

CASE STUDY



Inheritances and inequality

**Institute for Fiscal Studies uses Understanding Society
to show impact of inheritances on lifetime income**

Inheritances are set to widen inequalities between people with richer parents and those with poorer and reduce social mobility, according to research by the IFS.

In the UK, inheritances have been growing as a share of national income since the 1970s – and this is expected to continue. Older generations have more wealth now than their immediate predecessors did, but younger generations' incomes are no higher than those of the generations born just before them.

The IFS wanted to investigate what this might mean for inequalities in living standards and wealth. If inheritances grow in size and importance, people's living standards could be increasingly determined by how much money their parents leave them. With funding from the Nuffield foundation, the IFS projected the levels of inheritance likely for generations born in the UK in the 1960s, 70s and 80s.

Their findings include:

- inheritances are likely to be larger relative to lifetime incomes for younger generations than for previous generations
- inheritances are set to be larger for those with higher incomes – but likely to be similar for low- and high-income households, on average, as a percentage of lifetime income
- inheritances are set to drive increasing differences in lifetime incomes and living standards between those with more and less wealthy parents

How they used the data

The Institute used several sources of data in their report, including the Family Resources Survey, Family Expenditure Survey, the English Longitudinal Study of Ageing (ELSA), the Wealth and Assets Survey, Understanding Society, and our predecessor the British Household Panel Survey.

They used our data to work out how household earnings are distributed around an average taken from the Family Expenditure Survey.

Our Study is designed to follow our participants if they move to new households – including children as they grow and leave home. This means researchers can look at people's education and earnings, and in many cases look back at their parents' wealth too. This allowed the IFS to see how parents' wealth relates to their children's levels of education and later earnings.

Because it's longitudinal, our data also allowed them to calculate how individual households tend to move up and down the earnings distribution over time.



Parents' wealth and how it changes

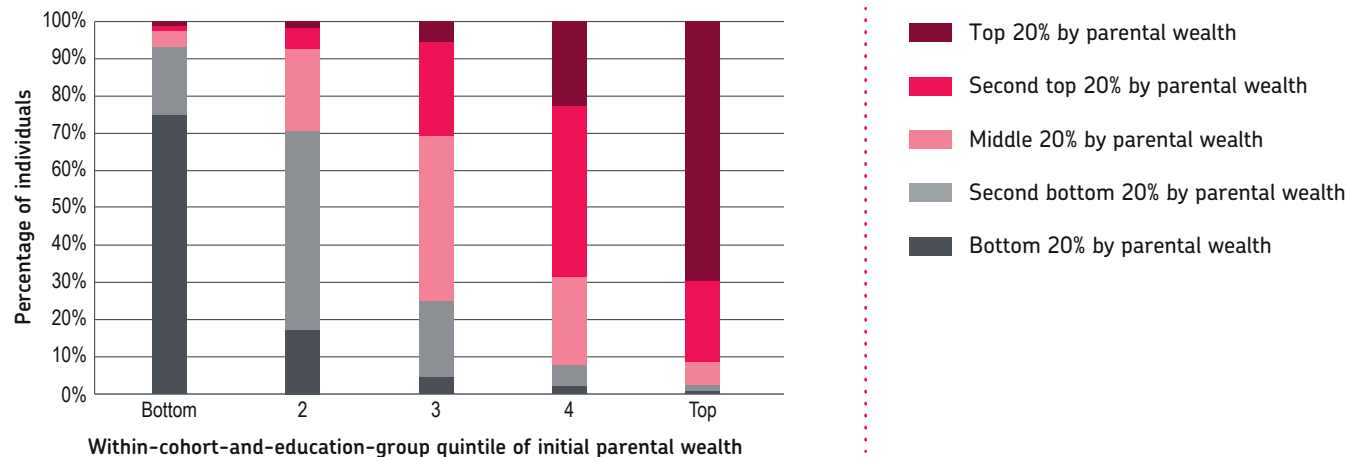
The IFS used ELSA and Understanding Society data to see if parents' position in the wealth distribution changes over time.

Taking groups of people who became parents in the same five-year period and whose children had a similar level of education, they first split parents' households into five equal groups, or quintiles, based on their position in the distribution of wealth. They then examined which quintile these households were in 10 years later.

Most households were in the same wealth quintile after a decade – and more than 90% of parents were within one quintile of where they started, showing that position in the wealth distribution tends to stay quite steady over time.

However, changes in relative fortunes did happen, which could be important for people's expectations about what they might inherit, and whether they think the inheritance is something they can rely on in the future.

Distribution of parental wealth quintile 10 years later by initial quintile of parental wealth



People's earnings and their parents' wealth

The Institute then looked at how people's earnings relate to their parents' wealth. Education is an important predictor of earnings, so they took this into account by comparing people with similar levels of education. Even so, there is a strong relationship between people's earnings and their parents' level of wealth.

For example, looking at people in the same birth cohort and education group, among those in the bottom fifth of earners, 36% of their parents are in the bottom fifth of the wealth distribution – and 12% have parents with wealth in the top fifth.

Among the people in the top fifth of earners, only 8% have parents in the bottom fifth by wealth. Thirty per cent of their parents are in the top fifth by wealth.

Distribution of individuals across quintiles of parental wealth, by individual earnings quintiles



Inheritances and income inequality

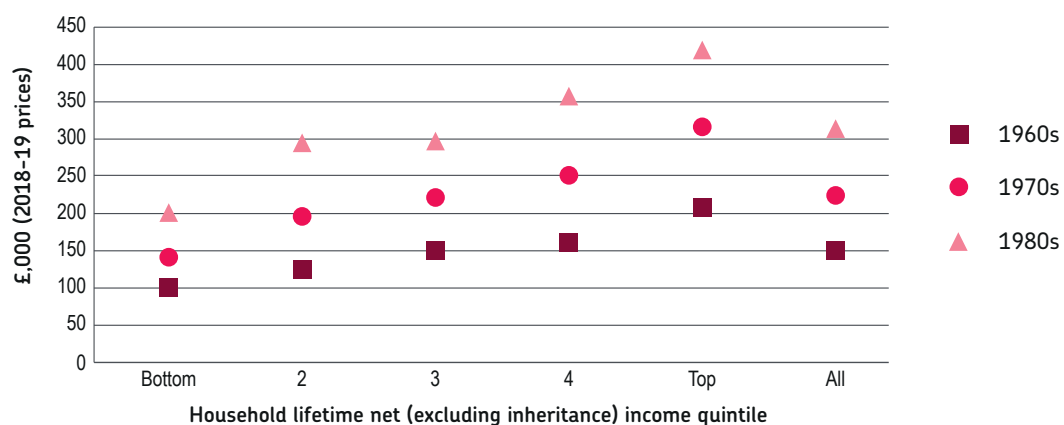
To understand the effects of inheritances on income inequality, the IFS divided households into quintiles based on their lifetime net income before any inheritance, and then added the average inheritance projected for each quintile.

Those with higher incomes are expected to inherit more. In fact, those in the top fifth of the lifetime income distribution look set to inherit around twice as much as those in the bottom fifth (although these amounts are likely to be similar as an average percentage of lifetime income).

A household born in the 1970s in the top lifetime income quintile for their decade can expect to inherit an average of £315,000, but a household in the bottom quintile, born in the same decade is projected to inherit £140,000.

Inheritances are also growing from decade to decade. The middle fifth of households by lifetime earnings born in the 1960s is projected to inherit an average of £150,000, for example – compared to £300,000 for a similar household born in the 1980s.

Mean lifetime inheritances by household lifetime (excluding inheritance) net income quintile and decade of birth



Differences based on parental background

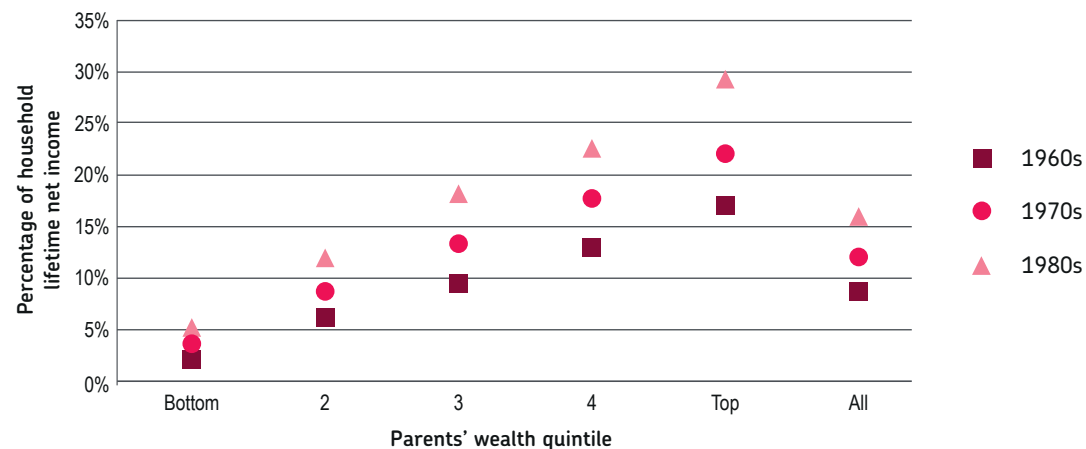
With inheritances becoming an increasingly larger share of lifetime income, differences between people based on their parental background will inevitably grow. “Arguably,” the IFS says, “it is this kind of inequality – closely related to ‘social mobility’ – that gets more directly to the heart of concern about the role of inheritance in driving economic fortunes.”

This chart shows what inheritances mean for a household’s net lifetime income when people are divided into quintiles based on their parents’ wealth when the people in the household were in their 20s.

For people born in the 1960s, if their parents were in the poorest fifth of the population, they can expect to inherit, on average, about 2% of their lifetime net income. Their contemporaries with parents in the richest fifth of the population can expect to inherit an average of 17% of their net lifetime income.

This gap is expected to grow significantly, too, with the figures for people born in the 1980s standing at 5% and 29%.

Median inheritance as a percentage of lifetime (excluding inheritance) net income, by parental wealth quintile and decade of birth



What it means for policy

When the report was released, one of its authors, David Sturrock, a Senior Research Economist at IFS, said: “The increasing levels of wealth held by older generations and the lack of income growth for younger generations are driving an inter-generational economic divide. Inheritances are set to become more important, widening the gap between those with rich parents and those with poor. The growing importance of inherited wealth will be a profound societal shift, with worrying consequences for social mobility.

“As inheritances become larger, policies that redistribute inheritances will have bigger impacts on inequality and social mobility, and this should increase the pressure to rationalise inheritance tax. Our findings underline the need to kickstart income growth for younger generations, to improve living standards, limit the importance of parental wealth and drive social mobility.”

“The growth of inheritances means that policies that successfully redistribute them would have larger effects on inequality and social mobility for later-born generations.”

Pascale Bourquin, Robert Joyce and David Sturrock, Institute for Fiscal Studies

You can [read the full report](#) on their website.

Visit the [Understanding Society website](#) to find out more about the impact of our data.

This case study is part of a series aimed at potential users of Understanding Society data, including policy makers, researchers and people in a position to influence social policy. If you would like to discuss how we can help to support and raise awareness of the policy impact of your research, please email ccoates@essex.ac.uk

