

4.4 Gifts, Inheritances and Bequest Expectations

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Introduction

This contribution describes the prevalence of inheritances and bequests and their role in asset accumulation among Europe's elderly. The SHARE data is the first data set that allows to characterise and compare inheritances and bequests across Europe. Most people receive bequests from parents and other relatives when they are between 45 and 64, i.e. in the years before they leave the labour market (see Table 4A.1 in the Appendix to this chapter). For those who inherit, intergenerational transfers are potentially a major economic resource during retirement. However, this very fact raises concerns and makes bequests and inheritances an important issue for public policy. First, bequests raise concerns about wealth inequality and intergenerational wealth mobility. If bequests are distributed unequally and predominantly benefit households who are already wealthy, bequests, they tend to increase the society's economic inequality. Large gifts and bequests also raise efficiency concerns because non-labour income will affect individual labour supply decisions. Again, if the wealthy receive the largest transfers, it is also likely that more productive individuals retire relatively early.

It is shown that on aggregate, private transfers play a significant role in wealth formation. About one third of all SHARE households have reported to have received gifts or inheritances worth more than €5,000 at least once (often in the form of housing), mostly from parents and parents-in-law, but also from aunts and uncles. Again, we find considerable differences in the prevalence and distribution of inheritances across SHARE countries. Future analyses of our data will link these differences to cross-national differences in inheritance and bequest laws and taxation to study the effect of different policies on the intergenerational transmission of wealth.

The contribution also describes expectations concerning future inheritances and bequests and their relation to current household wealth. Many households, particularly among the wealthy, expect to leave sizeable bequests to their heirs. Wealthy individuals have also higher expectation of (further) inheritances.

Types and Amounts of Gifts and Inheritances

SHARE respondents were asked whether they (or their spouses) ever received an inheritance worth more than €5,000, in the form of money, goods, or property. Since large gifts and bequest can often serve as substitutes (Poterba 2001), we also asked them to include large gifts (exceeding €5,000). For each such gift or bequest, we asked in which year it was received and what it was worth at that time. This information is used to calculate the present value of all large gifts and inheritances (using country-specific nominal interest rates). A sizeable percentage of respondents did not report owner-occupied housing that was inherited or received as a gift in this question. In these cases I added the amount that the respondents thought they would get if they sold their house or apartment to the present value of other reported inheritances.

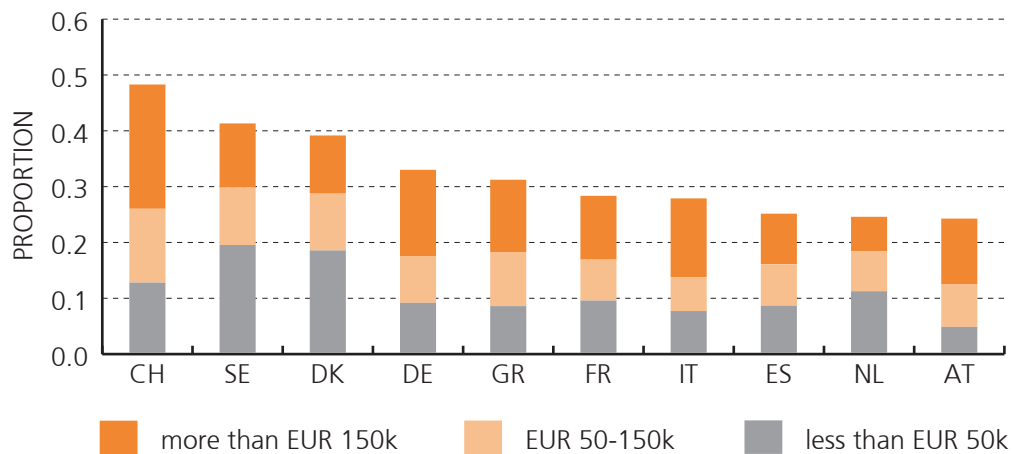


Figure 1 Distribution of received gifts and inheritances, by country

Figure 1 shows the distribution of gifts and inheritances by SHARE country (the numbers illustrated in the figures are also shown in Tables 4A.4 to 4A.7 in the Appendix). The overall prevalence of gifts and inheritances is 30.6%, i.e. a little less than one third of all households have ever received such a transfer. Switzerland is the country with the largest prevalence (48.1%), followed by Sweden, and Denmark (about 40%). Spain, the Netherlands, and Austria are the countries with the lowest prevalence (below 25%). The distribution of transfer amounts varies much across SHARE countries. Small inheritances (between €5,000 and €50,000) are predominant in Sweden and Denmark. About one fifth of all households have received such small inheritances, and only about 10% have received inheritances larger than €150,000. Although the prevalence of inheritances is high in both countries, the average amount is thus comparatively small. Large inheritances are predominantly found in Switzerland, Germany, and also Italy. Overall inequality in inherited amounts is largest in Greece, where the top 10% of households received 90.5% of all inheritances, and smallest in Switzerland, where the top 10% received 71.4% of all inheritances (see Table 4A.2 in the Appendix).

One can think of at least two important reasons for large cross-national differences in bequests. The first reason might be cross-national differences in gifts and inheritance taxes, which affect actual behaviour and possibly also what respondents are willing to report in a survey interview. Allowances and tax rates vary greatly across Europe. For instance, in Austria, the allowance for a direct heir is €2,200, while it is €46,000 in France and €205,000 in Germany. Effective average tax rates for a „typical“ wealth portfolio worth €340,000 (including housing) passed on to a child are highest in Sweden (21.5%) and lowest in Germany (0.3%, see Scheffler & Spengel 2004).

The second reason for large cross-national differences in bequest amounts might be cross-national differences in the bequest of property. The proportion of households who live in housing that is either inherited or purchased with the help of the family is much higher in Southern and Western European countries than in the Netherlands or the Scandinavian countries (see Contribution 2.3 in this volume). Because owner-occupied housing is the largest part of total household wealth (see Contribution 6.3 in this volume), inheritance of housing also constitutes an important part of private transfers received.

We also asked the respondents who gave them a large gift or from whom households

have inherited. Expectedly, a large proportion of gifts and inheritances was received from the parents and parents-in-law, respectively (84.2%). Parents' siblings are the next largest group of donors, accounting for 8.2% of all large gifts and inheritances. Other relatives, including own siblings, grandparents and children account for about 5.8%, and non-relatives for about 1.8% of all gifts and inheritances.

The Contribution of Gifts and Inheritances to Total Wealth

How much of total household wealth is inherited and how much is saved from earned income (life-cycle wealth)? Much of the available evidence, based on the decomposition of micro-data on household wealth into inherited wealth and life-cycle wealth, comes from the U.S. (see Davies and Shorrocks 2000, for an overview). Evidence from other countries can thus prove to be particularly interesting. However, due to space constraints, we will only give a broad indication. Since our data allows to sum up past inheritances, we are able to decompose total household wealth in two parts: the sum of past life-cycle saving and the sum of past (capitalised) inheritances. However, the figures presented below must be interpreted with some care. As in other studies, inheritances and gifts are likely to be under-reported, so that the reported ratio of inherited to total wealth is probably just some lower bound.

Figure 2 shows the mean present value of all inheritances and the mean total wealth by wealth quintile (all countries pooled). The poorest 20% of all households (i.e. those in the first wealth quintile) hold an average wealth of €4,100 but have received an average inheritance of €21,800. Thus it seems as if the poorest households have used their inheritances mostly for consumption. In the other four wealth groups, average total wealth is larger than average inherited wealth, i.e. the households must hold at least some life-cycle wealth. The ratio of average inherited to average total wealth drops from 93.8% in the second quintile to 30.5% in the fifth quintile. Although the richest households are those who also receive the largest inheritances (the average is €200,000), a major part of their wealth appears to be saved from earned income.

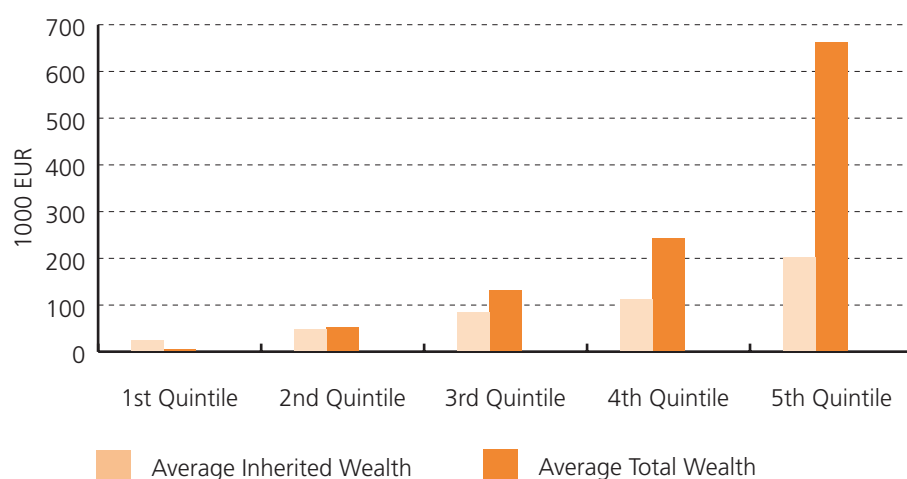


Figure 2 Average inherited and total wealth, by total wealth quintile

Inheritance and Bequest Expectations

Although a sizeable proportion of all SHARE households has already received a large gift or inheritance, particularly younger respondents whose parents are still alive will expect to receive (further) inheritances in the future. To learn about the respondents expectations of future transfers, we asked for the chances of receiving any (further) inheritances within the next 10 years. Figure 3 shows the proportion of respondents who say that there is at least a 50% chance of receiving any inheritance and an inheritance worth more than €50,000, respectively, by household wealth. Percentages are shown separately for those who never inherited and those who have inherited at least once. The sample was restricted to respondents with at least one living parent or parent-in-law. Inheritance expectations among respondents without living parents are generally much lower than those shown in Figure 3.

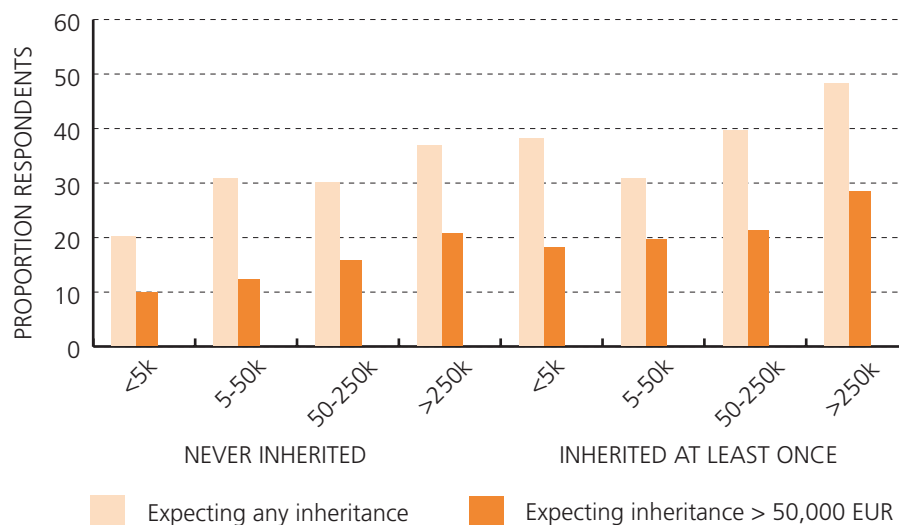


Figure 3 Inheritance expectations, by household wealth (includes only respondents with at least one living parent or parent-in-law)

Figure 3 illustrates two noteworthy points. First, there is a clear positive relationship between current household wealth and reported inheritance expectations. Individuals in wealthy households expect inheritances more often than poor households. Second, individuals in households who have already inherited also have higher expectations of future inheritances. Of those who never inherited and with current wealth of less than €5,000, 20% report a chance of 50% or larger of receiving any inheritance and only 10% report a positive probability of receiving an inheritance worth more than €50,000. Of those respondents who never inherited and with current household wealth larger than €250,000, 27% report a 50% chance or larger of any inheritance and 21% attach such chance to an inheritance larger than €50,000. It is interesting to note that households who already have inherited at least once also have higher expectations of future inheritances. In households who already have inherited, the wealth gradient in expectations continues to exist, but the percentages are 5 to 10 percentage points higher nearly everywhere. The findings in Figure 3 are in accordance with the view that inheritances predominantly benefit those who are already wealthy and they suggest that the intergenerational wealth mobility tends to be low.

Until this point we have looked at households as beneficiaries of large private transfers such as gifts and inheritances. But many households will eventually become donors

when they leave bequests to their children and other relatives. SHARE respondents were thus asked the chances of leaving an inheritance larger than €50,000 and the chances of leaving an inheritance larger than €150,000. Figure 4 shows the proportion of respondents who say that there is a 100% chance of leaving a €50,000 and €150,000 bequest, respectively, by wealth groups (I had initially separated the sample also by age groups but differences by age were surprisingly small). As expected, the relationship between wealth and leaving bequests is strong. In the poorest subgroup, about 6% of the respondents say that the chances of leaving a bequest of more than €50,000 are 100%, whereas about 57% of respondents in the wealthiest quartile say so. The chances of leaving a €150,000 bequest are considered smaller: 2% in the poorest subgroup and 45% in the wealthiest subgroup say there is a 100% chance.

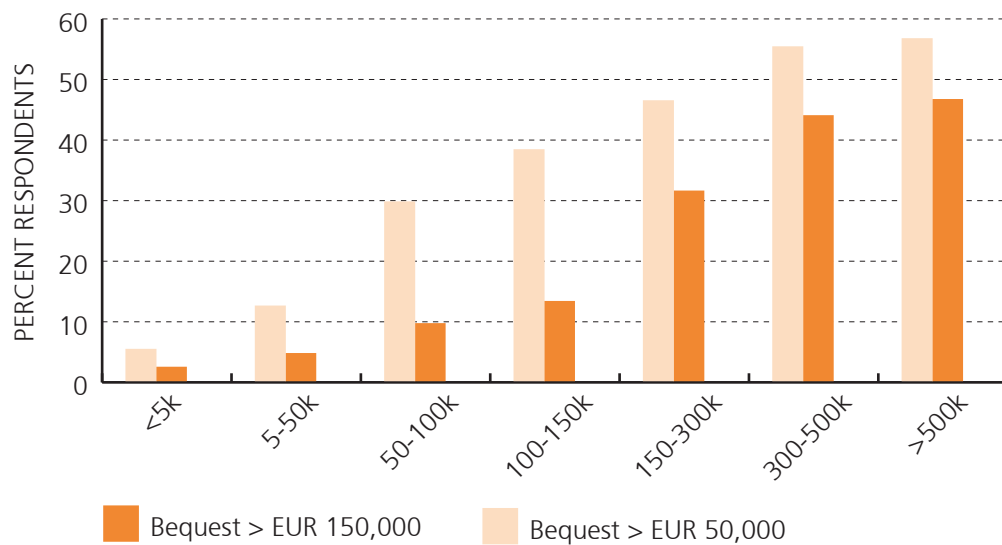


Figure 4 Bequest expectations, by wealth group

Apart from the strong relationship between wealth and bequest expectations, Figure 4 yields some further interesting insights. Note, for instance, that among those in the 50-100k wealth group, about one third is absolutely sure to leave a bequest of €50,000 or more, and among those in the 150-300k wealth group, the same proportion are absolutely sure they will leave a bequest worth more than €150,000. This suggests that—*independent of the wealth level*—about one third of all individuals expect to leave at least half of their current wealth as a bequest. Moreover, 11% of the respondents are 100% sure to leave as much as their current net worth or more (note those in the 5-50k group who are certain to leave at least 50k and those in the 100-150k group who are certain to leave at least 150k). This could be due either to rather strong bequest motives for saving or to the illiquidity of assets such as owner-occupied housing.

Another finding is that the percentage difference between those expecting to leave a €50,000 bequest and those expecting to leave €150,000 is largest for the middle wealth group, i.e. those whose current net wealth is between the two thresholds. This finding is reassuring as the middle wealth group should in fact be the one that is most affected by the change in threshold values.

Summary

There are two ways to acquire wealth: accumulation of savings from earned income and receiving gifts or bequests. In this contribution we have described the prevalence of intergenerational transfers in SHARE countries and their importance for household wealth formation. The main results are:

- Intergenerational transfers are a major source of household wealth. Across all countries, about 30 percent of all households have ever received a large gift or inheritance larger than €5,000.
- The distribution of inheritances is very unequal. Only one third of all households have ever received an inheritance larger than €5,000. In terms of amounts inherited, the top 5% of households have received about two thirds of all inheritances.
- Wealthier households expect to inherit more than poorer households, which suggest that intergenerational mobility of wealth tends to be low
- Many households expect to bequeath a substantial proportion of their current wealth, which implies that they find themselves either unwilling or unable to liquidate their assets.

References

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