

Attitudes to inheritance in Britain

With more families owning their own homes, more people will both bequeath and inherit assets. A key issue that this raises for social policy is whether people maintain their assets to leave as bequests (potentially raising the living standards of their children) or use them in later life to improve their own living standards. A survey of 2,000 people by Karen Rowlingson (University of Bath) and Stephen McKay (University of Bristol) produced the first nationally representative study of attitudes to inheritance in Britain. It found:

- Almost half (46 per cent) of adults have inherited something.
- Most inheritances involve relatively small amounts; but 5 per cent of people have inherited £50,000 or more.
- Professional white owner-occupiers are most likely to receive an inheritance.
- More than half the population think that they are 'not at all' or 'not very' likely to inherit any property. But 14 per cent definitely think that they will and another 14 per cent think that they are very likely to do so.
- People like the idea of leaving a bequest but most do not think that older people should be careful with money just to do so.
- Two-thirds of those with some potential to leave a bequest say that they will not worry too much about doing so. Just over a quarter of this group say that they will budget so as to leave something.
- People over 80 are least likely to prioritise their own needs over bequeathing but even among this group, a majority intend to enjoy life rather than worry about inheritance.
- A quarter of current or former owner-occupiers have accessed housing equity. Few have taken up Equity Release Schemes; although people like this idea in theory, they find current provision complex, risky and difficult to understand.
- Inheritance tax is very unpopular but very few people know how it works in practice.
- The researchers conclude that inheritance plays an important part in many people's lives but has not generally become entrenched as an expectation or duty. Most older people are willing to use their assets for themselves, rationally using some of their lifetime assets to meet needs in later life.



Background

Very little is known about people's attitudes to inheritance and towards the use of their assets, in particular housing equity, in later life. This study examines these issues, drawing in the main on responses to a nationally representative sample of 2,000 people.

Experience of receiving an inheritance

Almost half (46 per cent) the respondents have received some kind of inheritance at some time in their lives. Most inheritances involve relatively small amounts but 5 per cent of people have inherited £50,000 or more.

Controlling for other factors through regression analysis, white owner-occupiers in the professional classes are much more likely than others to receive an inheritance, particularly one of much value.

The most common source of inheritance is parents (39 per cent); grandparents are not too far behind, being responsible for 31 per cent of all bequests. Most *property-based* inheritances come from parents (51 per cent).

Expectations of inheriting property

More than half the population think that they are 'not at all' or 'not very' likely to receive property as an inheritance in the future. But 14 per cent think that they will definitely receive property and another 14 per cent think they are very likely to receive it.

Younger people, especially those whose parents are currently owner-occupiers, have the greatest expectations of receiving an inheritance. People on benefits have very low expectations of receiving inheritances. Nevertheless, some people on benefits do think that they might receive something.

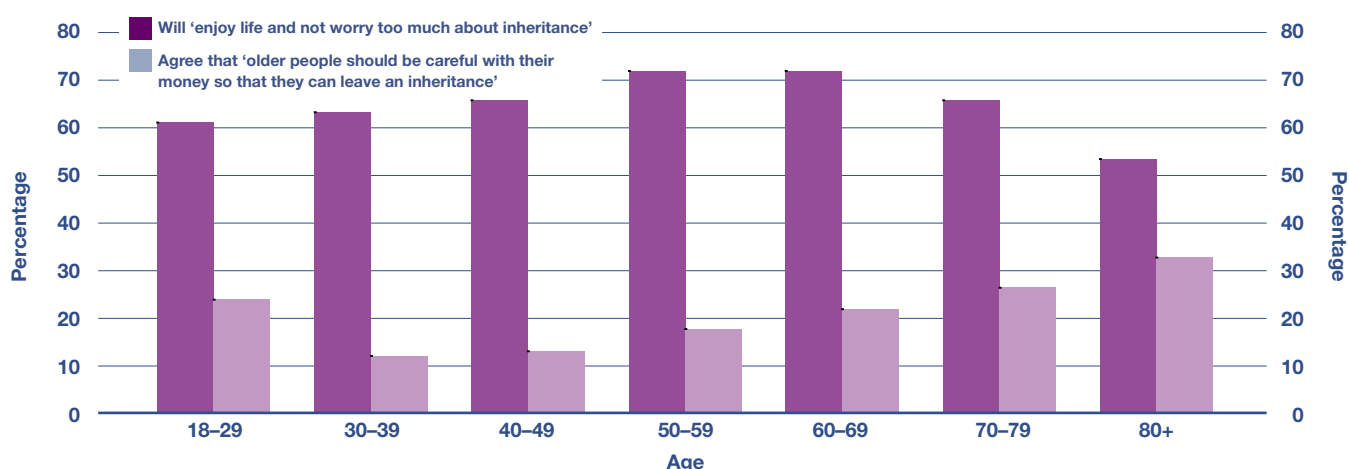
Of all those who think they will definitely or very likely receive some kind of inheritance in the future, 91 per cent think it will come from their parents. Among those with grandparents who are still alive, 40 per cent expect to receive something from them.

Attitudes to, and ability to leave, bequests

People like the idea of being able to leave a bequest but most do not think that older people should be careful with their money just so that they have something to bequeath. Most people (64 per cent) say they have property or savings that they could leave as a bequest now if they wanted to. A further 27 per cent say that they might have savings or property in the future that they could leave as a bequest. So, nine out of ten people have some potential to bequeath.

Two-thirds of those with some potential to leave a bequest say that they will enjoy life and not worry too much about doing so. Just over a quarter say that they will be careful with their money so that they can leave something.

Figure 1 **Age and attitudes to inheritance**



These attitudes differed across groups:

- People in their 50s are least supportive of passing on assets rather than using them for themselves. The very old and the relatively young are both more supportive. However, even among the over-80s, a majority say they will enjoy life rather than worry about inheritance (Figure 1).
- There are some differences by social class, but these are relatively minor. Only in the lowest socio-economic group are people with assets significantly more likely to want to bequeath them than average. Even here, a majority (54 per cent) say they will use them to enjoy life.
- Some minority ethnic groups put much greater emphasis on inheritance than average. Nearly two-thirds (64 per cent) of Asian people and over half (57 per cent) of Black people with potential to make bequests say they will be careful with their money for this purpose.

Attitudes to assets

People are twice as likely to consider that property is a better way of making financial provision for retirement than pensions.

A quarter of current or former owner-occupiers have accessed equity at some point in one way or another. The most common method is to borrow against the value of the home, followed closely by trading down. The main reasons for accessing equity are to carry out property repairs/improvement, pay bills/debts and buy essential items. There are relatively few examples of people accessing equity to spend the money on non-essentials.

When asked whether or not they would consider accessing equity (again) in the future, almost half of owner-occupiers say that they do not know. But of those that have an opinion, most say they would consider accessing equity. Trading down is the most popular option.

Only one in twenty owner-occupiers say they would consider an Equity Release Home Reversion Scheme. Such schemes are most popular among those in their 60s and those from the professional classes. Owner-occupiers think that Equity Release Schemes as they currently stand are complex, risky and difficult to understand. They have little trust in the current providers. But they do like the idea in theory. This suggests that there is scope for developing further policies, perhaps in partnership with the voluntary sector, that enable people to release some equity in their home while retaining some for bequests.

Wills and knowledge of inheritance law/tax

Just under half the population (45 per cent) say that they have made a will. This rises to 84 per cent of those aged 80 or more. People with assets to leave are much more likely to have made a will than others but still a substantial minority of owner-occupiers (about a quarter) have not made a will.

People's knowledge of inheritance law and taxation is poor. Almost two respondents in five think, incorrectly, that a long-term cohabiting couple would receive the same treatment under inheritance law as a married couple. People who are themselves cohabiting are no more knowledgeable on this matter.

When asked about inheritance tax, most people either have no idea how the system works or think that more people pay it, and pay more, than actually do. Only 6 per cent of respondents know that fewer than one in ten estates pay inheritance tax. Only one in five people know even very approximately how much tax would be paid on an estate worth £300,000.

Conclusions

Inheritance affects most people today. Almost half have received some kind of inheritance in the past and rather more than half think they will receive something in the future. This raises a number of important policy issues.

The impact of inheritance on wealth inequality is not entirely clear. This study shows that people who are already affluent are most likely to inherit and bequeath substantial amounts. Those who are very poor have very little chance of inheriting and so will be left further behind. But some of those in the middle will be the first generation in their families to inherit and bequeath. Further research is needed on this issue.

Concern over the level of pensioners' incomes has led to speculation about whether or not people might, or should, access housing assets in later life. This study shows that most of those with assets are willing to use up savings and access housing equity if they need to do so to maintain a reasonable standard of living. This picture supports neither the stereotype of older people being excessively frugal in order to pass everything on nor the more recent image of older irresponsibly spending family assets on luxuries (sometimes known as 'SKlers' – 'Spending the Kids' Inheritance'). Instead it highlights people's willingness to draw down assets as part of the normal course of managing resources throughout their lifetime, using accumulated wealth to meet current needs. (The study suggests the acronym 'OWLS' – 'Older People Withdrawing Loot Sensibly' – as a way of describing this phenomenon.)

What is more problematic in practice is finding efficient ways of accessing assets, especially when they are tied up in housing. Many working people are able to extend their mortgage; some older people are willing to trade down. For older people staying put, withdrawing housing equity is harder. While owner-occupiers think that Equity Release Schemes are a good idea in theory they are generally unhappy with the schemes currently in the market. This suggests the need for further development of these schemes, perhaps involving partnerships between central and local government, along with the voluntary and private sectors. Targeted support for older home-owners with low levels of income and equity might also be considered.

There is considerable ignorance about the laws around inheritance, including around inheritance tax. Many cohabiting couples appear unaware of their disadvantaged position compared with married couples.

Inheritance tax is highly unpopular but only 6 per cent of the sample knew that only 6 per cent of estates paid inheritance tax in 2003/4. The researchers suggest that this might imply that the popularity of calls to limit the scope of inheritance tax is founded on a public misconception.

About the project

This project had two phases. Initial developmental work comprised: a literature review; secondary analysis of previous qualitative and quantitative studies; and four focus groups with owner-occupiers. The main component of the study was a nationally representative survey of 2,008 people living in Britain.

For further information

The full report, **Attitudes to inheritance in Britain** by Karen Rowlingson and Stephen McKay, is published for the Foundation by The Policy Press (ISBN 1 86134 769 3, price £15.95). You can also download this report free from www.jrf.org.uk (ISBN 1 86134 770 7).