

# Inheritance and the Distribution of Wealth

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# Motivation

- Wealth is highly concentrated: the richest 10% of the population holds 40% of total net worth, the top 1% holds 8%
- Understanding the determinants of wealth inequality has been the focus of many studies
- Inheritance & other wealth transfers have been considered as a major source of wealth inequality and intergenerational transmission of inequality (both in wealth and other outcomes)
- “...Inheritance perpetuates and may intensify inequalities arising originally from other sources. ... The extent of its influence on the distribution remains an open question, which cannot be decided by theoretical reasoning... but requires in addition something in the nature of a quantitative analysis of the relevant facts” **Wedgewood, 1929**

# Question

- What was the role of inheritance on the observed changes in distribution of wealth? How did it affect wealth accumulation & wealth inequality?

# Data

- BHPS
- Wealth: Waves 5, 10 and 15 data on financial and housing wealth

Total net worth= NFA+THSE

- Inheritance: BHPS waves 7-15 data on inheritances received 1996-2004
- Unit of analysis: Household

Table 1: The contribution of inheritance to 1995-2005 wealth change

	Mean 1995 NW (000s,£)	Mean 2005 NW (000s,£)	Change in NW 1995-05 (000s,£)	% inheriting	Mean Inheritance (000s,£)	IW/DN W (%)
All households*	85	188	103	27.0	10	9.7
Non inheriting household	74	158	84	0.0	0	0.0
Inheriting households	115	269	154	100.0	42	27.0

Figure 1: Per cent inheriting and the contribution of inheritance to wealth change by net worth in 1995

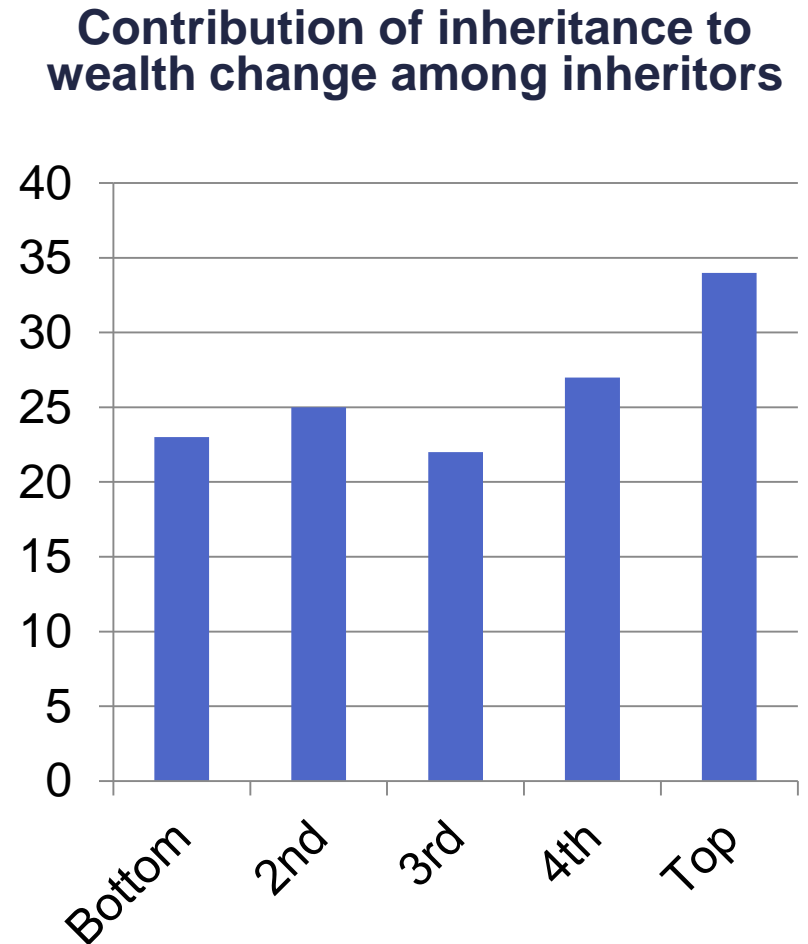
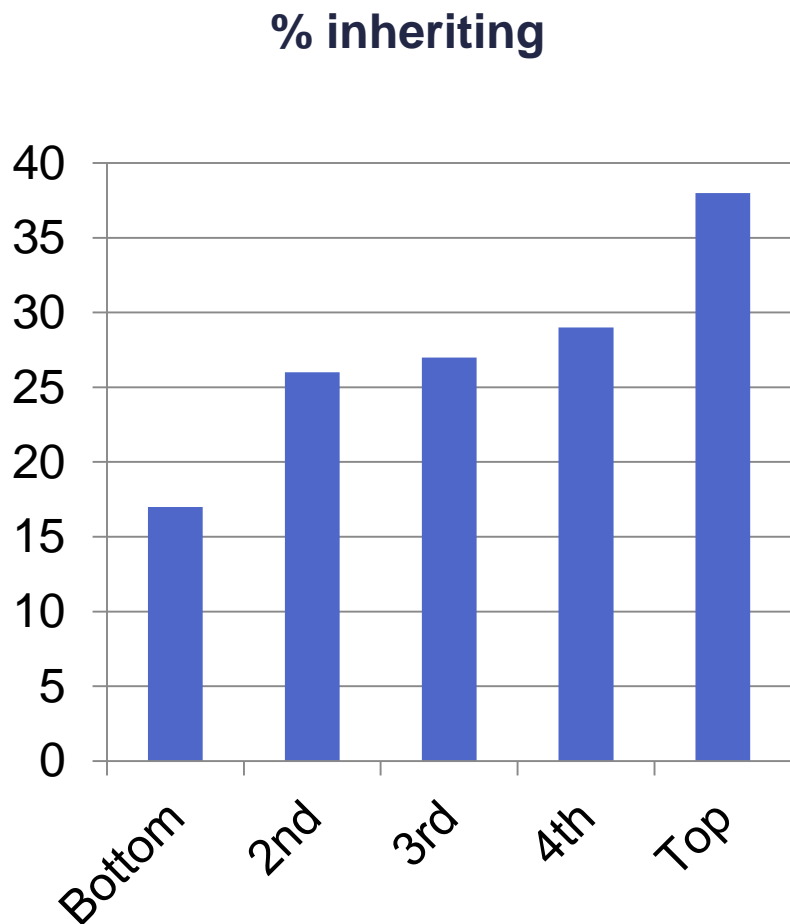


Table 2: The distribution of inheritances received 1996-2004

	All households	Inheriting households	
Gini coefficient	0.94	0.76	• Top 1% of households received 40% of inheritances
CV	4.86	2.20	
Share received by			• Top 10% of households received 95% of inheritances
Top 10%	95	66	
Top 5%	81	43	
Top 1%	40	15	
Sample size	3,826		

Table 3: The distribution of inheritance between 1996 and 2005 by total net worth in 2005

Quintile of NW05	2005 Net worth		% inheriting	Inheritances		
	Mean NW05 (£)	Share of NW05 (%)		Mean inheritance (£)	Conditional mean of inheritance (£)	Share of inheritance (%)
Top	460,000	56.2	39.4	29,500	75,000	64.9
Fourth	197,000	24.1	28.1	8,000	29,000	17.9
Third	117,000	14.3	23.4	3,500	14,500	7.3
Second	47,500	5.8	17.4	2,000	12,000	4.5
Bottom	-3,000	-0.4	10.6	500	7,000	1.6
All households	163,500	100.0	26.6	8,500	36,000	100.0

$$\text{Corr}(\text{IW}, \text{NW05}) = 0.25$$



Table 4: The distribution of inheritance between 1996 and 2005 by total net worth in 2005 *excluding* inheritance

Quintile group	2005 Net worth excluding inheritance		% inheriting	Inheritances		
	Mean NW05 (£)	Share of NW05X (%)		Mean inheritance (£)	Conditional mean inheritance (£)	Share of inheritance (%)
Top	438,000	56.6	35.0	16,500	47,000	36.0
Fourth	187,500	24.2	24.8	6,500	26,500	14.4
Third	111,000	14.4	25.5	8,000	31,000	17.2
Second	43,500	5.6	19.7	6,000	31,000	13.4
Bottom	-6,000	-0.8	13.7	7,000	50,500	15.3
All households	155,000	100.0	26.6	8,500	36,000	100.0

$\text{Corr}(\text{IW}, \text{NW05X}) = 0.04$

Table 6: Decomposition of 2005 net worth inequality

	Share in total net worth ( $X_f$ ) %	Correlation with total net worth ( $\rho_f$ )	CV	Proportionate contribution to total wealth inequality ( $sf$ ) %
Net worth	100.00	1.00	1.24	100.00
Net worth excluding inheritance	94.60	0.98	1.26	94.59
<b>Inheritance</b>	<b>5.40</b>	<b>0.25</b>	<b>4.86</b>	<b>5.41</b>

Table 5: The distribution of inheritance between 1996 and 2005 by total net worth in 1995

Quintile group	1995 Net worth		inheriting (%)	Inheritances		
	Mean NW05 (£)	Share of NW05 (%)		Mean inheritance (£)	Conditional mean inheritance (£)	Share of inheritance (%)
Top	264,500	66.0	37.0	17,000	58,500	32.0
Fourth	85,500	22.0	30.0	12,500	44,500	24.0
Third	43,000	11.0	28.0	7,500	30,500	15.0
Second	10,500	2.7	25.0	8,000	36,000	14.7
Bottom	-2,500	-0.6	18.4	4,000	27,000	8.0
All households	80,000	100.0	27.6	9,500	38,500	100.0

$\text{Corr}(\text{IW}, \text{NW95}) = 0.09$

Table 6: Decomposition of 1995 net worth inequality including inheritance received between 1996 and 2004

	Share in total net worth ( $X_f$ ) %	Correlation with total net worth ( $\rho_f$ )	CV	Proportionate contribution to total wealth inequality ( $sf$ ) %
1995 net wealth including inheritance	100.00	1.00	1.63	100.00
1995 net wealth	88.90	0.95	1.69	87.40
<b>Inherited wealth</b>	<b>11.10</b>	<b>0.40</b>	<b>4.68</b>	<b>12.60</b>

# Conclusions

- Inheritances accounted for 10% of average change in net worth, and about 30% of wealth change for inheriting households
- The impact of inheritance on wealth inequality depends on the precise way the question is asked
  - In relative terms its contribution to wealth larger for lower wealth groups
  - But widens absolute wealth gaps
  - Given the small size of the effects and uncertainties about behaviour, inheritances best seen as maintaining wealth inequalities