

DEMOS

A NEW AGE OF INHERITANCE

WHAT DOES IT MEAN
FOR THE UK?

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JANUARY 2023

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Any errors remain the authors' responsibility.

Dan Goss and Ben Glover

January 2023

ABOUT THE UNLOCKING INHERITANCE PROGRAMME AT DEMOS

As the value of inheritances in the UK has doubled in recent decades and continues to increase, Demos is undertaking a new programme of work to explore what the UK's 'new age of inheritance' means for the country. This programme is supported by the abdrn Financial Fairness Trust.

As part of this programme we will be publishing a series of briefing papers on this issue, conducting new research on public attitudes towards inheritance and convening a series of events.

We'd love to hear from you with any questions or thoughts about our work. If you would like to get in touch, please email Dan Goss at dan.goss@demos.co.uk.

EXECUTIVE SUMMARY

Many of us save throughout our lives to be able to pass something on to our loved ones. Some of us spend more throughout our lives, safe in the knowledge that we will later inherit. Inheritances or gifts, when passed to younger generations, can also help people get on the housing ladder, start a business or retire early.¹ In doing so, inheritances and gifts play a vital role in shaping people's fortunes.

That role is becoming ever more important in the UK. While real incomes have stagnated, the value of wealth - driven in particular by house price increases - has continued to rise. With much of that wealth now being passed on to younger generations, we have entered a 'new age of inheritance'.²

³ Understanding what this new era means for the UK is crucial, especially given today's challenging economic context. Inheritances and gifts could, for example, provide some households with a vital buffer in times of hardship, while other households go without.

This briefing paper sets out the key facts and figures relating to the UK's new age of inheritance, drawing mainly on existing research alongside some new analysis of public datasets. By bringing together a range of findings on the size, distribution and impact of inheritances in the UK, it provides a fresh perspective on what we expect this new age of inheritance to look like both for individuals and for the country more broadly. We see that:

- Inheritances and gifts in the UK were, according to the most recent data available, worth over £100 billion.⁴
- The value of inheritances (adjusted for inflation) passed on annually in the UK has doubled roughly every twenty years since 1979 and, according to analysis by the Resolution Foundation, is expected to double again in England by 2040.
- According to modelling by the Institute for Fiscal Studies (IFS), a typical (median) UK household led by people born in the 1980s is expected to inherit almost £250,000 throughout their lives (in 2018/19 prices). That is equivalent to how much such a household would earn, on average, in almost eight years. A typical household led by those born in the 1960s, in contrast, is expected to inherit an amount worth just four years of their average annual earnings.
- IFS modelling also projects that inheritances will be distributed highly unevenly: of households led by people born in the 1980s, those with the least wealthy parents (in the bottom fifth) will get a 5% boost to their lifetime income through inheritance, but those with the wealthiest parents (in the top fifth) will get a 29% boost.

1 Inheritances are the wealth people pass on when they die. Intergenerational gifts are any significant amounts of wealth people give throughout their life to younger generations, often understood as transfers worth £500 or more.

2 This term is inspired by a 2008 paper by Ross A, Lloyd J and Weinhardt M (2008) describing the high value of inheritance passed on in the economy, following increases between 1998 and 2004.

3 Ross A, Lloyd J and Weinhardt M, *The Age of Inheritance*, The International Longevity Centre - UK, 7 May 2008, <https://ilcuk.org.uk/the-age-of-inheritance/>

4 The value of inheritances passed on annually was over £98 billion in 2019/20 and gifts passed on were worth roughly £6 billion annually from 2014-16.

These changes will have a profound effect on the UK economy. In particular, we are seeing the emergence of a new divide between the inheritance 'will-haves' and 'won't-haves'.⁵⁶ This divide will closely align with existing economic and social divides across:

- **Income.** According to IFS modelling, of households led by people born in the 1980s, those in the top fifth of lifetime incomes are expected to inherit £390,000 throughout their life (in 2018/19 prices), compared to just £148,000 for those in the bottom fifth.
- **Race.** White British people typically received over £3,000 in inheritances and gifts during 2016-18, but people in some ethnic minority groups typically received nothing.⁷
- **Region.** A typical person in the South of England born in the 1970s is set to inherit around three-and-a-half times as much as a typical person in the North East.

The impact of this new age of inheritance will be wide-ranging. Drawing on existing research, we see that it could affect:

- **Social mobility.** Inheritances are expected to make people from low wealth families around 20% more likely to have low incomes.
- **Homeownership.** Over a quarter of first-time buyers receive financial assistance from their family, helping them get on the housing ladder.
- **Financial security.** 90% of inheritances include cash, helping recipients increase savings, reduce debt and sometimes retire early.

We hope this paper provides a useful introduction to the UK's new age of inheritance and how it may affect the country. Future papers will explore this new era in more detail, with a particular focus on public attitudes towards inheritance. We are not yet considering policy recommendations, but will do so later in the programme.

5 These terms were used in Green J and de Geus R (2022) to describe divides between graduates and non-graduates who, on average, are expected to have different levels of economic security in life.

6 Green J and de Geus R, *Red Wall, Red Herring? Economic Insecurity and Voting Intention in Britain*, Nuffield Politics Research Centre, 24 May 2022, https://politicscentre.nuffield.ox.ac.uk/media/5142/nprc-econ-insecurity-report_bridges_final.pdf

7 Based on the median amount of inheritances and gifts received per person during that period.

SECTION 1

WHAT IS THE UK'S NEW AGE OF INHERITANCE?

The amount of wealth being passed on in the UK from one generation to the next is increasing at a rapid rate. As a result, inheritances and gifts are increasingly becoming one of the most important features of people's economic and social experiences. This is the UK's new age of inheritance. In this section we explore the increasingly important role that inheritances will play in the UK economy.

1. INHERITANCES AND GIFTS PASSED ON IN THE UK EACH YEAR ARE WORTH OVER £100 BILLION.^{8, 9, 10}

In new analysis conducted for this paper - drawing on data on estates passed at death reported to HMRC - we find that inheritances passed on in the UK in the financial year ending (FYE) 2020 were worth over £98 billion (in 2021/22 prices), and were likely to be significantly larger than that.^{11, 12, 13, 14}

8 This combines data on inheritances from HMRC in the financial year ending 2020 and data on gifts from Resolution Foundation analysis of the ONS Wealth and Assets survey from 2014-2016.

9 HM Revenue and Customs, *Inheritance Tax Statistics*, 22 November 2022, <https://www.gov.uk/government/collections/inheritance-tax-statistics>

10 Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022, <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerational-rapport-fair.pdf>

11 The data from HMRC includes the value of all estates passed on as a result of deaths recorded in that year which were then reported to HMRC. This does not include certain sources of wealth, as described by Atkinson (2018) in *Wealth and inheritance in Britain from 1896 to the present*.

- Firstly, it does not include transfers of property that were jointly held by two people (primarily couples), passed to the surviving partner. However, this paper is less concerned with these cases, which are more reflective of a change in property rights than of transfers of wealth between individuals.
- Secondly, the figure also doesn't include small estates of cash or personal items under £5,000. This is likely to be a small portion of the total value of inheritances; while HMRC has not estimated the value of these excluded estates since 2005, in that year, Atkinson (2018) explains that their total value was equivalent to around 2% of the value of all reported estates.
- Thirdly, Atkinson (2018) explains that it does not include certain 'excluded trusts' or 'under-recognised property', including 'most property held in discretionary trusts, accumulation and maintenance fund property, and property held in settlements on a surviving spouse'. HMRC published estimates of the value of this wealth in estates passed at death until 2005. From the early 1990s until 2005, this value had remained at around 25% of the value of the reported estates. Atkinson (2018) therefore adds on 25% to the estimated value of estates for an approximation of the total value of estates during that period. McCarthy et al. (2017) use this 25% figure for their estimate of transfers in 2015. It is unclear how much this category constitutes in today's figures.

12 Atkinson A, *Wealth and inheritance in Britain from 1896 to the present*, The Journal of Economic Inequality, Volume 16, 21 June 2018, <https://link.springer.com/article/10.1007/s10888-018-9382-1>

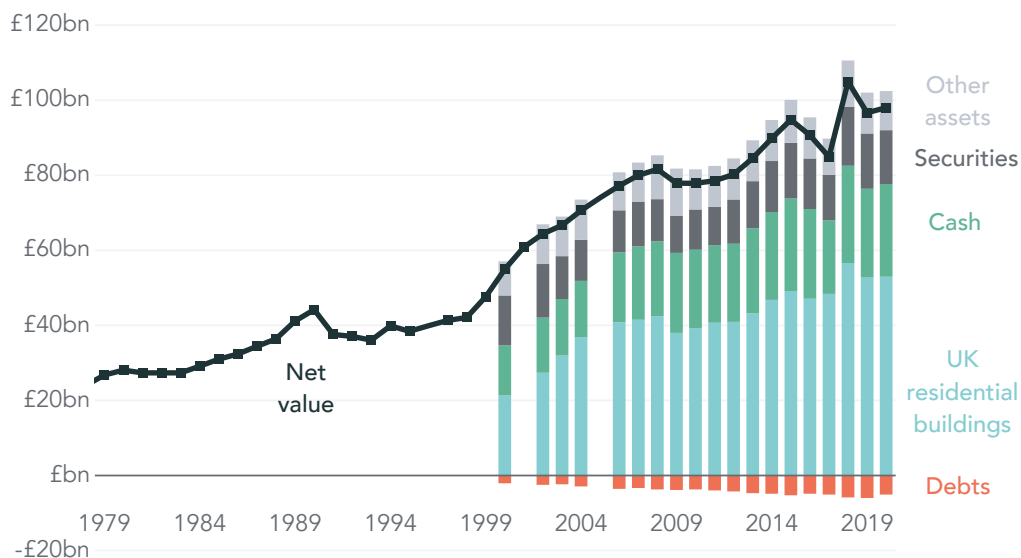
13 Price deflator from HM Treasury, *GDP deflators at market prices and money GDP December 2022*, 5 January 2023, <https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-december-2022-quarterly-national-accounts>

14 Data on number of households from Office for National Statistics, *Families and households in the UK: 2020*, 2 March 2021, <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2020>

If these reported inheritances were distributed equally across all UK households, after taking away the small portion paid in inheritance tax or given to charities, they would amount to £3,150 per household (in 2021/22 prices) - equivalent to around 10% of disposable household income that year.^{15, 16, 17} On top of this, the gifts transferred between friends and family were valued in the most recent data available (from 2015-17) at around £6 billion each year on average.¹⁸ It is important to flag that some suggest these figures are also underestimated, given their reliance on self-reporting.^{19, 20}

FIGURE 1

VALUE OF UK ESTATES PASSED ON AT DEATH REPORTED TO HMRC BY ASSET TYPE, FYE, 1979-2020 (IN 2021/22 PRICES)



NOTES: This only counts estates reported to HMRC. These do not include small estates of cash or personal items under £5,000 (which represent a small proportion of the total value of estates) or what Atkinson (2018) calls “excluded trusts” or “under-recognised property” (which he suggests may represent an extra 25% on top of the value of reported estates for the latest period (2008)). No values available for 1995-96 and 2004-05.

SOURCE: Demos analysis of HM Revenue and Customs, *Inheritance Tax Statistics, 1999/2000 to 2019/20*, 22 November 2022, <https://www.gov.uk/government/collections/inheritance-tax-statistics> and Atkinson A, *Wealth and inheritance in Britain from 1896 to the present*, *The Journal of Economic Inequality*, Volume 16, 21 June 2018, <https://link.springer.com/article/10.1007/s10888-018-9382-1>

These inheritances include a range of asset-types passed on to spouses, children, other relatives and friends. In recent decades, around half of the value of reported inheritances has been in property. But a majority of those who inherit property go on to sell it, therefore enjoying significant cash lump sums, with only 12% using inherited property as their primary home.²¹ And while a large proportion of the reported inheritances went to partners or spouses, most of that wealth is later passed on to younger generations - primarily children - after the death of the surviving partner.²²

15 £6.4 billion was paid in inheritance tax and £1.7 billion was given to charities in FYE 2020 (in 2021/22 prices)

16 Household disposable (meaning after-tax) income from Office for National Statistics, *Average household income UK: Financial year ending 2020*, 21 January 2021, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyear2020>

17 HM Revenue and Customs, Table 12.1 and 12.2, *Inheritance Tax Statistics*, 22 November 2022, <https://www.gov.uk/government/collections/inheritance-tax-statistics>

18 Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022, <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerational-rapport-fair.pdf>

19 McCarthy D, Sefton J, Lee R and Sambt J, *Generational Wealth Accounts: Did Public and Private Inter-Generational Transfers Offset Each Other Over the Financial Crisis?*, *The Economic Journal*, 17 March 2022, <https://academic.oup.com/ej/article-abstract/132/647/2412/6550017>

20 Karagiannaki E, *The magnitude and correlates of inter-vivos transfers in the UK*, Centre for Analysis of Social Exclusion, LSE, June 2011, <https://sticerd.lse.ac.uk/dps/case/cp/CASEpaper151.pdf>

21 Corlett A, *Passing on: options for reforming inheritance taxation*, Resolution Foundation Intergenerational Centre, 2 May 2018, <https://www.resolutionfoundation.org/app/uploads/2018/05/IC-inheritance-tax.pdf>

22 Bourquin P, Joyce R and Sturrock D, *Inheritance And Inequality Within Generations*, Institute for Fiscal Studies, 22 July 2020, https://ifs.org.uk/sites/default/files/output_url_files/R173-inheritances-and-inequality-within-generations.pdf

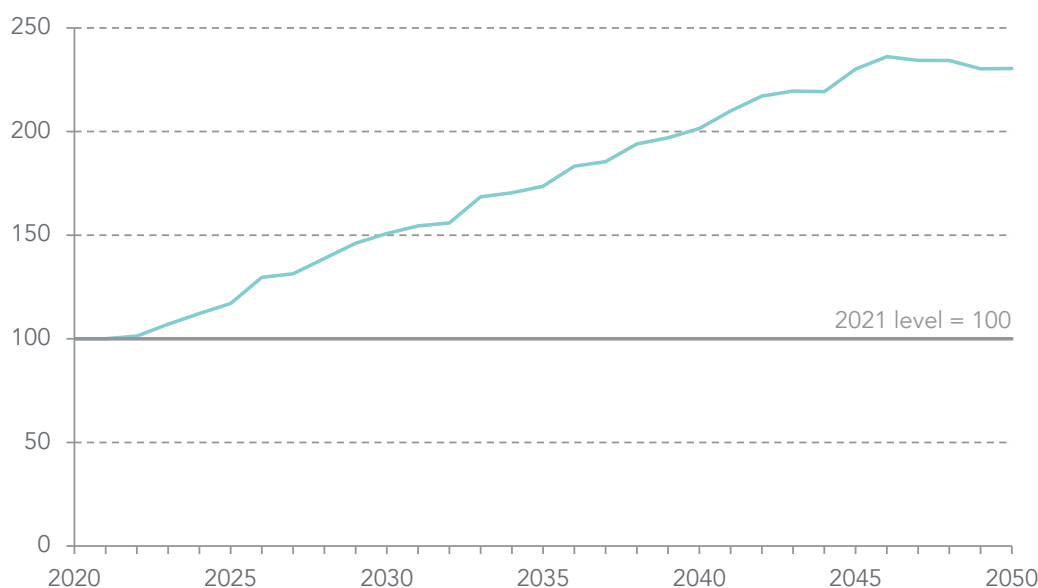
2. THE REAL VALUE OF INHERITANCES PASSED ON ANNUALLY IN THE UK HAS DOUBLED ROUGHLY EVERY TWENTY YEARS SINCE 1979 AND IS EXPECTED TO DOUBLE AGAIN IN ENGLAND BY 2040.²³²⁴

In new analysis for this paper, we find that the value of inheritances reported to HMRC passed on annually in the UK doubled in real terms (in 2021/22 prices) from £24 billion in 1979 (FYE) to £48 billion by 1999, and then to £98 billion by 2020.²⁵ While the average reported estate was worth just £95,000 in 1979 (in 2021/22 prices), by 2020 it was £352,000.

According to Resolution Foundation analysis, the value of inheritances in England is expected to peak in 2046 at around 2.4 times its 2021 value (see Figure 2).²⁶ If the UK follows comparable trends, inheritances alone will be roughly worth over £230 billion each year.

FIGURE 2

INDEX OF EXPECTED BEQUESTS IN ENGLAND OVER TIME (2021-2050, 2021=100)



NOTES: Based on Resolution Foundation analysis of data on expected inheritances and distributional life expectancy from the English Longitudinal Study of Ageing and ONS National Life Tables

SOURCE: Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022, <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerationalrapport-fair.pdf>

How does this new age of inheritance compare with the past? At the turn of the 20th century, the amount of inheritance and gifts passed on in the UK each year was equal to 22% of national income - a staggering figure.^{27, 28} By the start of the First World War (1914) this figure had decreased to 17%, and by the start of the Second World War (1939) it was 14%. It then fell significantly to 7.6% by 1953, before decreasing gradually to a low of 4.8% in 1978. Since then, the value of inheritances has increased; by 1990 it had grown to 6.9% of national income. Indeed, our analysis suggests the value of

23 Demos analysis of HM Revenue and Customs, *Inheritance Tax Statistics, 1999/2000 to 2019/20*, 22 November 2022, <https://www.gov.uk/government/collections/inheritance-tax-statistics> and Atkinson A, *Wealth and inheritance in Britain from 1896 to the present*, *The Journal of Economic Inequality*, Volume 16, 21 June 2018, <https://link.springer.com/article/10.1007/s10888-018-9382-1>

24 Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022, <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerationalrapport-fair.pdf>

25 Demos analysis of HM Revenue and Customs, *Inheritance Tax Statistics, 1999/2000 to 2019/20*, 22 November 2022, <https://www.gov.uk/government/collections/inheritance-tax-statistics> and Atkinson A, *Wealth and inheritance in Britain from 1896 to the present*, *The Journal of Economic Inequality*, Volume 16, 21 June 2018, <https://link.springer.com/article/10.1007/s10888-018-9382-1>

26 Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022, <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerationalrapport-fair.pdf>

27 As measured by net national income, using FYE. This is gross national income (GNI) (the total amount of money earned by people and businesses who reside in the UK) minus the depreciation in the value of fixed capital such as buildings or machinery. GNI is itself equivalent to GDP plus income which is earned abroad but by people or businesses who reside in the UK.

28 Atkinson A, *Wealth and inheritance in Britain from 1896 to the present*, *The Journal of Economic Inequality*, Volume 16, 21 June 2018, <https://link.springer.com/article/10.1007/s10888-018-9382-1>

inheritances grew 36% faster than national income between 1990 and 2020.^{29, 30, 31}

This follows sharp increases in the value of wealth in the UK in recent decades. While the value of all household wealth was three-and-a-half times as much as GDP in 1991, in 2020 it was worth almost eight times as much.³² The value of land in particular - which accounted for 70% of the value of UK houses in 2016 - increased fivefold from 1995 to 2016.³³ Financial wealth and pension wealth, meanwhile, both grew in Great Britain by over 60% from 2006 to 2018, with the vast majority of increases in financial wealth (consistently between 76% and 93% from 2008 to 2018) resulting from increasing asset prices rather than people saving more.^{34, 35}

3. A TYPICAL UK HOUSEHOLD LED BY THOSE BORN IN THE 1980S IS EXPECTED TO INHERIT AN AMOUNT THROUGHOUT THEIR LIVES EQUIVALENT TO EIGHT YEARS OF AVERAGE EARNINGS (AROUND £250,000 IN 2018/19 PRICES)³⁶

As people inherit larger amounts than in the past, inheritances will play an increasingly important role in determining living standards, relative to incomes. According to modelling by the IFS, a typical household led by people born in the 1960s is expected to inherit an amount throughout their life equivalent to four years of the average household earnings for that generation.³⁷ For those born just twenty years later in the 1980s, they are expected to inherit an amount equivalent to eight years of average household earnings for their generation.

29 As measured by GNI, as opposed to Atkinson's (2018) measurement against net national income, because measures of net national income are no longer publicly available. Inheritance was equivalent to 3.22% of GNI in FYE 1990 and 4.38% of GNI in FYE 2020.

30 Office for National Statistics, *Gross National Income: Current price: Seasonally adjusted £m*, 22 December 2022, <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/abmz/ukea>

31 Demos analysis (using FYE) of HM Revenue and Customs, *Inheritance Tax Statistics, 1999/2000 to 2019/20*, 22 November 2022, <https://www.gov.uk/government/collections/inheritance-tax-statistics> and Atkinson A, *Wealth and inheritance in Britain from 1896 to the present*, *The Journal of Economic Inequality*, Volume 16, 21 June 2018, <https://link.springer.com/article/10.1007/s10888-018-9382-1>

32 Broome M et al., *An intergenerational audit for the UK*, Resolution Foundation, 14 November 2022, <https://www.resolutionfoundation.org/app/uploads/2022/11/An-intergenerational-audit-for-the-UK.pdf>

33 Murphy L, *The Invisible Land: The hidden force driving the UK's unequal economy and broken housing market*, IPPR Commission on Economic Justice, 28 August 2018, <https://www.ippr.org/files/2018-08/cej-land-tax-august18.pdf>

34 The authors at the Resolution Foundation compare changes in family financial wealth to a counterfactual change in wealth predicted by average financial returns for a granular breakdown of assets. This reflects the extent to which those returns contributed to the change in financial wealth on average.

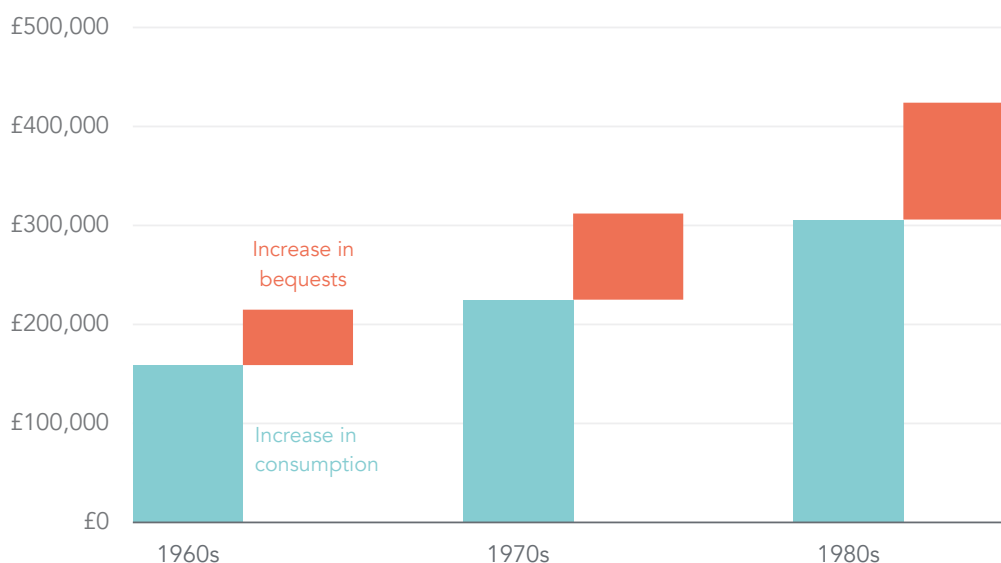
35 Advani A, Bangham G and Leslie J, *The UK's wealth distribution and characteristics of high-wealth households*, Resolution Foundation, 3 January 2021, <https://www.resolutionfoundation.org/app/uploads/2020/12/The-UKs-wealth-distribution.pdf>

36 Figure 2.8, Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

37 Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

FIGURE 3

PROJECTED AVERAGE INCREASE IN UK HOUSEHOLD CONSUMPTION AND BEQUESTS TO NEXT GENERATION AS A RESULT OF RECEIVING INHERITANCE, BY DECADE OF BIRTH (IN 2018/19 PRICES)



NOTES: Based on IFS simulations using the English Longitudinal Study of Ageing and the UK Household Longitudinal Study
SOURCE: Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

Those expecting large inheritances may also enjoy benefits before inheriting. People in the UK born in the 1980s are expected to not typically receive their inheritance until they are aged 61 - a time when people may have already accumulated significant levels of wealth.³⁸ But in anticipation of receiving an inheritance, inheritors-to-be spend more than those who do not expect to receive an inheritance. Those born in the 1980s expecting an inheritance are projected to typically spend an extra £400 per year (in 2018/19 prices) before inheriting (equivalent to almost a quarter of the value of the inheritance).^{39, 40}

Gifts are often given to younger people when they will be of most value to them, for example when their incomes are lower or when they are purchasing a house.⁴¹ In ONS surveys, around one in ten of those aged 25 to 44 in the UK report receiving a gift or loan (measured as transfers of wealth worth over £500) from friends or family between 2014 and 2016 - typically receiving £2,500 during that time - compared to just one in thirty-three of those aged 55 to 64.⁴²

38 Gardiner L, *The million dollar be-question: inheritances, gifts, and their implications for generational living standards*, Resolution Foundation, 30 December 2017, <https://www.resolutionfoundation.org/app/uploads/2017/12/Inheritance.pdf>

39 Based on IFS modelling which projects additional consumption between age 26 and the year of receipt of inheritance.

40 Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

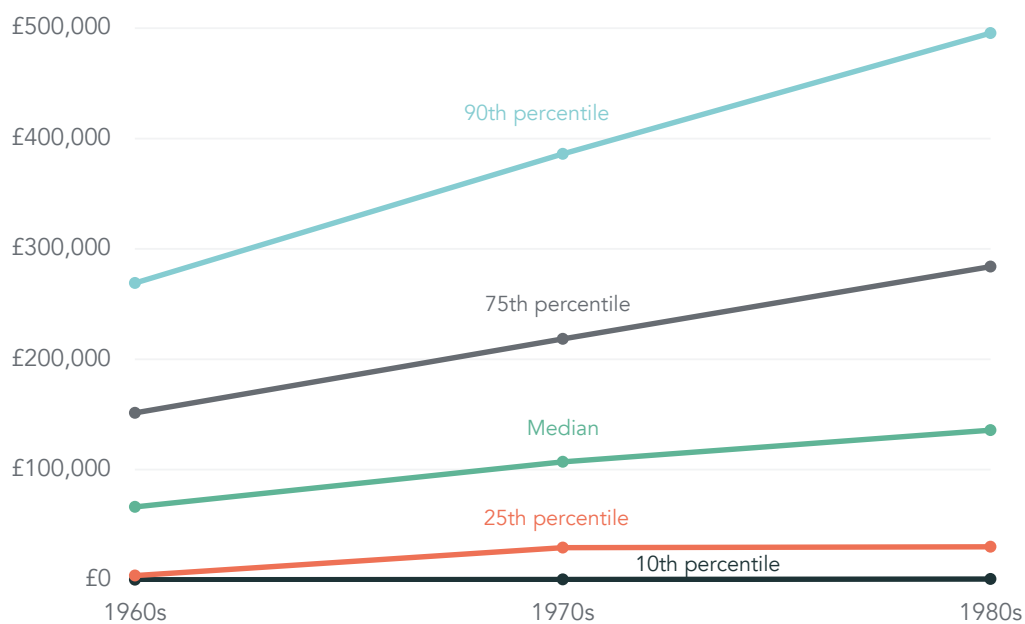
41 Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022, <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerational-rapport-fair.pdf>

42 Office for National Statistics, *Intergenerational transfers: the distribution of inheritances, gifts and loans*, Great Britain: 2014 to 2016, 30 October 2018, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/intergenerationaltransfersdistributionofinheritancesgiftsandloans/2018-10-30>

4. OF PEOPLE BORN IN THE 1980S, THOSE IN HOUSEHOLDS WITH THE LEAST WEALTHY PARENTS (IN THE BOTTOM FIFTH) ARE EXPECTED TO GET A 5% BOOST TO THEIR LIFETIME INCOME THROUGH INHERITANCE, WHILE THOSE WITH THE WEALTHIEST PARENTS (IN THE TOP FIFTH) ARE EXPECTED TO GET A 29% BOOST.^{43, 44}

As measured by the Gini coefficient, wealth was 72% more unequal than income in the UK between 2016-18 (0.62 vs 0.36).^{45, 46} These inequalities have only been increased by the pandemic. The net wealth (money and assets, minus debts) of families in the top wealth decile in Great Britain increased by £51,000 per adult between February 2020 to May 2021, almost 750 times more than the wealth increase for the bottom decile (£69 per adult).⁴⁷

FIGURE 4
PROJECTED DISTRIBUTION OF INHERITANCES PASSED TO INDIVIDUALS IN ENGLAND BORN IN THE 1960S, 70S AND 80S (IN 2018/19 PRICES)



NOTES: Based on IFS simulations using the English Longitudinal Study of Ageing and the ONS Longitudinal Study of England and Wales

SOURCE: Bourquin P, Joyce R and Sturrock D, *Inheritance And Inequality Within Generations*, Institute for Fiscal Studies, 22 July 2020, https://ifs.org.uk/sites/default/files/output_url_files/R173-Inheritances-and-inequality-within-generations.pdf

Wealth inequalities are then reflected in the distribution of inheritances. According to IFS modelling of individuals in England born in the 1980s, the top 25% of inheritors are expected to get at least £284,000 throughout their life (in 2017/18 prices), with the top 10% expected to get at least

43 Bourquin, Joyce and Sturrock (2021) establish the wealth distribution of parents using data from the UK Household Longitudinal Study (UKHLS). To estimate the lifetime household income of the children, the authors use data from the UKHLS on the education levels of children - across the three age cohorts used (1960s, 1970s and 1980s) - for parents at different parts of that wealth distribution. While some of those people will be in households as a couple, the level of education of a household is taken as the highest level of education of members of the couple, as the authors find that individuals are highly likely to be in a household where the highest level of education is the same as their own.

44 Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

45 The Gini coefficient determines the evenness of a distribution of money, whereby a coefficient of 1 means one person owns all the money and 0 means everyone owns the same.

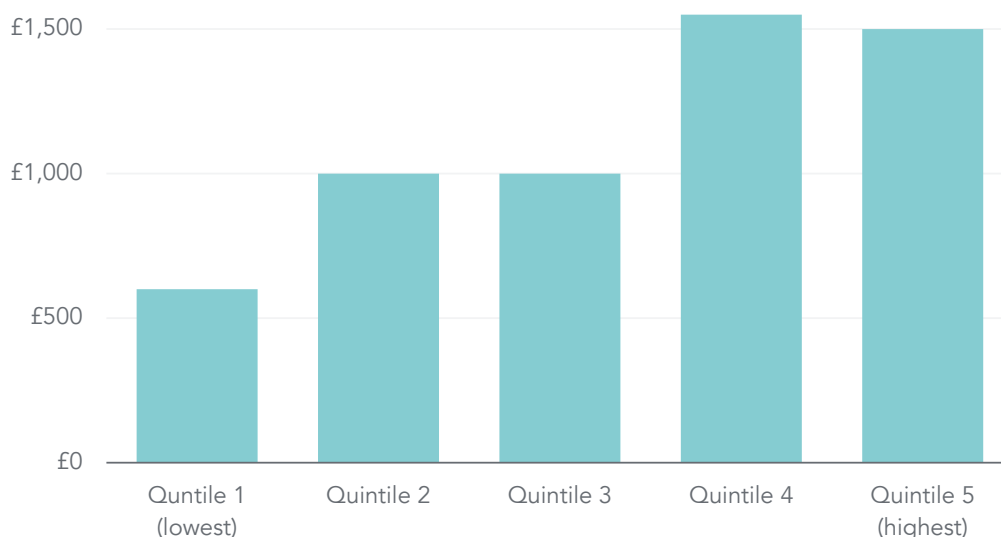
46 Broome M and Leslie J, *Arrears fears: The distribution of UK household wealth and the impact on families*, Resolution Foundation, 18 July 2022, <https://www.resolutionfoundation.org/app/uploads/2022/07/Arrears-fears.pdf>

47 Leslie J and Shah K, *(Wealth) gap year: The impact of the coronavirus crisis on UK household wealth*, Resolution Foundation, 12 July 2021, <https://www.resolutionfoundation.org/app/uploads/2021/07/Wealth-gap-year.pdf>

£495,000.⁴⁸ This compares to less than £30,000 for the 25% who inherit the least, with the bottom 10% all expected to inherit less than £850 throughout their life.

The distribution of intergenerational gifts is also highly unequal. Those in the wealthiest 40% of people in Great Britain typically received gifts or loans between 2014-16 worth almost three times as much as those in the bottom 20% (around £1,500 vs £600 respectively).⁴⁹

FIGURE 5
MEDIAN VALUE OF GIFTS OR LOANS (OF OVER £500) RECEIVED PER PERSON IN GREAT BRITAIN EACH YEAR (2014-16), BY WEALTH QUINTILE



NOTES: Based on ONS data on self-reported gifts and loans from the Wealth and Assets Survey.

SOURCE: Office for National Statistics, *Intergenerational transfers: the distribution of inheritances, gifts and loans, Great Britain: 2014 to 2016*, 30 October 2018,

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/intergenerational-transfersthedistributionofinheritancesgiftsandloans/2018-10-30>

5. A TENTH OF ALL PEOPLE BORN IN ENGLAND IN THE 1960S, 70S OR 80S ARE EXPECTED TO INHERIT ALMOST NOTHING AT ALL.⁵⁰

A huge volume of wealth will be transferred to younger generations in the new age of inheritance. But given the unequal distribution, even for those born in the 1980s for whom inheritances will be largest, modelling from the IFS suggests that one in ten individuals in England are expected to receive under £1,000 throughout their lives (in 2017/18 prices).⁵¹ For those born in the 1960s, one in ten are expected to receive no more than £129.⁵² These people will for the most part be left out of the new age of inheritance, as others reap the benefits.

48 Bourquin P, Joyce R and Sturrock D, *Inheritance And Inequality Within Generations*, Institute for Fiscal Studies, 22 July 2020, https://ifs.org.uk/sites/default/files/output_url_files/R173-Inheritances-and-inequality-within-generations.pdf

49 Office for National Statistics, *Intergenerational transfers: the distribution of inheritances, gifts and loans, Great Britain: 2014 to 2016*, 30 October 2018, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/intergenerationaltransfersthedistributionofinheritancesgiftsandloans/2018-10-30>

50 Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

51 Ibid.

52 Ibid.

SECTION 2

WHO ARE THE 'WILL-HAVES' AND 'WON'T-HAVES' IN THE NEW AGE OF INHERITANCE?

It is clear that a significant amount of wealth is expected to be passed between generations and will be distributed highly unequally. Given this, we expect the UK's new age of inheritance to exacerbate existing divides between the 'will-haves' - those expected to inherit significant sums - and the 'won't-haves' - those expected to inherit smaller amounts or nothing at all. In this section we set out the key features that are expected to characterise the 'will-haves' and the 'won't-haves'.

1. INCOME: OF PEOPLE BORN IN THE 1980S, THOSE IN HOUSEHOLDS WITH THE HIGHEST LIFETIME INCOMES (IN THE TOP FIFTH) ARE EXPECTED TO INHERIT OVER TWO-AND-A-HALF TIMES AS MUCH AS THOSE WITH THE LOWEST INCOMES (BOTTOM FIFTH).⁵³

Income is already highly unequally distributed in the UK; the top 1% in terms of household income received between 7% and 10% of all income in the UK from 2006 to 2012. On top of this, they also received almost 10% of all wealth transfers (gifts and inheritance) during that period, a higher proportion than in France, Germany, Ireland, Italy and the US.^{54, 55} Beyond the top 1%, the top 20% in terms of household income in the UK received almost half of all wealth transfers during this period.⁵⁶

53 Bourquin P, Joyce R and Sturrock D, Inheritances and inequality over the life cycle: what will they mean for younger generations?, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

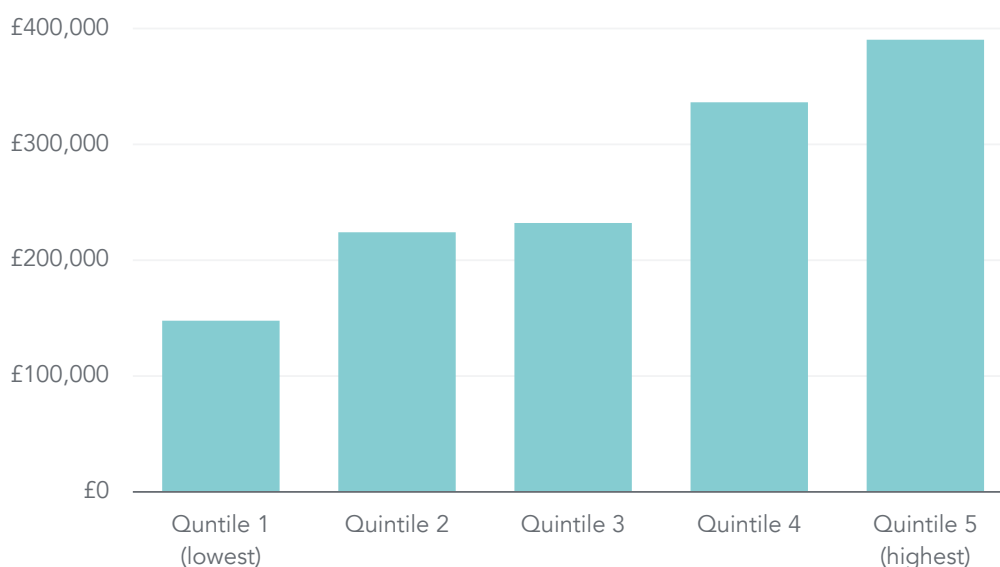
54 Office for National Statistics, *Household income inequality, UK: financial year ending 2021*, 28 March 2022, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householdincomeinequalityfinancial/financialyearending2021>

55 Nolan et al., *The Wealth of Families: The Intergenerational Transmission of Wealth in Britain in Comparative Perspective*, Nuffield Foundation Report, 4 August 2020, <https://www.inet.ox.ac.uk/files/Intergenerational-Wealth-Transfers-Report-Aug-2020.pdf>

56 Ibid.

FIGURE 6

PROJECTED MEDIAN LIFETIME INHERITANCE RECEIVED PER UK HOUSEHOLD (IN 2018/19 PRICES) FOR THOSE BORN IN THE 1980S, BY QUINTILE OF LIFETIME (NON-INHERITED) INCOME



NOTES: Based on IFS simulations using the English Longitudinal Study of Ageing and the UK Household Longitudinal Study. Does not include gifts.

SOURCE: Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, <https://ifs.org.uk/publications/inheritances-and-inequality-over-life-cycle-what-will-they-mean-younger-generations>

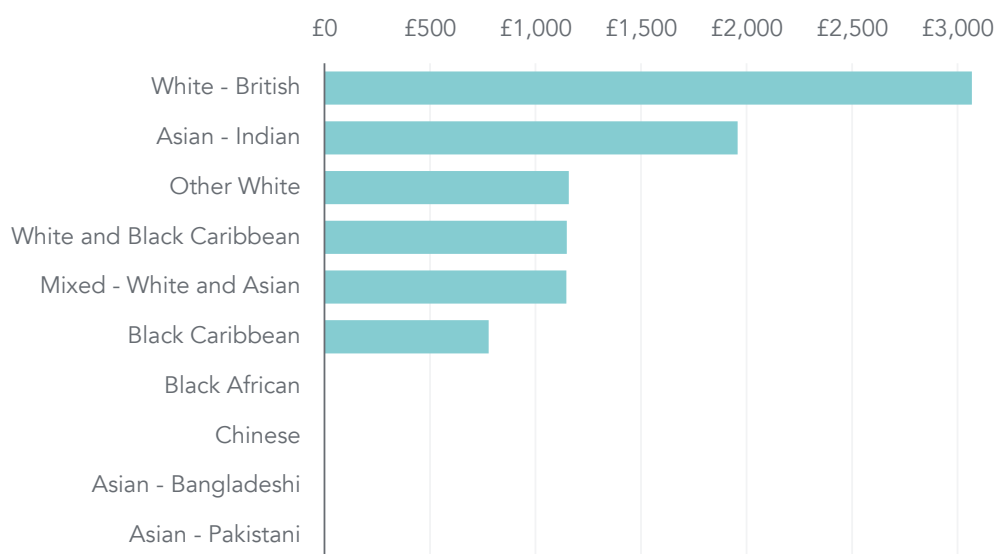
The ability to increase spending in anticipation of receiving an inheritance is also a luxury more afforded to those on higher incomes. Lower income households are less likely to have money saved that they can spend in anticipation of receiving inheritance. It is also riskier for lower income households to spend their savings as it is harder for them to rebuild them. According to IFS modelling, for UK households led by people born in the 1980s, those with the highest income (top 20%) are expected to spend an additional amount before receiving their inheritance equivalent, on average, to a third of the amount they inherit - effectively spending a third of their inheritance before receiving it. This is three times higher than those on the lowest incomes (bottom 20%), who spend an additional amount worth just over a tenth of their inheritance.⁵⁷

57 Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

2. RACE: WHILE PEOPLE OF WHITE BRITISH ETHNICITY TYPICALLY RECEIVED OVER £3,000 THROUGH INHERITANCES AND GIFTS BETWEEN 2016 AND 2018, PEOPLE OF BLACK AFRICAN, CHINESE, BANGLADESHI OR PAKISTANI ETHNICITY TYPICALLY RECEIVED NOTHING DURING THIS PERIOD.^{58, 59}

The new age of inheritance can be expected to further entrench racial inequalities in the UK, as people from ethnic minority groups tend to receive significantly smaller intergenerational wealth transfers than people of white British ethnicity. Taking a snapshot of the inheritances and gifts (those over £500) received in Great Britain from 2016-18, people of white British ethnicity typically received 50% more wealth than those from the second highest-inheriting ethnic group, people of Indian ethnicity (around £2,000).⁶⁰

FIGURE 7
MEDIAN WEALTH TRANSFERS (INCLUDING INHERITANCES AND GIFTS) RECEIVED PER PERSON IN GREAT BRITAIN, 2016-18, BY ETHNIC GROUP



NOTES: Based on ONS data on self-reported inheritances and gifts from the Wealth and Assets Survey. Only includes inheritances and gifts worth over £500,

SOURCE: Bangham G, *A gap that won't close: The distribution of wealth between ethnic groups in Great Britain*, Resolution Foundation, 22 December 2020, <https://www.resolutionfoundation.org/publications/a-gap-that-wont-close/>

This looks set to continue in the future. The net wealth of a typical white British household in Great Britain was over nine times greater in 2016-18 than that of a black African household and almost five times higher than that of a Bangladeshi household (£313,900 vs £34,300 and £65,600 respectively).⁶¹

58 This median is lower than other estimates of inheritance in this paper mainly because it is reflective only of the inheritances and gifts received from 2014 to 2016. During this period, most people will not have received inheritance from their parents, which tends to be people's largest inheritance. The inheritances and gifts considered in the calculations for this chart are more likely than other estimates to reflect gifts, which are much lower value than inheritances. Other factors include the facts that:

1. while many inheritance valuations in this paper are projected for inheritances in the future, this chart considers dates in the past, when the amounts passed on were lower; and
2. while many estimates of inheritance given in this paper considers those received by households, this considers those received by individuals.

59 Bangham G, *A gap that won't close: The distribution of wealth between ethnic groups in Great Britain*, Resolution Foundation, 22 December 2020, <https://www.resolutionfoundation.org/publications/a-gap-that-wont-close/>

60 Bangham G, *A gap that won't close: The distribution of wealth between ethnic groups in Great Britain*, Resolution Foundation, 22 December 2020, <https://www.resolutionfoundation.org/publications/a-gap-that-wont-close/>

61 Office for National Statistics, *Household wealth by ethnicity*, Great Britain: April 2016 to March 2018, 23 November 2020, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/householdwealthbyethnicitygreatbritain/april2016tomarch2018>

And this wealth will be spread more thinly among children in ethnic minority households, as the number of dependents per household is between two and three times higher in black African, Bangladeshi and Pakistani households than white British households.⁶²

3. REGION: A TYPICAL PERSON IN THE SOUTH OF ENGLAND BORN IN THE 1970S IS SET TO INHERIT AROUND THREE-AND-A-HALF TIMES AS MUCH AS A TYPICAL PERSON IN THE NORTH EAST.⁶³⁶⁴

The government's levelling up agenda has sparked renewed interest in regional inequalities, with a particular interest in boosting regional economies outside the South East of England and London.

Yet, the new age of inheritance may exacerbate existing regional inequalities. A typical person in London born in the 1970s, for example, has parents with wealth of almost £300,000 per child, while a typical person in the South East has parents with roughly £270,000 per child.^{65, 66} This is around three-and-a-half times more than those in the North East of England (roughly £80,000 per child). These disparities have been expanded by recent changes in wealth; while wealth in London and the South East grew in real terms by 62% and 43% respectively from 2006-18 to 2018-2020, it reduced by 17% in the North East during that period.⁶⁷

Importantly, alongside differences between regions, there will also be stark disparities within regions. This is particularly the case in London, where the least wealthy 20% own just 0.2% of all wealth.⁶⁸⁶⁹

4. EDUCATION: A TYPICAL GRADUATE IN ENGLAND BORN IN THE 1980S IS EXPECTED TO INHERIT ALMOST TWICE AS MUCH THROUGHOUT THEIR LIVES AS A TYPICAL PERSON WITHOUT QUALIFICATIONS ABOVE GCSE-LEVEL.⁷⁰

It is widely known that those with higher levels of education tend to enjoy higher income levels. The data also tells us that those with higher levels of education have much wealthier parents, and can therefore expect to inherit more throughout their lives. According to IFS modelling of people in England born in the 1980s, a typical person with university-level education is expected to inherit £172,000 - almost twice as much as a typical person whose highest qualification is GCSE-level (£88,000)

62 Corlett A, *Diverse outcomes: Living standards by ethnicity*, Resolution Foundation, 7 August 2017, <https://www.resolutionfoundation.org/app/uploads/2017/08/Diverse-outcomes.pdf>

63 The South of England includes London, the South East and the South West

64 Bourquin P, Joyce R and Sturrock D, *Inheritance And Inequality Within Generations*, Institute for Fiscal Studies, 22 July 2020, https://ifs.org.uk/sites/default/files/output_url_files/R173-Inheritances-and-inequality-within-generations.pdf

65 Ibid

66 This model takes data from the English Longitudinal Study of Ageing and the National Statistics Longitudinal Study of England and Wales to model wealth, and then converts all parental wealth amounts into the 'equivalent' amounts for a 65-year-old (based on typical changes in wealth across the lifecycle).

67 Office for National Statistics, *Household total wealth in Great Britain: April 2018 to March 2020*, 7 January 2022, <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020>

68 Office for National Statistics, *Analysing regional economic and well-being trends*, 25 February 2020, <https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/compendium/economicreview/february2020/analysingregionaleconomicandwellbeingtrends>

69 Trust for London, 'The distribution of wealth', *London's Poverty Profile*, no date, <https://www.trustforlondon.org.uk/data/wealth-distribution/#:~:text=W%20is%20very%20unequally%20distributed,of%20London's%20total%20net%20wealth>.

70 Bourquin P, Joyce R and Sturrock D, *Inheritance And Inequality Within Generations*, Institute for Fiscal Studies, 22 July 2020, https://ifs.org.uk/sites/default/files/output_url_files/R173-Inheritances-and-inequality-within-generations.pdf

SECTION 3

HOW COULD THE 'WILL-HAVES' AND 'WON'T-HAVES' BE AFFECTED?

We have seen that the UK's new age of inheritance looks set to drive major changes in wealth and income, entrenching existing inequalities between the 'will-haves' and 'won't-haves'. In this final section we consider what impact these changes will have on the wider economy and UK society, including on social mobility, homeownership and financial security.

1. SOCIAL MOBILITY: INHERITANCES ARE EXPECTED TO MAKE PEOPLE FROM LOW WEALTH FAMILIES (IN THE BOTTOM FIFTH) 20% MORE LIKELY TO HAVE LOW INCOMES (IN THE BOTTOM FIFTH).⁷¹

The new age of inheritance will mean that people's economic position is increasingly determined by the wealth of their parents, as opposed to other factors like how much they earn.

Putting inheritances to one side, people from wealthier families are less likely to end up with low lifetime income. According to IFS modelling, of UK households led by people born in the 1980s from the wealthiest backgrounds (with parents in the top fifth), just 6.6% are expected to end up with the lowest lifetime incomes (in the bottom fifth).^{72, 73} In contrast, 40% of households from the least wealthy backgrounds (parents in the bottom fifth) are expected to end up with the lowest incomes, making them six times more likely than those from the wealthiest backgrounds to end up in this group.⁷⁴

Yet once inheritances are taken into account, this picture becomes even more unequal. Accounting for inheritances, UK households led by those born in the 1980s from the least wealthy backgrounds (parents in the bottom fifth) are expected to be 12.5 times more likely to end up with low lifetime

⁷¹ Ibid.

⁷² In the IFS's model, households are taken to have the wealthiest backgrounds if, when they were in their 20s, their parents were in the top fifth of the wealth distribution. The same applies for those from the least wealthy households, but if their parents were in the bottom fifth of the wealth distribution.

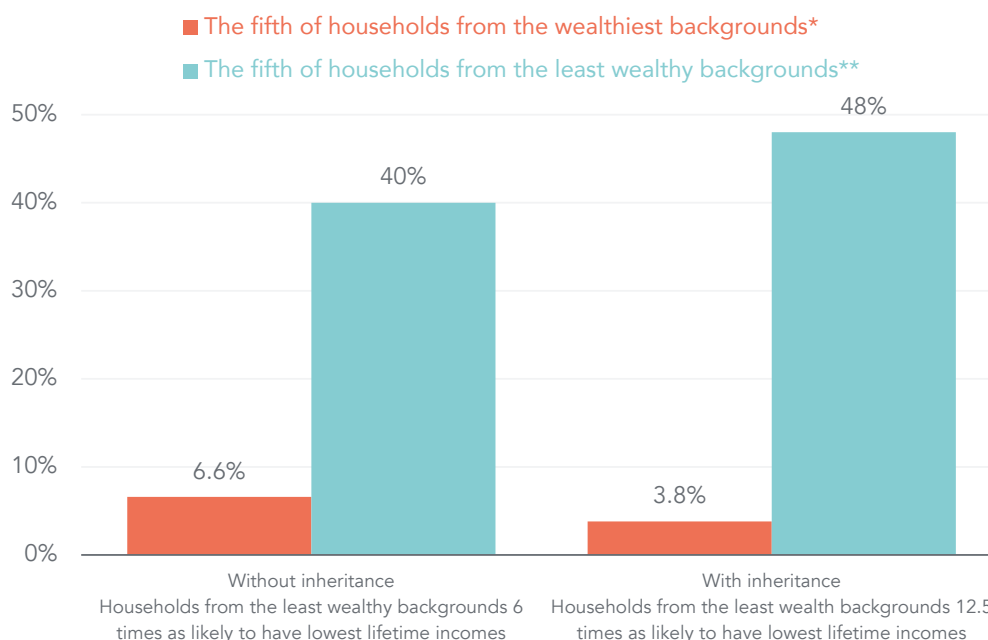
⁷³ Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

⁷⁴ Ibid

incomes compared to those from wealthy backgrounds (48% vs 3.8%).⁷⁵

FIGURE 8

PROJECTED PROBABILITY OF UK HOUSEHOLDS LED BY PEOPLE BORN IN THE 1980S ENDING UP IN THE BOTTOM 20% IN TERMS OF LIFETIME INCOME, WITH AND WITHOUT INHERITANCES



*Led by people who, in their 20s, had parents in top 20% in terms of wealth

**Led by people who, in their 20s, had parents in bottom 20% of wealth

NOTES: Based on IFS simulations using the English Longitudinal Study of Ageing and the UK Household Longitudinal Study
SOURCE: Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

2. HOMEOWNERSHIP: OVER A QUARTER OF FIRST-TIME BUYERS REPORT RECEIVING FINANCIAL HELP FROM FRIENDS OR FAMILY.^{76, 77, 78}

In 1997, houses in England and Wales cost around 3.5 times average earnings. By 2020, this had increased to over 9 times average earnings; rising to just under 15 times in a typical London borough.^{79,80} As a result, while in 1995 people in the UK in their late 20s had to save for three years for a deposit on a house (if saving 5% of their disposable income per year at five-year average interest rate), by 2017 they would have to save at this rate for 19 years.⁸¹

It's little surprise then that intergenerational wealth transfers have become increasingly important in the UK's housing market. A recent survey suggests three in ten of those receiving intergenerational

75 Ibid.

76 Other studies, such as by Legal & General (2018), suggest the actual figure could be significantly higher.

77 Department for Levelling Up, Housing & Communities, *English Housing Survey 2021 to 2022: headline report*, 15 December 2022, <https://www.gov.uk/government/statistics/english-housing-survey-2021-to-2022-headline-report/english-housing-survey-2021-to-2022-headline-report>

78 Legal & General, *Bank of Mum and Dad Report 2018*, 29 May 2018, <https://group.legalandgeneral.com/media/rlgjcge/bomad-report-2018-v15.pdf>

79 Office for National Statistics, *Housing affordability in England and Wales: 2021*, 23 March 2021, <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2021>

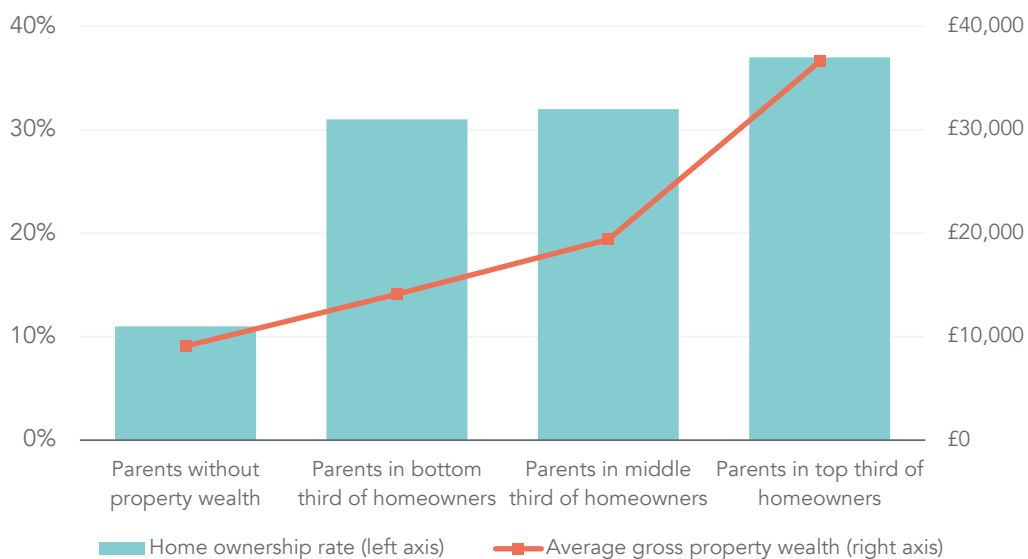
80 Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022, <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerational-rapport-fair.pdf>

81 Corlett A and Judge S, *Home Affront: Housing across the generations*, Resolution Foundation, 20 September 2017, <https://www.resolutionfoundation.org/app/uploads/2017/09/Home-Affront.pdf>

transfers used them to contribute towards the purchase of a home, with just under half of this group using them to buy a house outright, without a mortgage.⁸²

This contributes to the inequalities in homeownership that already exist between the inheritance ‘will-haves’ and ‘won’t-haves’. Of young people (20-35 year olds) in the UK in 2018 whose parents owned property, 32% were themselves homeowners, compared to just 11% of young people whose parents didn’t own property. Some of this is because having parents with property wealth is associated with having higher earnings, but the Resolution Foundation finds that this relationship holds even when controlling for other relevant variables.⁸³

FIGURE 9
HOMEOWNERSHIP RATES AND PROPERTY WEALTH AMONG 20-35 YEAR OLDS IN THE UK (IN 2018) BY THE PROPERTY WEALTH OF THEIR PARENTS



NOTES: Resolution Foundation analysis of British Household Panel Survey and Understanding Society. Figures for property wealth have been adjusted to 2018 using the Land Registry House Price Index.

SOURCE: Resolution Foundation, *House of the rising son (or daughter)*, <https://www.resolutionfoundation.org/app/uploads/2018/12/House-of-the-Rising-Son.pdf>

3. FINANCIAL SECURITY: ALMOST 90% OF INHERITANCES RECEIVED BETWEEN 2006-16 CAME PARTLY IN CASH FORM AND A THIRD OF PEOPLE WHO HAVE RECEIVED INHERITANCES AND GIFTS REPORT USING THEM TO INCREASE SAVINGS.^{84, 85}

Alongside increasing people’s ability to consume more, inheritances and gifts can provide people with a financial safety net. In 2017, half of UK households had less than a month’s income in savings.⁸⁶ The boost to savings from inheritance can be therefore key to financial security.

82 Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022, <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerational-rapport-fair.pdf>

83 Wood J and Clarke S, *House of the rising son (or daughter): The impact of parental wealth on their children’s homeownership*, Resolution Foundation, 4 December 2018, <https://www.resolutionfoundation.org/app/uploads/2018/12/House-of-the-Rising-Son.pdf>

84 Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

85 Leslie J and Shah K, *Intergenerational rapport fair?: Intergenerational wealth transfers and the effect on UK families*, Resolution Foundation, 3 February 2022, <https://www.resolutionfoundation.org/app/uploads/2022/02/Intergenerational-rapport-fair.pdf>

86 Leslie J and Shah K, *(Wealth) gap year: The impact of the coronavirus crisis on UK household wealth*, Resolution Foundation, 12 July 2021, <https://www.resolutionfoundation.org/app/uploads/2021/07/Wealth-gap-year.pdf>

In the vast majority of cases, inheritances and gifts initially increase the savings of the recipient. 88% of UK inheritances received between 2006-16 included cash, compared to just 19% including (a share in a) property, 13% including personal items like a car or jewellery and 6% including financial assets like shares in a business.⁸⁷ Many then keep their inheritances and gifts as savings after receiving them. In a 2021 survey, a third of UK adults who had received an inheritance or gift said they had used them to increase savings. Almost one in six also reported using them to reduce debt.⁸⁸

This boost to savings or reduction in debt can enable inheritors to take economic risks, such as retiring earlier. IFS modelling finds that receiving an inheritance does cause some people in the UK to leave work, mainly via early retirement.⁸⁹ A 2022 study in Germany also found that female inheritors worked 1-2 hours less per week on average.⁹⁰

Intergenerational gifts can also provide this safety net earlier in life, providing support when it's most needed. In the context of the rising cost of living, for example, a survey by Barclays found that over a third of parents of 40-year-old millennials in the UK anticipate giving gifts in 2022/23 to support their children with immediate living costs.⁹¹

In addition, the inheritance 'will-haves' may see mental health benefits. Research from the Joseph Rowntree Foundation finds that people with less than £1,000 savings reported mental distress much more frequently than those with more than £5,000 savings, with twice as many of the low savers reporting feeling worthless, lacking happiness and being depressed.⁹² Importantly, the relationship found between savings and mental health is stronger than the comparable relationship with income.⁹³

4. ENTREPRENEURIALISM: RECEIVING AN INHERITANCE MAKES SOMEONE MORE LIKELY TO SET UP A BUSINESS, EMPLOY NEW STAFF AND INCREASE THEIR BUSINESS'S VALUE.⁹⁴

Inheritances and gifts may provide the 'will-haves' with the financial resources to start a business. Several studies from the UK in the early 2000s found that those receiving inheritances were more likely to set up a business (as measured by self-employment).^{95, 96, 97} Research from the US found more specifically that those receiving at least one inheritance in the past 20 years were almost 13% more likely to own and manage a business.⁹⁸

Importantly though, this relationship may not hold for particularly high-value inheritances. Some studies suggest that high wealth transfers can instead lower people's tendency to start businesses, as

87 Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

88 Austin A, *'Inheritances left in savings accounts over fear of poor decisions'*, FT Adviser, 16 August 2021, <https://www.ftadviser.com/pensions/2021/08/16/inheritances-left-in-savings-accounts-over-fear-of-poor-decisions/>

89 Bourquin P, Joyce R and Sturrock D, *Inheritances and inequality over the life cycle: what will they mean for younger generations?*, Institute for Fiscal Studies, 26 April 2021, https://ifs.org.uk/sites/default/files/output_url_files/R188-Inheritances-and-inequality-over-the-lifecycle%252520%2525281%252529.pdf

90 Doorley K and Pestel N, *Labour Supply after Inheritances and the Role of Expectations*, *Oxford Bulletin of Economics and Statistics*, Volume 82, Issue 4, May 2010, <https://onlinelibrary.wiley.com/doi/abs/10.1111/obes.12353>

91 Barclays, *Cost of living drives early inheritance gifting*, 7 September 2022, <https://home.barclays/news/press-releases/2022/09/cost-of-living-drives-early-inheritance-gifting/>

92 Clarke T and Wenham A, *Anxiety nation? Economic insecurity and mental distress in 2020s Britain*, Joseph Rowntree Foundation, 10 November 2022, <https://www.jrf.org.uk/report/anxiety-nation-economic-insecurity-and-mental-distress-2020s-britain>

93 Moving from £1,000 to £5,000 savings takes people from the either the lowest or second lowest quartile to the median. A comparable move in the income is associated with smaller increases in reported mental health issues.

94 Burke A, Fitzroy F and Nolan M, *Self-employment Wealth and Job Creation: The Roles of Gender, Non-pecuniary Motivation and Entrepreneurial Ability*, *Small Business Economics*, Volume 19, November 2002, <https://link.springer.com/article/10.1023/A:1019698607772>

95 Ibid

96 Burke A, Fitzroy F and Nolan M, *When Less is More: Distinguishing Between Entrepreneurial Choice and Performance*, *Oxford Bulletin of Economics and Statistics*, Volume 62, 25 December 2001, <https://onlinelibrary.wiley.com/doi/abs/10.1111/1468-0084.00190>

97 Taylor M, *Self-Employment and Windfall Gains in Britain: Evidence from Panel Data*, *Economica*, Volume 68, No. 272, November 2001, <https://www.jstor.org/stable/3549118>

98 Burman L, McClelland R and Lu C, *The Effects of Estate and Inheritance Taxes on Entrepreneurship*, Tax Policy Center, 5 March 2018, <https://www.taxpolicycenter.org/publications/effects-estate-and-inheritance-taxes-entrepreneurship/full>

they can reduce the financial incentives to do so.^{99, 100}

5. EDUCATION: A THIRD OF ALL PRIVATE SCHOOL FEES ARE PAID FOR BY GRANDPARENTS' GIFTS.¹⁰¹

Of parents with children at private secondary schools, one in five use grandparents' gifts to pay over half the fees.¹⁰² Given that students at private schools were 80% more likely to receive top A-Level grades (A* or A or equivalent) in 2020/21, this will only exacerbate existing divides between the 'will-haves' and 'won't-haves'.¹⁰³

Gifts and inheritances also shape educational divides at university. We know that almost three quarters of grandparents in the UK provided financial support to grandchildren at university in 2015, giving £146 per month on average.¹⁰⁴ By reducing demands on students to work part-time jobs, this could have wider knock-on effects, with students reporting that undertaking part-time work negatively impacts their studies.^{105,106}

99 Burke A, Fitzroy F and Nolan M, *When Less is More: Distinguishing Between Entrepreneurial Choice and Performance*, Oxford Bulletin of Economics and Statistics, Volume 62, 25 December 2001, <https://onlinelibrary.wiley.com/doi/abs/10.1111/1468-0084.00190>

100 Taylor M, *Self-Employment and Windfall Gains in Britain: Evidence from Panel Data*, *Economica*, Volume 68, No. 272, November 2001, <https://www.jstor.org/stable/3549118>

101 Doughty E, 'A fifth of grandparents pay private school fees', *The Telegraph*, 10 December 2015, <https://www.telegraph.co.uk/goodlife/living/a-fifth-of-grandparents-paying-private-school-fees/>

102 Ibid

103 Coughlan S, 'A-levels: Warning over private and state school gap', *BBC*, 11 August 2021, <https://www.bbc.co.uk/news/education-58172292>

104 Doughty E, 'A fifth of grandparents pay private school fees', *The Telegraph*, 10 December 2015, <https://www.telegraph.co.uk/goodlife/living/a-fifth-of-grandparents-paying-private-school-fees/>

105 McGregor I, *How does Term-time Paid Work Affect Higher Education Students' Studies, and What can be Done to Minimise any Negative Effects?*, *Journal of Perspectives in Applied Academic Practice*, 30 June 2016, <https://jpaap.ac.uk/JPAAP/article/view/127>

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CONCLUSION

The UK's new age of inheritance is having a disruptive impact on our society, as inheritances and gifts play an increasingly important role in people's lives. The benefits will not, however, be shared equally. The inheritance 'will-haves' look set to enjoy healthier personal finances, a smoother path to homeownership and even, for a lucky few, early retirement. In contrast, the inheritance 'won't-haves' will inherit little or nothing, leaving them exposed in a challenging economic climate.

The divide between the inheritance 'will-haves' and 'won't-haves' also appears to correspond to existing divides in the UK's society and economy, along lines of income, race, education and geography. As policy makers seek to 'level up' by reducing divides across the country, with a particular focus on regional inequalities, the new age of inheritance looks set to make this task harder.

Demos will be publishing a series of papers across 2023, exploring what the new age of inheritance means for the UK.

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