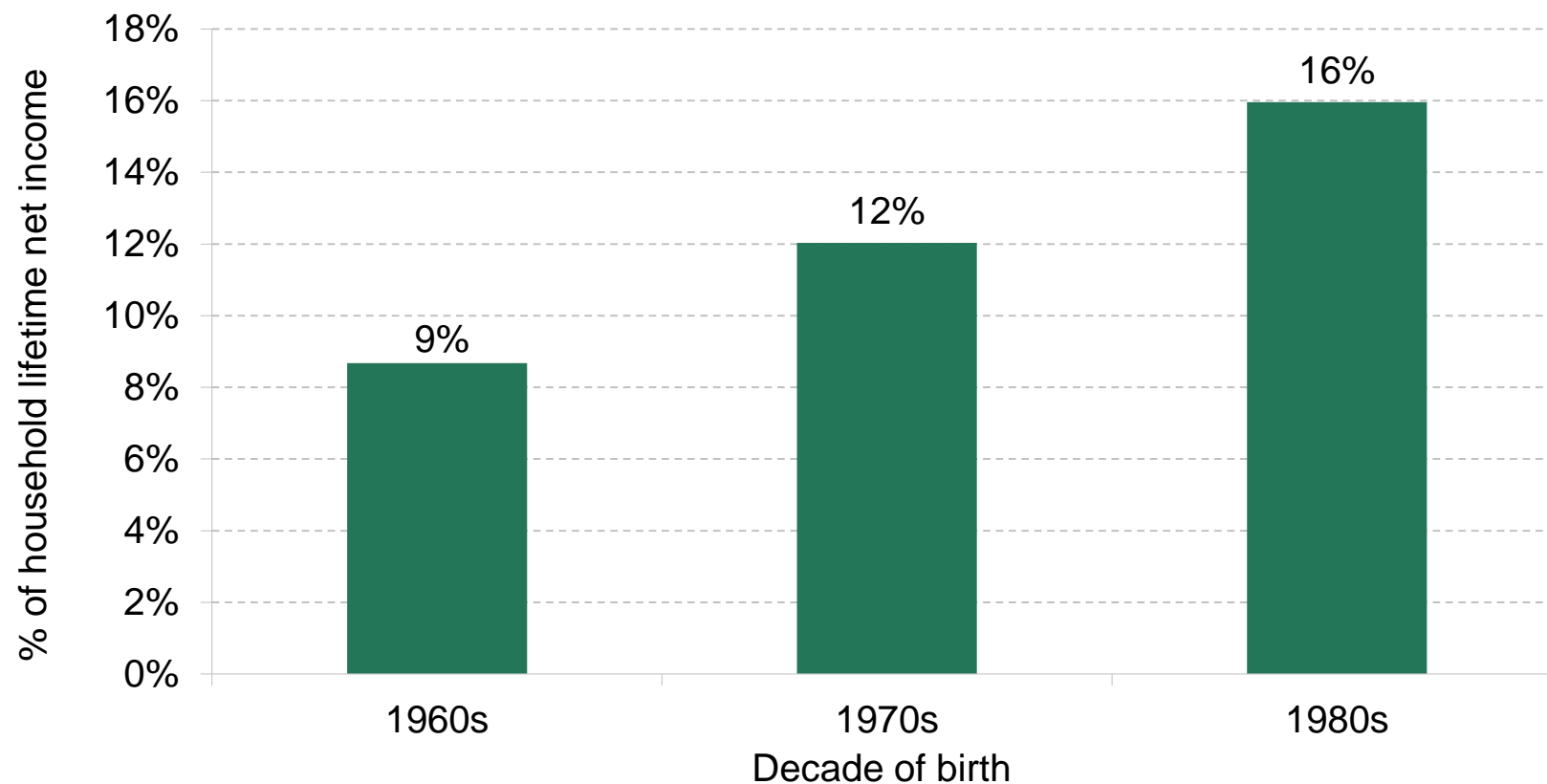
This research

- We examine the (changing) impacts of inheritances
 - For those born in 1960s, 1970s and 1980s
- First phase:
 - Project forwards incomes and parental wealth
 - Use information on who has parents of different wealth levels to project effects of inheritances on distribution of lifetime income
- Second phase:
 - Combine with modelling of consumption/savings behaviour to estimate impacts on economic wellbeing over the lifecycle

- Lots of uncertainty over details; much less over broad conclusions

Inheritances set to almost double relative to incomes over 20 years

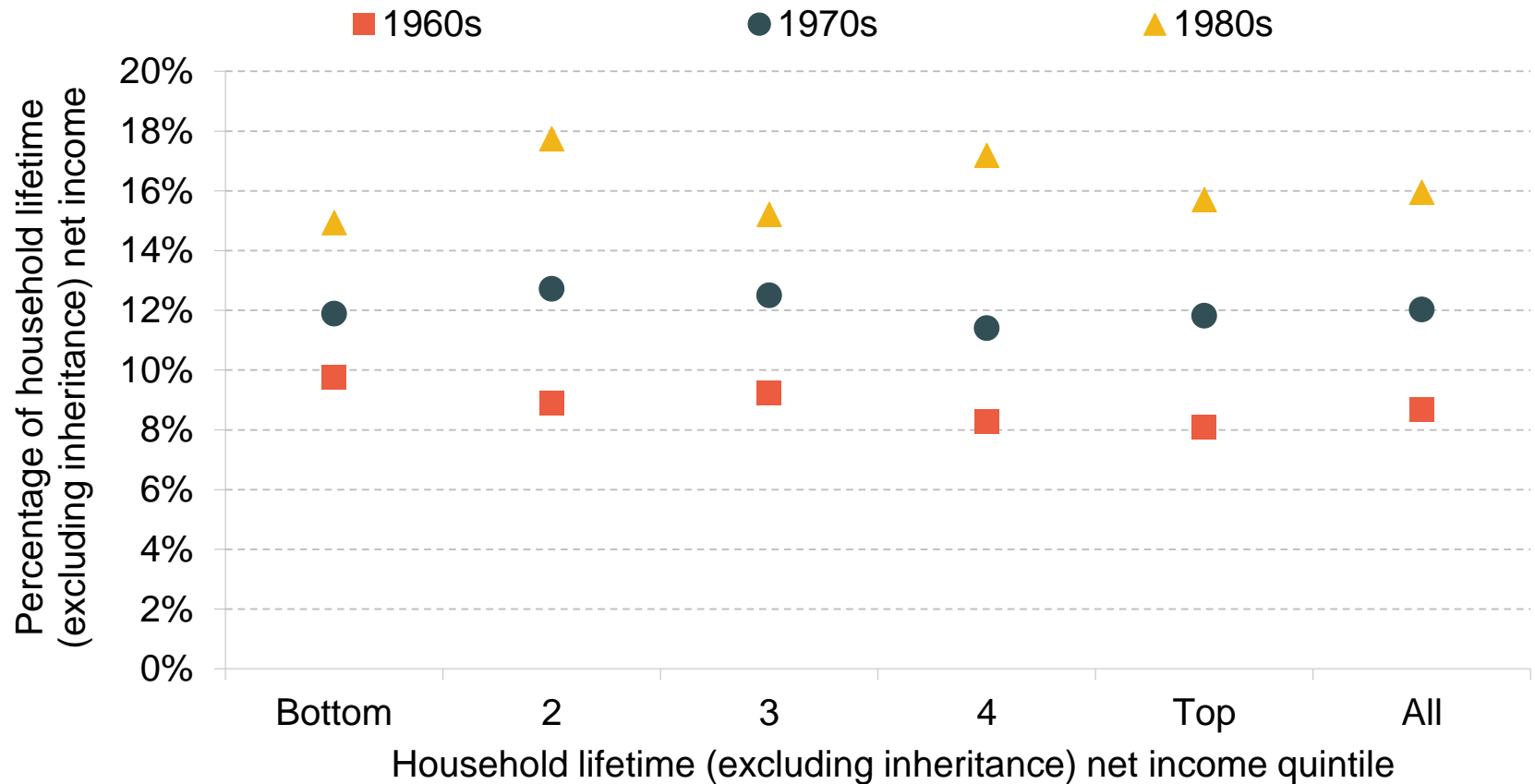
Median inheritance as % of lifetime household income



Source: Data from Figure 2.7 of Bourquin et al. (2021)

Impact on inequality between high and low income people is modest

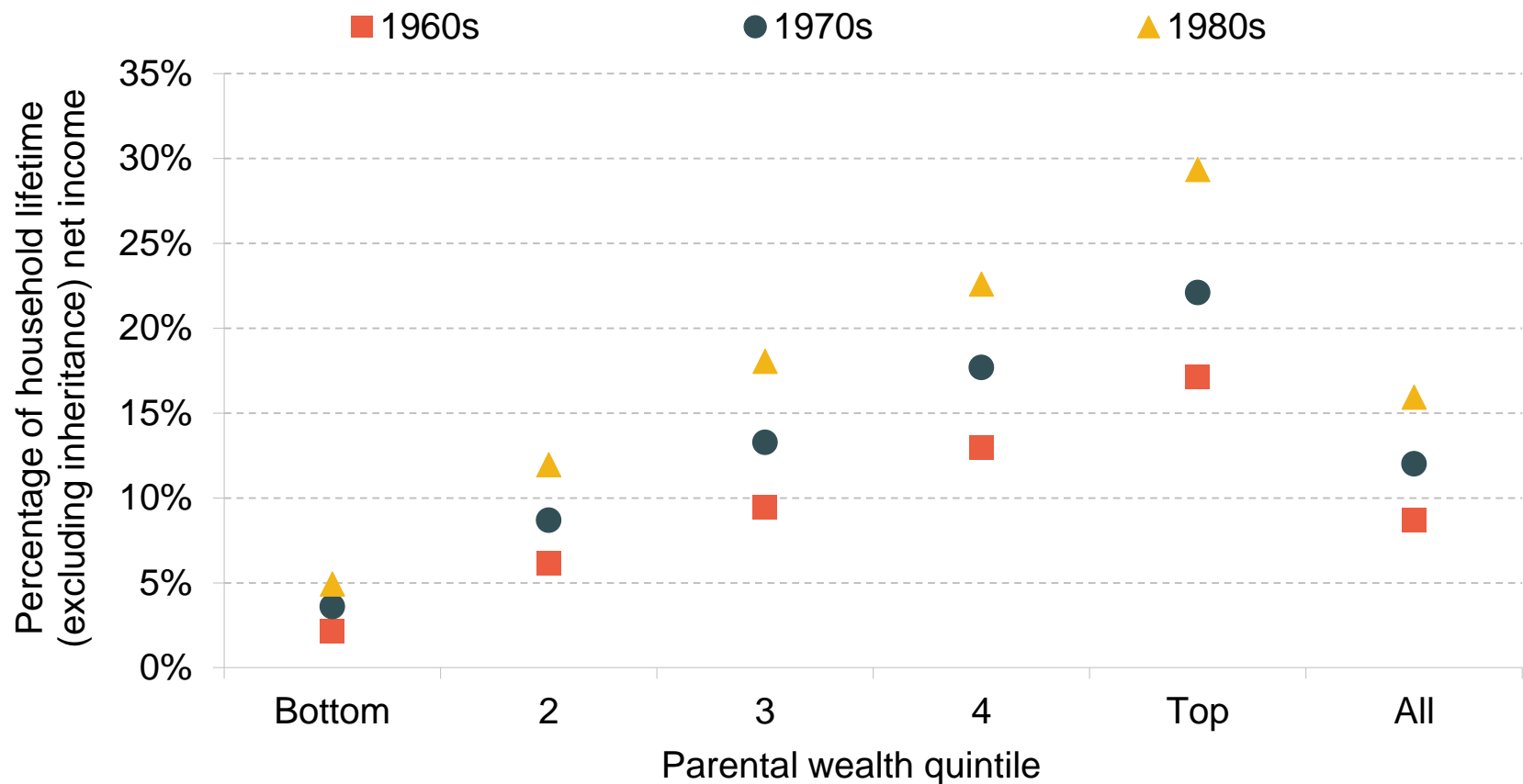
Median inheritance as % of lifetime household income, by income quintile



Source: Figure 2.7 of Bourquin et al. (2021)

But will widen gap between those with rich and poor parents

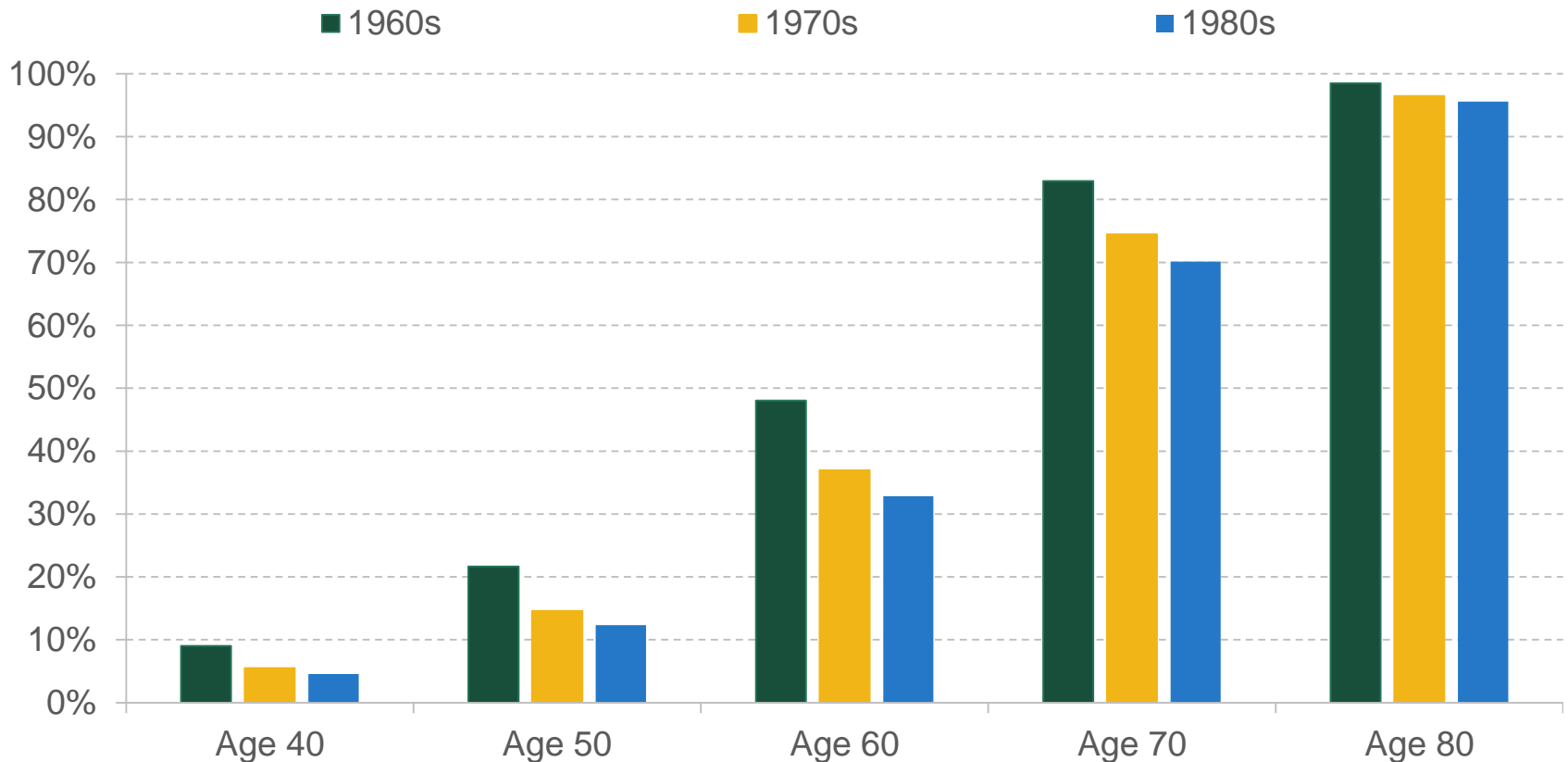
Median inheritance as % of lifetime household income, by parental wealth quintile



Source: Figure 2.9 of Bourquin et al. (2021)

A substantial minority may not inherit before age 70

% of people whose last surviving parent will die before selected ages, by decade of birth



Source: Figure 4.4 of Bourquin et al. (2020)



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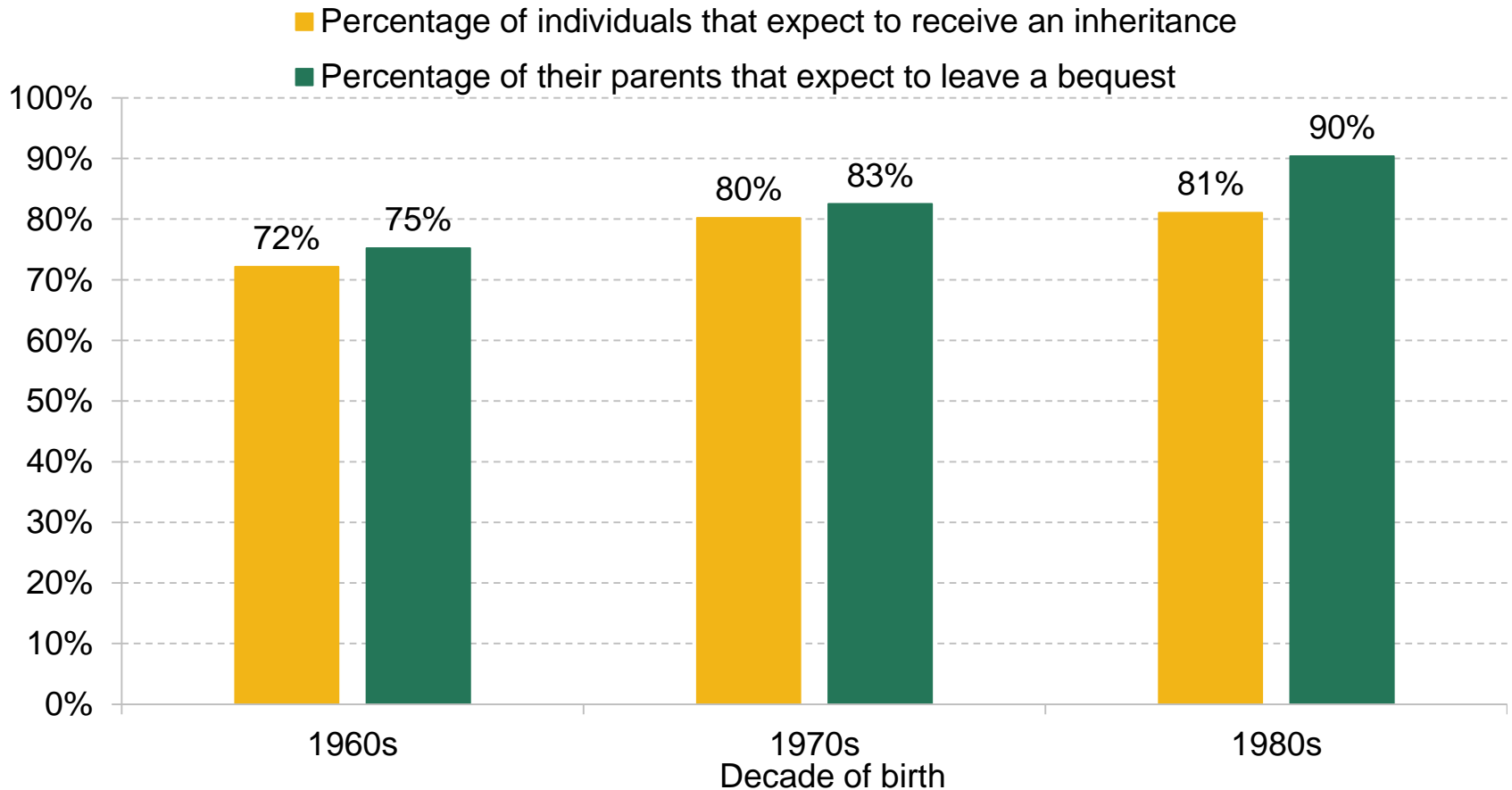
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The effects of inheritances on saving and spending

An increasing proportion of young people expect to inherit

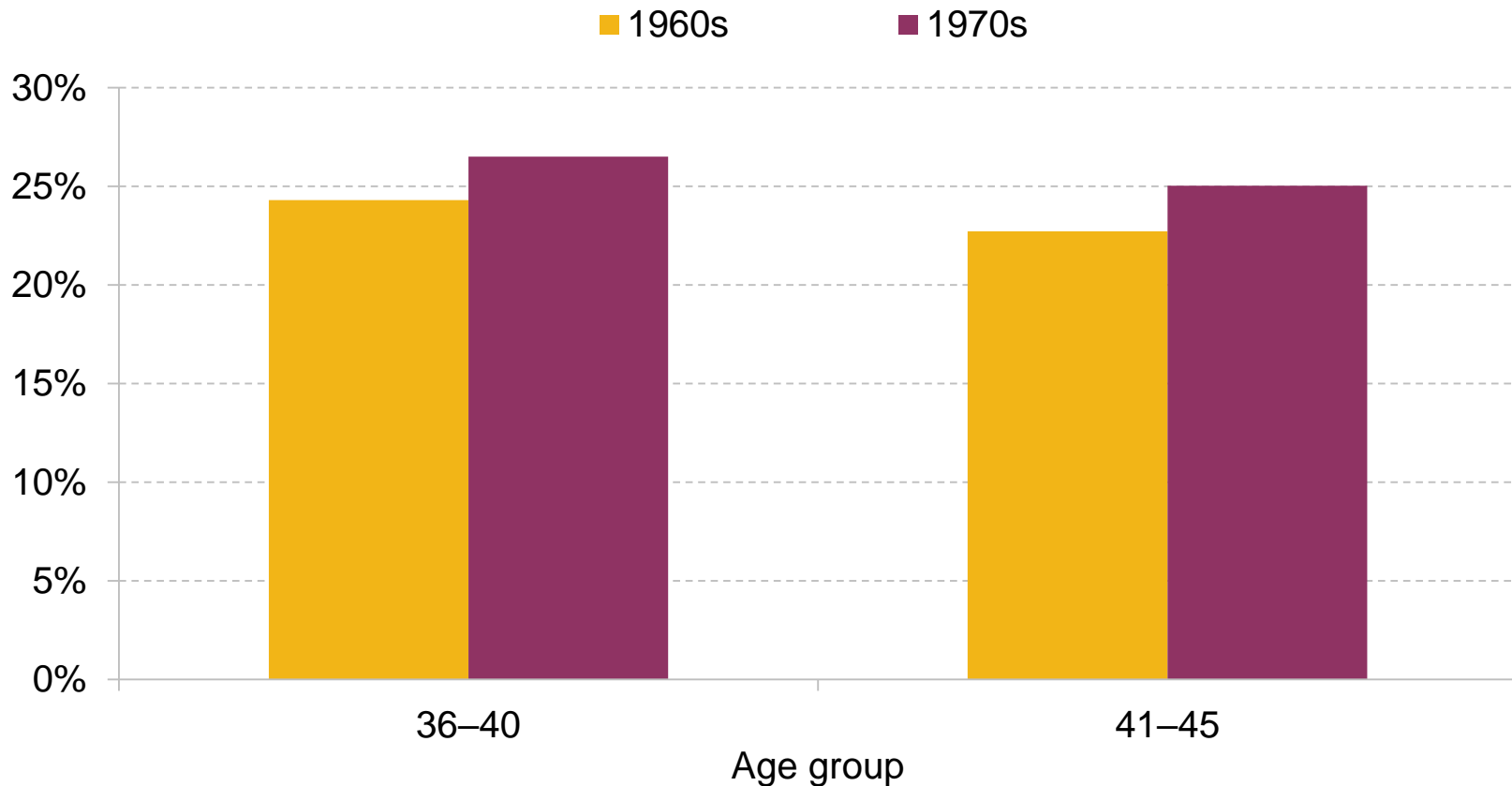
Inheritance and parental bequest expectations by decade of birth



Source: Figure 1.2 of Bourquin et al. (2021)

Inheritances increasingly factor into plans for future spending IFS

Percentage of individuals reporting that they expect to use a future inheritance as a source of retirement funding, by age and decade of birth



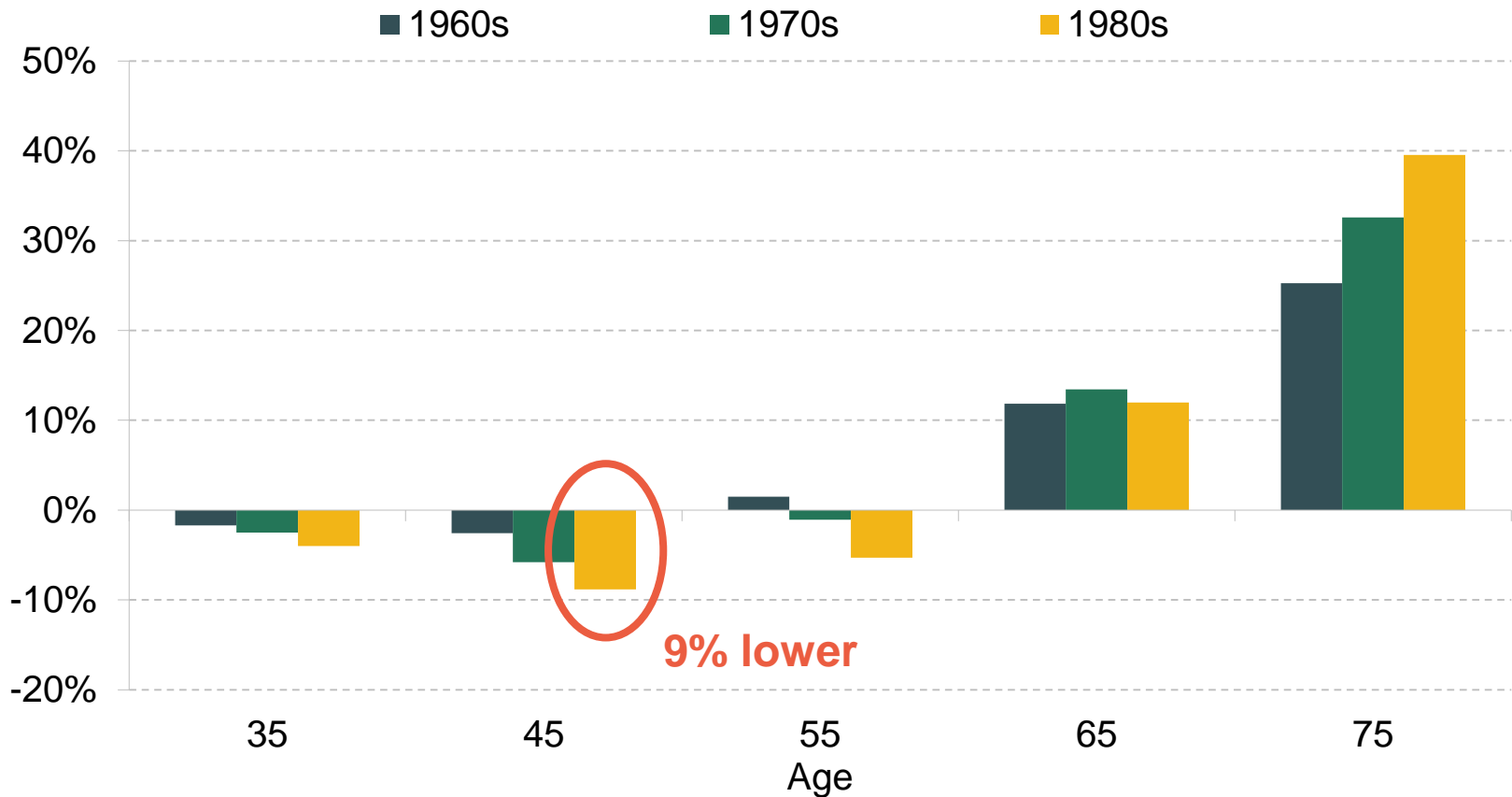
Source: Figure 1.2 of Bourquin et al. (2021)

How might inheritances affect spending and savings choices?

- If **people knew how much** they were going to inherit and **when...**
 - Spread the extra spending over their whole life
 - Save less / borrow more in advance of inheriting
- But in reality
 - **Uncertainty** over how much will be inherited and when
 - **Not possible to borrow** against future inheritance income
- Among recent inheritors
 - **Wealth** was substantially **increased for years after inheritance**
 - **Spending** rose by around **£2,800** after inheritance
- We use an **economic model** to project savings and spending choices
 - Consistent with data on choices but significant uncertainty involved

Expected inheritances may have a meaningful effect on wealth today

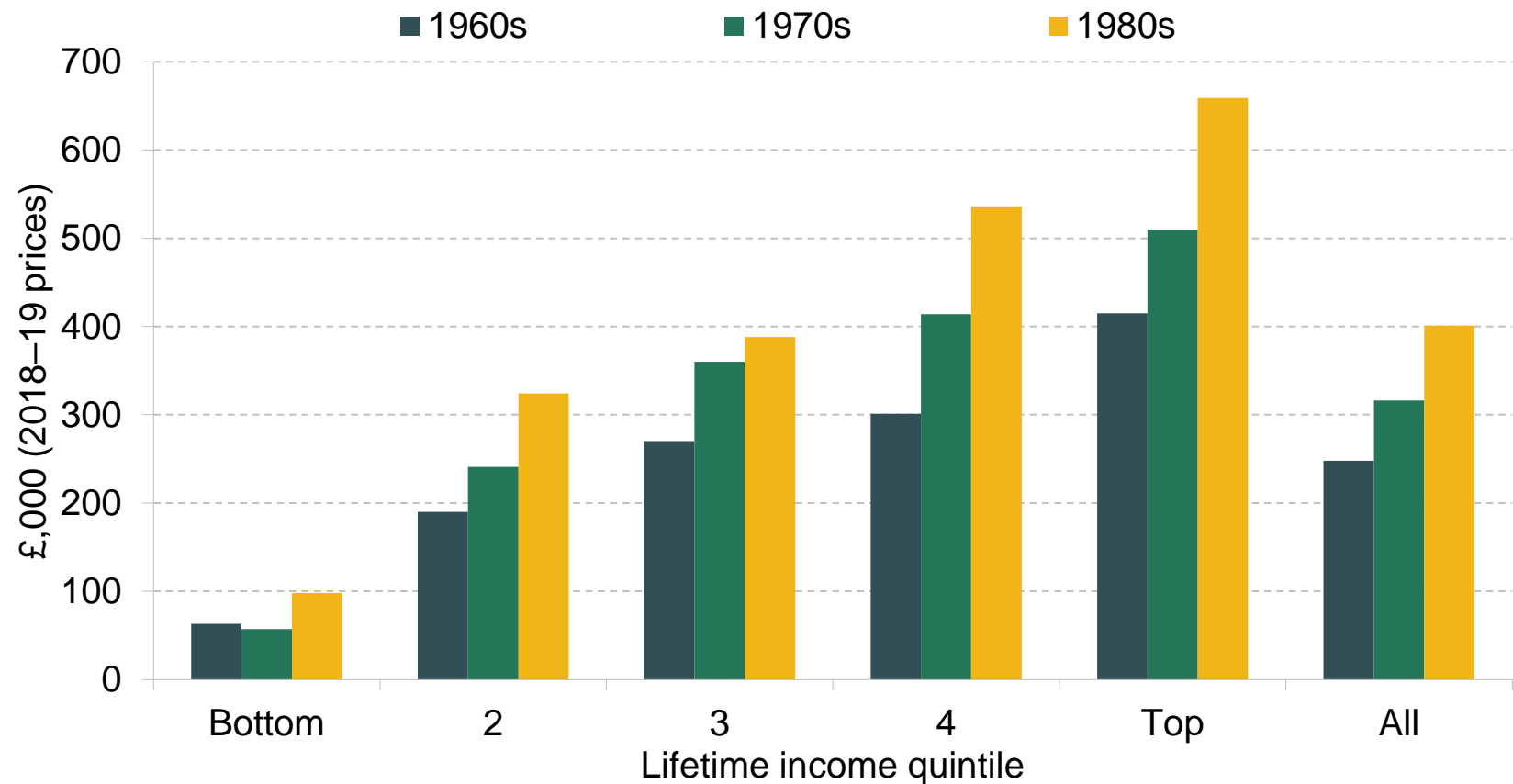
Estimated effect of inheritances on households' wealth at selected ages, by decade of birth



Source: Figure 4.4 of Bourquin et al. (2021)

Lower saving means more spending in the years before inheriting IFS

Estimated effect of inheritances on households' annual average consumption before they receive their inheritances



Source: Figure 4.11 of Bourquin et al. (2021)

Higher-income households are more likely to be able to reduce saving

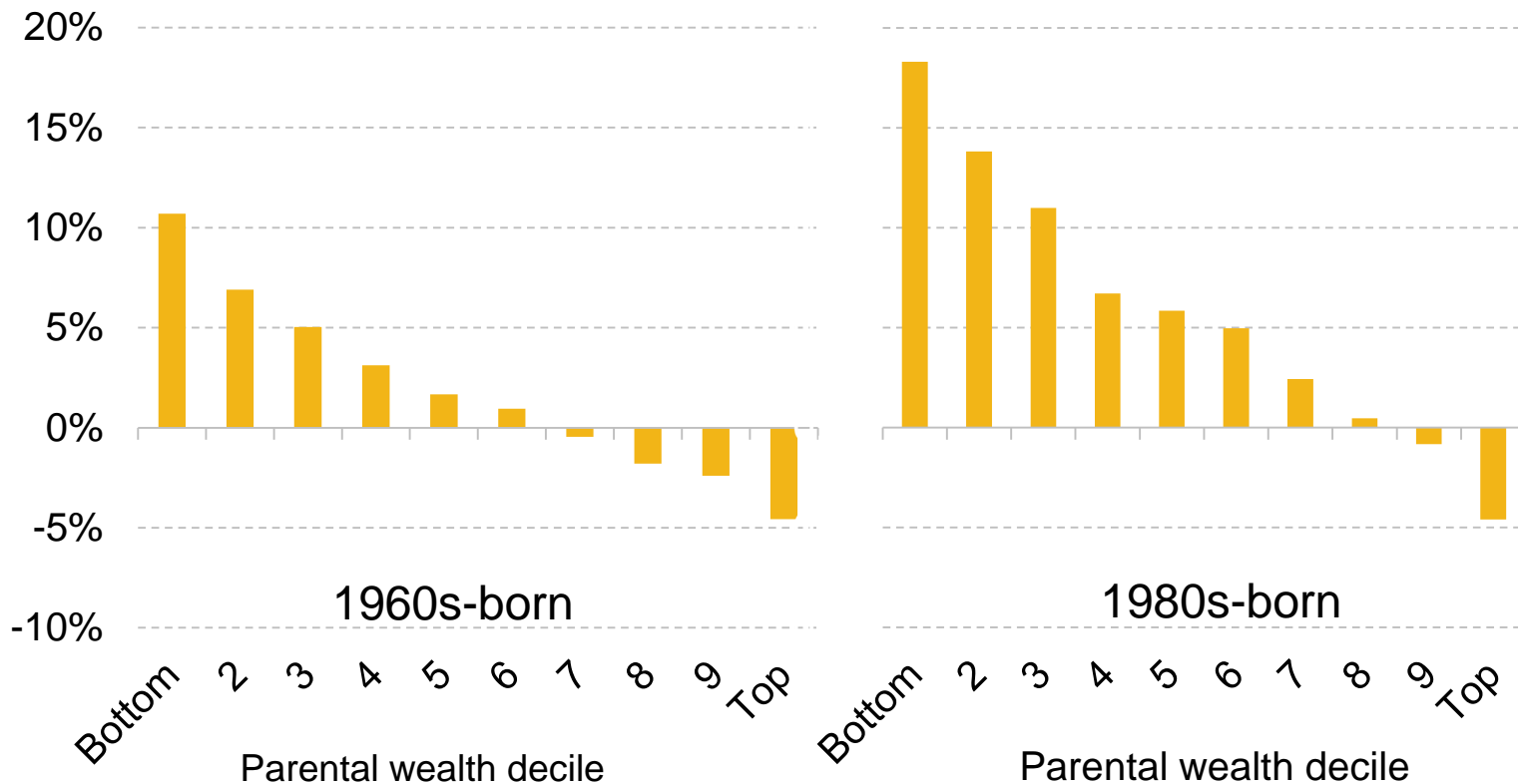
Estimated effect of inheritances on households' consumption before they receive their inheritances, as a percentage of inheritance received



Source: Figure 4.12 of Bourquin et al. (2021)

Policies that redistribute inheritances ^{ILFS} would have growing effects

Effect on lifetime consumption of equalising inheritances at their mean value, by parental wealth decile



Source: Figure 4.20 of Bourquin et al. (2021)

Summary

- Inheritances set to increase dramatically compared to other income
 - Modest impact on conventional inequality measures
 - Big implications for social mobility
- Biggest impacts on wealth and spending will be later in life
 - But expectation of inheritance likely increases spending now too
- Those with highest incomes most likely able to reduce saving now
- As inheritances get more important, so do policies redistributing them