



Home-ownership and the distribution of personal wealth

A review of the evidence

Lindsey Appleyard and Karen Rowlingson

September 2010

This paper:

- outlines the role that housing wealth plays in the overall distribution of wealth in the UK;
- explores the growth in, and distribution of, housing wealth in the past few decades; and
- considers the potential role housing wealth might play in improving the welfare of retired households and the role of inheritance and lifetime gifts on the inter-generational distribution of wealth.

The Joseph Rowntree Foundation (JRF) commissioned this paper to contribute ideas for its Housing Market Taskforce, a two-year programme of work aiming to achieve long-term stability in the housing market for vulnerable households.

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This paper was commissioned to inform the work of the JRF Housing Market Taskforce, a two-year programme of work aiming to achieve long-term stability in the housing market for vulnerable households.

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Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
www.jrf.org.uk

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Contact:
Karen Rowlingson
k.rowlingson@bham.ac.uk

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Executive summary

This report examines the role that housing plays in the overall distribution of wealth in the UK. Based on desk research and some new analysis of existing datasets, the first part of the report provides a summary of the growth in, and distribution of, housing wealth in the past few decades. The second part of the report focuses on the potential role housing wealth might play in improving the welfare of retired households. The third part considers the inter-generational distribution of wealth.

Housing and the overall distribution of wealth

- Owner-occupation increased dramatically in the 1980s and continued upwards in the 1990s and early 2000s. From 2004 onwards it has stagnated and perhaps even declined.
- House prices also rose dramatically in the 1980s but levelled off in the 1990s before exploding in the early 2000s. From 2007/8 house prices fell back but then recovered slightly in 2009.
- Owner-occupied housing has become increasingly expensive relative to earnings but some lenders' practices have enabled first-time buyers and those on low incomes to enter the housing market in recent years. Low interest rates also affect affordability.
- There are great inequalities in overall wealth, with the top 10 per cent owning more than 100 times the wealth of the bottom 10 per cent.
- Housing wealth is spread very unevenly in Britain, though less so than private pension wealth or financial wealth.
- The gap between the 'housing haves' and the 'housing have-nots' is increasing even if some people in the 'middle' have increased their share of wealth by becoming home-owners.
- The government's aspiration for 75 per cent of the public to own their own home looks highly unlikely to be achieved in the foreseeable future and, indeed, perhaps would contribute to an even greater division between those with and those without housing wealth.
- A fundamental review of the incentives and disincentives to accumulate and decumulate different kinds of wealth is needed. This review should consider the reasons why people might need different forms of wealth and what role the government should play in relation to this. The review should also consider how this relates to people at different points in life and in different socio-economic positions.
- Linked to the previous point, a fundamental review is also needed into the tenure mix in the UK and the role of government in this. This review should also consider fundamental objectives in relation to housing policy. For example, should a key aim of housing policy be to expand home-ownership or to ensure people have housing security and quality? Are these two aims competing or complementary?

Housing wealth and the welfare of retired households

- Home-ownership undoubtedly provides many financial and other benefits. But there are also extra costs associated with home-ownership, such as repairs and maintenance, which people in rented accommodation do not face. Such costs may be difficult for older people on low incomes to cover.
- People already withdraw equity in a range of ways (e.g. moving to a cheaper property and/or selling and renting). Equity release schemes could also provide people with additional resources to pay for repairs/maintenance and generally increase living standards but very few people use such schemes at the moment due to concerns about them.
- New equity release schemes could be devised to be more appropriate for low-income owner-occupiers and the Joseph Rowntree Foundation is piloting some such schemes at the moment. However, equity release cannot fill the funding gap caused by poor pension provision as those with greatest need of extra resources in retirement either have no housing wealth at all or very little.
- The current system of funding for long-term care means-tests people's capital, including their housing wealth. While only a small proportion of the population use residential care, the number is likely to rise and the system is widely perceived as unfair.
- The role of housing wealth in relation to welfare needs to be considered alongside other forms of welfare support. If income from pensions was higher then there would be less need for people to withdraw equity from their homes to raise their living standards.

Housing and the inter-generational distribution of wealth

- Britain is not yet a 'nation of inheritors' and it will be some time before it is. This is because the large cohort of new home-owners from the 1980s onwards are living even longer than predicted and so will not pass down their wealth for some time. Also, some people are using up their wealth during their lifetimes rather than preserve it for bequests.
- The distribution of inheritance mirrors the distribution of wealth more generally, with those in the middle starting to benefit from inheritance for the first time but those at the bottom receiving nothing and so falling further behind.
- People in better-off families also receive substantial lifetime gifts to help them with weddings, cars, higher education and buying or maintaining a property. Such gifts further widen inequality.
- Better-off families not only pass on financial capital to future generations but also other forms of capital: human, social, and cultural. This also contributes to wide inequalities of life chances.
- Inheritance tax is unpopular but could be reformed and then used to reduce inequalities of inherited wealth.

Introduction

The aim of this report is to provide an overview of the role that owner-occupied housing plays in the distribution of wealth in the UK. This is important because:

‘The economic well-being of households is sometimes measured by their income; this ignores the fact that a household's resources can be influenced by their stock of wealth. The increase in home-ownership, the move from traditional roles and working patterns, a higher proportion of the population now owning shares and contributing to investment schemes as well as the accumulation of wealth over the life cycle, particularly through pension participation, have all contributed to the changing composition of wealth. To understand the economic well-being of households it is increasingly necessary to look further than a simple measure of household income’ (ONS, 2009).

The UK, like other advanced economies, has seen a shift from public welfare provision towards private individual responsibility (Doling, 2010; Doling and Ronald, 2010). Home-ownership has been viewed as a vehicle in which individuals may accumulate wealth (and shoulder associated risk) and as a potential substitute for pensions and other forms of retirement income (Doling, 2010; Doling and Ronald, 2010). Asset-based welfare is becoming an increasingly pertinent issue in an ageing population such as the UK (Doling and Ronald, 2010) where housing assets are a significant form of wealth in terms of size and level of ownership, even if house prices have declined in recent years (Dorling, et al., 2005; Pensions Commission, 2004; Rowlingson, et al., 1999).

This report examines the role of housing wealth in relation to overall wealth. It also considers the potential role of housing wealth in raising living standards and paying for care in later life. Finally, it assesses the role of inheritance and lifetime gifts on the inter-generational distribution of wealth.

1. Housing and the overall distribution of wealth

This section of the report examines the role of housing wealth in relation to the overall distribution of wealth. It documents the rising levels of owner-occupation and house prices in recent decades in the UK, highlights current levels of affordability and outlines the relationship between housing wealth and other forms of personal wealth. It concludes by exploring the sustainability of the current housing market model and the impact of owner occupation on wealth inequality.

Changing levels of owner-occupation and house prices

Many academics agree that 'the growth of home-ownership was one of the most significant changes of the twentieth century' (Stephens, et al., 2008. See also Doling, 2010; Forrest, et al., 1990; Forrest, et al., 1999; Stephens, 2007; Williams 2007). The neo-liberalisation and deregulation of the UK's 'financial system [in the 1980s] combined with housing privatisation mainly through the Right to Buy, were key to promoting the growth of owner-occupation' (Stephens, et al., 2005).

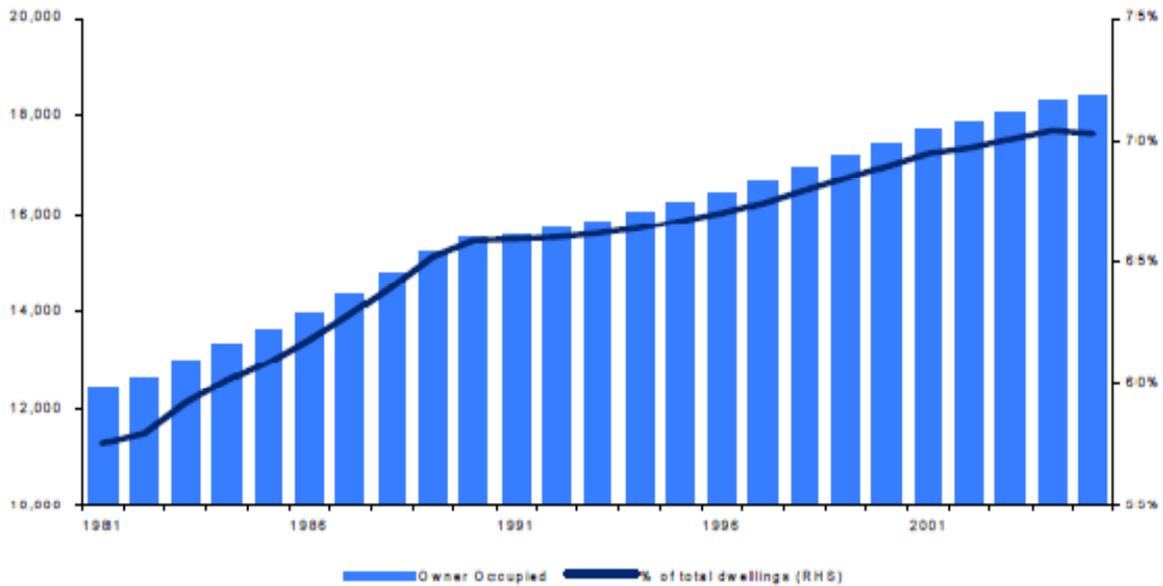
Home-ownership became perceived by many as 'the essential step to obtain membership of an expanding middle class for whom housing equity was pivotal in a broader lifestyle of credit based and housing equity fuelled consumption' (Forrest, et al., 1999).

The deregulation and liberalisation of mortgage finance made mortgages more widely available and sensitive to global financial markets, for example through interest rate changes and financial shocks such as the 2007 credit crunch (Forrest, 2008; Henley, 1998; Stephens, 2007; Stephens, et al., 2008).

Figure 1 illustrates the growth of home-ownership from 1981 onwards. This rate of growth was particularly pronounced from 1981 to 1991. It then levelled off slightly but still increased until 2004 when it started to stagnate in the mid 2000s despite high levels of aspiration by UK citizens to own their own home (Stephens, et al., 2008; Munro, 2007). This stagnation is probably due to increasing house price rises in the UK and lack of affordability in relation to income (see below).

In 2006/8, according to the ONS (2009), 68 per cent of the UK population owned their own home (30 per cent owned their home outright and 38 per cent of owner-occupiers had a mortgage). A small minority of UK citizens, 6 per cent, owned more than one property in the UK (ONS, 2009). In other words, around one owner-occupier in 10 owned more than one property. The UK government supports the aspiration of home -ownership and seeks to increase home-ownership levels to more than 75 per cent (CLG, 2007). In order to reach this target, it is estimated that an additional 1.5 million home-owners would be required (CLG, 2007) which looks highly unlikely given current economic conditions. Indeed, levels of owner-occupation may have actually declined in the last couple of years.

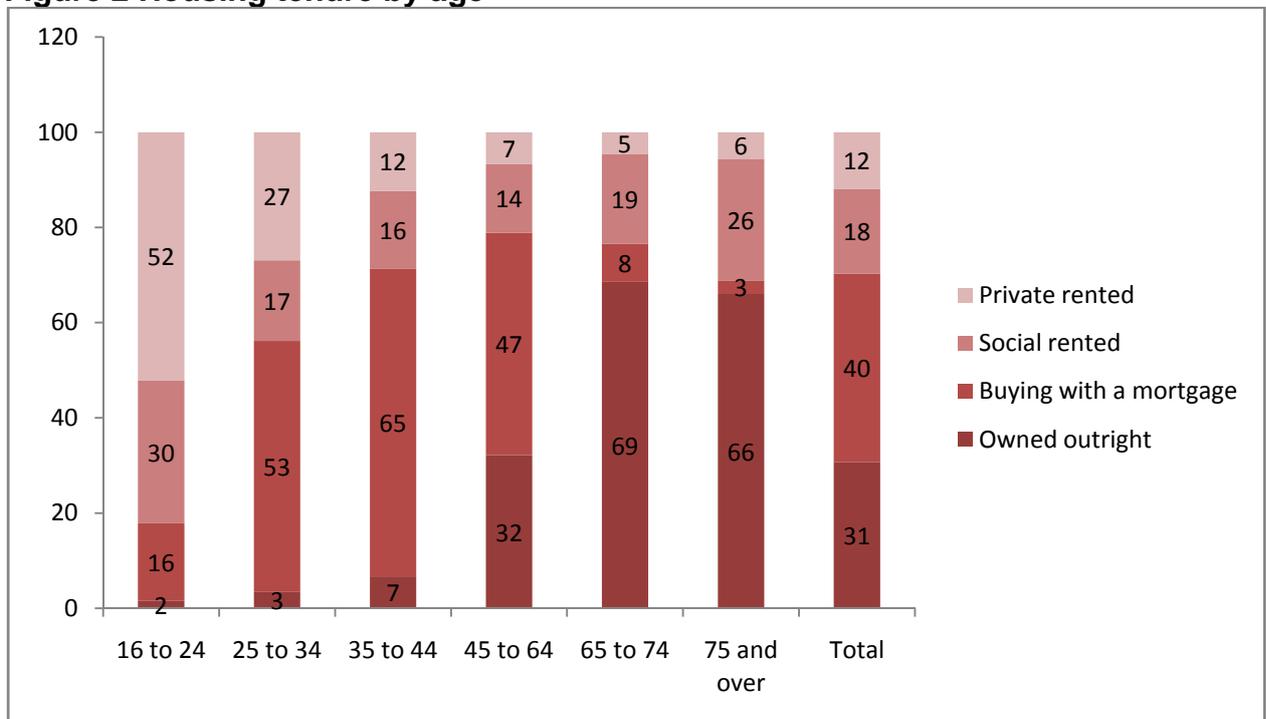
Figure 1 Home-ownership in the UK, 1981-2005



Source: Williams 2007

Figure 2 shows levels of housing tenure by age. The peak age group for owner-occupation is 45– 64 but the peak age for outright ownership is 65– 74. Outright ownership is lower among those aged 75 and above, probably due to a combination of ageing factors (people leaving owner-occupation in later life) and cohort factors (this group did not necessarily become home-owners during the expansion of this tenure in the 1980s).

Figure 2 Housing tenure by age



Source: ONS Labour Force Survey, 2006

New analysis of the 2004 and 2009 Labour Force Surveys, carried out for this review, focuses on the living arrangements of individual adults (rather than tenure status of households) (Tables 1 and 2). This analysis shows that the proportion of individual adults living in owner-occupation dropped from 74 per cent in 2004 to 71 per cent in 2009. The decline in owner-occupation was greatest among those aged 25 – 29: in 2004, 60 per cent of this group were living in an owner-occupied house. By 2009 this had dropped to just 50 per cent.

Table 1 Living arrangements of individual adults* by age, July–September 2004

Age of respondent	Owned outright (%)	Mortgage (%)	Rented (%)
16–19	14	56	29
20–24	15	44	40
25–29	9	51	39
30–34	8	62	29
35–39	8	68	24
40–44	10	68	21
45–49	16	64	19
50–54	27	55	16
55–59	45	39	16
60–64	60	22	17
65–69	70	11	18
70+	68	5	25
Total	29	45	25

*The LFS also has data on three other forms of tenure: part rent/part mortgage, rent free and squatting but these form, combined, less than 2 per cent of tenure types and so have been omitted from the tables here

Note: The unweighted base for this data is 97,701 in total, with at least 5,000 people in each of the age groups listed

Table 2 Living arrangements of individual adults by age, July-September 2009

Age of Respondent	Owned outright (%)	Mortgage (%)	Rented (%)
16-19	15	51	32
20-24	16	35	48
25-29	10	40	48
30-34	7	53	39
35-39	9	60	30
40-44	11	61	26
45-49	16	61	22
50-54	27	53	19
55-59	44	37	19
60-64	61	21	17
65-69	71	10	18
70+	72	5	21
Total	31	40	28

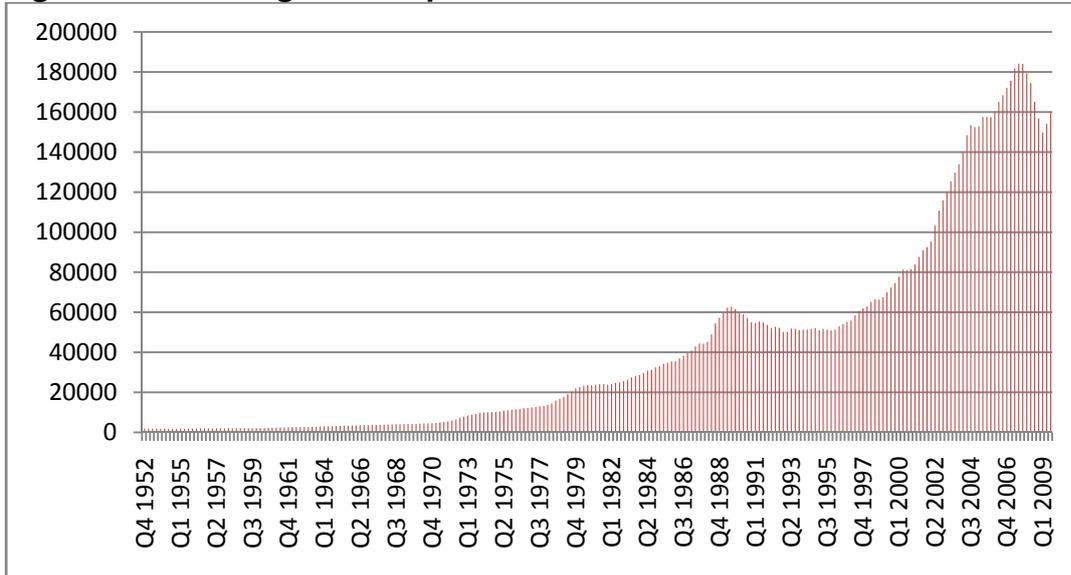
Note: The unweighted base for this data is 97,701 in total, with at least 5,000 people in each of the age groups listed

The rise in owner-occupation over the 1980s, 1990s and early 2000s, was accompanied by a rise in house prices. Going back still further, UK average house prices increased from less than £2,000 in 1952 to a peak of around £180,000 in 2007 (Figure 3). It has been argued that such a rise in house prices has led to a 'wealth effect' with owner-occupiers feeling better off and so increasing their consumption, perhaps through using up their savings, or deciding to spend (more of) their income rather than save it, or using unsecured credit or borrowing more against the value of their homes (Case, et al., 2005). Such consumption may have helped fuel economic growth but with the fall in house prices and the economic downturn, people's lack of savings and levels of debt may prove highly problematic.

Since 2007 there has been a 'correction' to house prices but this fall in prices has 'only' taken house values back down to their position in 2003/4 so the 'correction' seems to have been relatively small. The reason for the recovery in prices appears to be a combination of problems with supply, the continued force of demographic change which has increased demand, and the continuingly high levels of aspiration to be a home-owner. When these prices have been adjusted for inflation, the real growth is on average 2.9 per cent per annum since 1975 (Figure 4). From 1991 to

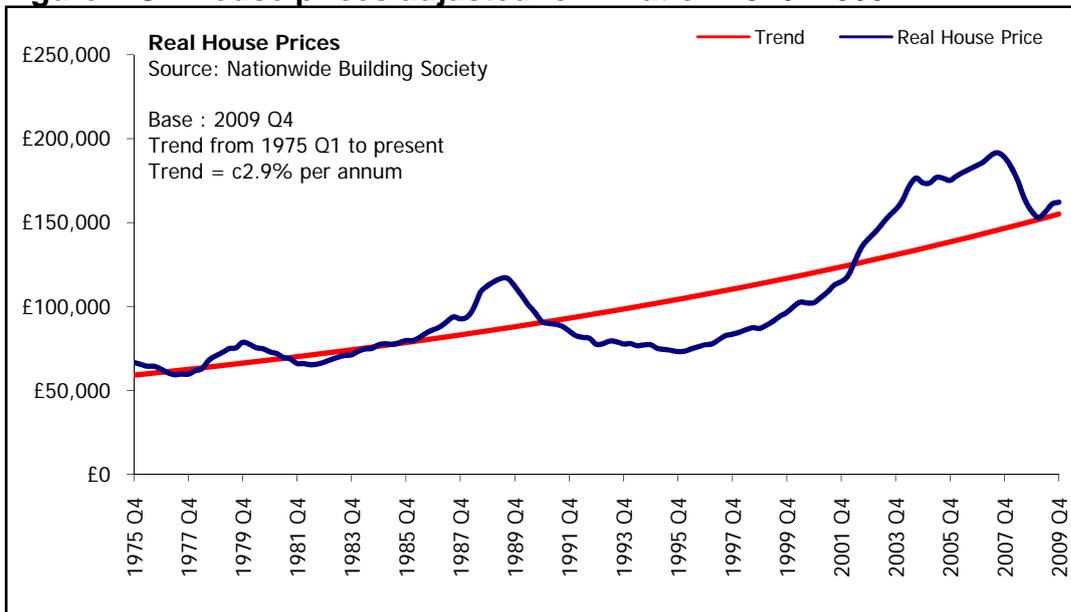
2009, average house prices across the UK almost trebled (from £54,547 to £162,116) (Figure 5).

Figure 3 UK average house prices 1952–2009



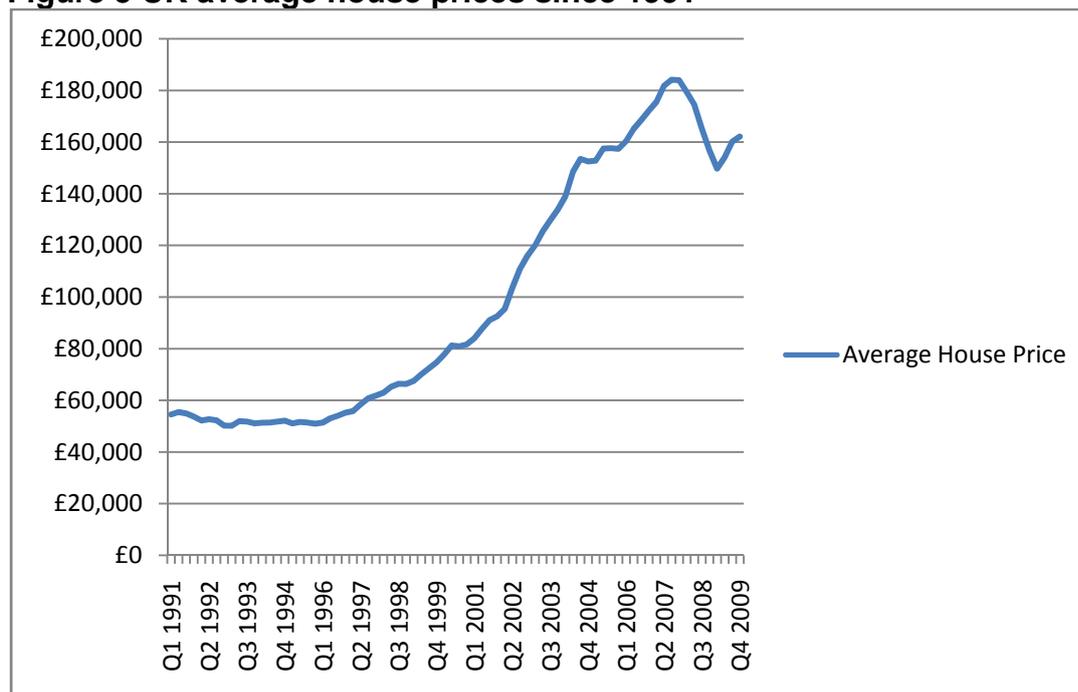
Source: Nationwide, 2009

Figure 4 UK house prices adjusted for inflation 1975–2009



Source: Nationwide, 2009

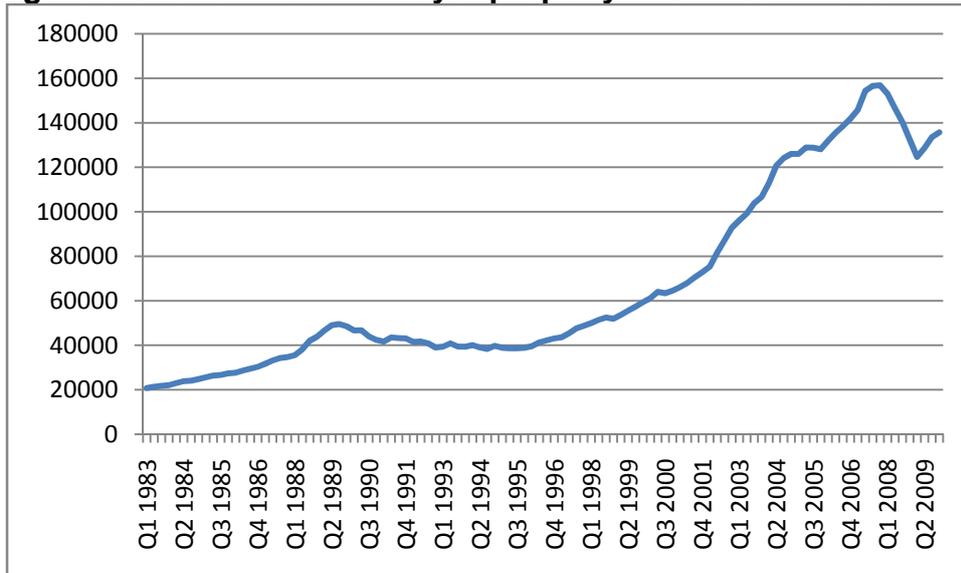
Figure 5 UK average house prices since 1991



Source: Nationwide, 2009

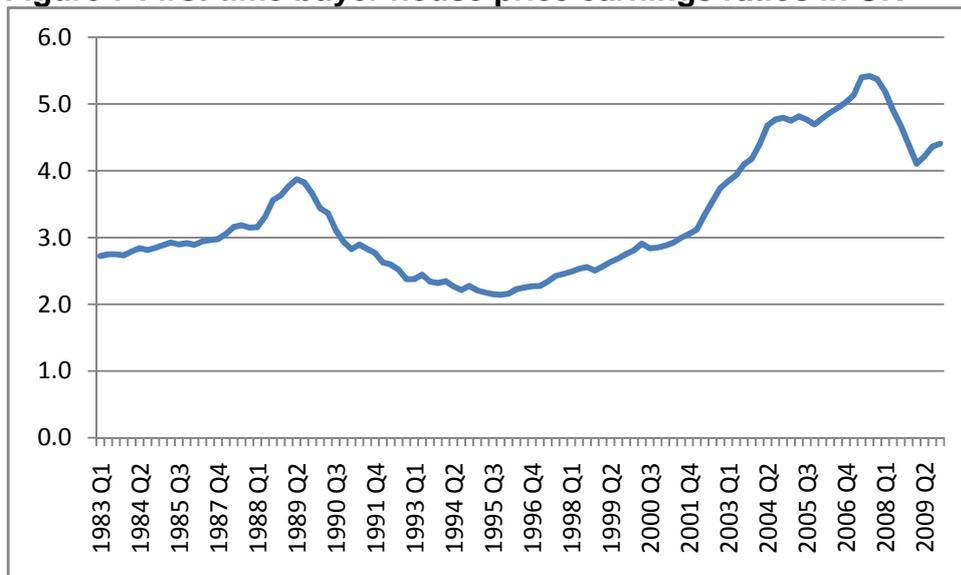
House price increases in the last few decades have challenged levels of affordability (Williams, 2007) with first-time buyers becoming increasingly rare in the housing market. The UK average cost of first-time buyer property trebled from 1991 to 2009 (from £43,108 in quarter 4 of 1991 to £135,756 in quarter 4 of 2009) (Figure 6). Evidence also indicates that first-time buyer earnings have not increased at the same rate and so the average house price to earnings ratio has increased from 2:7 in 1983 to 4:4 in 2009 (Figure 7). Therefore, 'house price growth has outstripped income growth for several years' (Tatch, 2006). Figure 8 shows the proportion of first-time buyers in the UK housing market being around 50 per cent in the 1980s and 1990s, no doubt due in large part to an influx of right-to-buy purchasers. The proportion then decreased sharply in the early 2000s to 30 per cent in 2005. Research indicates that the key challenge for first-time buyers is to raise a deposit and they increasingly require help to raise the level of deposit necessary to get on to the housing ladder (Tatch, 2006). See also Section 3 of this report.

Figure 6 Cost of first time buyer property in UK 1983– 2009



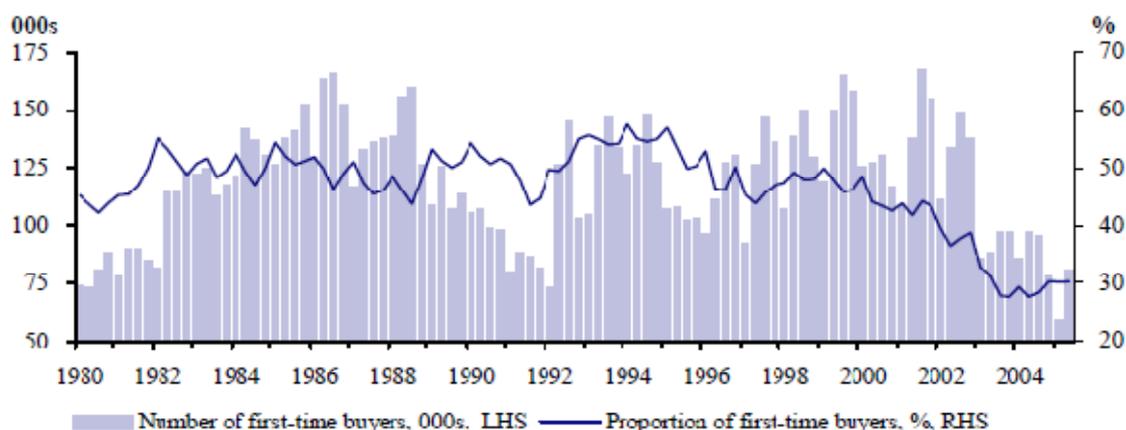
Source: Nationwide, 2009

Figure 7 First-time buyer house price earnings ratios in UK



Source: Nationwide, 2009

Figure 8 Number and proportion of first time buyers 1980–2005



Source: Survey of Mortgage Lenders cited in Tatch, 2006

The affordability problem is linked to a collapse in housing supply and associated problems with the planning system in the UK (Barker, 2004). House prices and average earnings are also relevant here of course. But another key factor is the practice of lenders in terms of changing levels of availability of low-cost mortgages. Until recently, mortgage lenders have been agreeing mortgages based on an increasingly large proportion of property values (mortgages of over 100 per cent value for example) and based on higher multiples of earnings. Lloyd (2009) quotes figures from the Mortgage Advice Bureau to suggest that the number of borrowers who took out a mortgage with a loan to value ratio of 100 per cent or more doubled between 2007 and 2008. Although such practices appear to be changing now, this would have made it easier for first-time buyers to enter the housing market as a deposit would not be necessary. The cost of borrowing is also important here and the Bank of England Base rate has fallen dramatically in the last year or so from 5 per cent in October 2008 to 0.5 per cent in March 2009 where it remains at the time of writing (end of July 2010). Of course, changes in rates are not necessarily passed on by lenders to borrowers but the cost of borrowing is at an unprecedented low.

The level and distribution of wealth

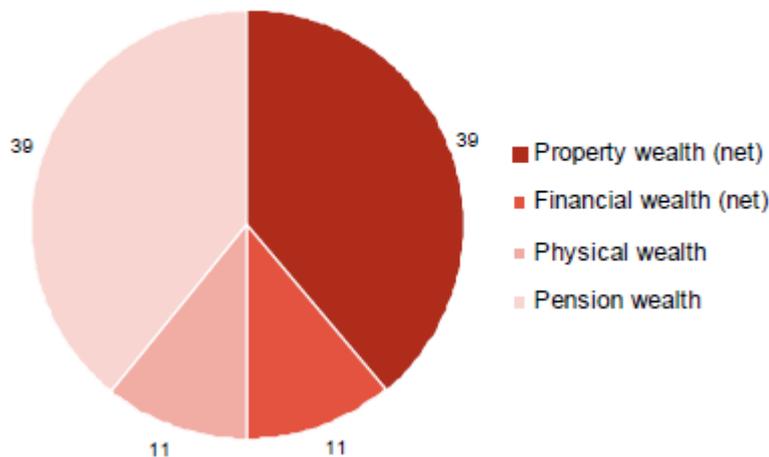
Levels of owner-occupation and house prices give us some indication of changing levels of property wealth in Britain but most owner-occupiers have mortgages and so we need different data to estimate the level and distribution of net housing wealth. It is also interesting to place it in the context of other forms of wealth, such as private pension wealth and financial wealth.

In December 2009, the ONS *Wealth in Great Britain* report (2009) was published, providing initial findings from a major government survey of wealth. Its data suggests that the estimated total net wealth in the UK in 2006/8 was £9.0 trillion (net wealth is the value of accumulated assets minus the value of accumulated liabilities, i.e. debts/mortgages). The greatest proportion of this wealth came from property (39 per cent or £3.5 trillion) and private pensions (39 per cent or £3.5 trillion). Financial wealth and physical wealth (the contents of the main residence and any other

property of a household, collectables and valuables, vehicles and personalised number plates) each contributed 11 per cent (or £1 trillion each) (Figure 9).

Figure 9 Breakdown of aggregate wealth 2006/08

Percentages



Source: ONS, 2009

We saw above that house prices had fallen recently and so we might expect housing wealth to have declined as a proportion of all wealth. However, share prices have also declined and this will have a knock-on effect on financial and pension wealth. The exact impact of these changes on the relative size of housing and other types of wealth is not clear at present and we await further waves of the ONS survey to provide data on this.

The ONS research found that UK wealth was distributed highly unevenly. The 'wealthiest 10 per cent of households were 2.4 times more wealthy than the second wealthiest 10 per cent, and 4.8 times wealthier than the bottom 50 per cent (the bottom five deciles combined)' (ONS, 2009).

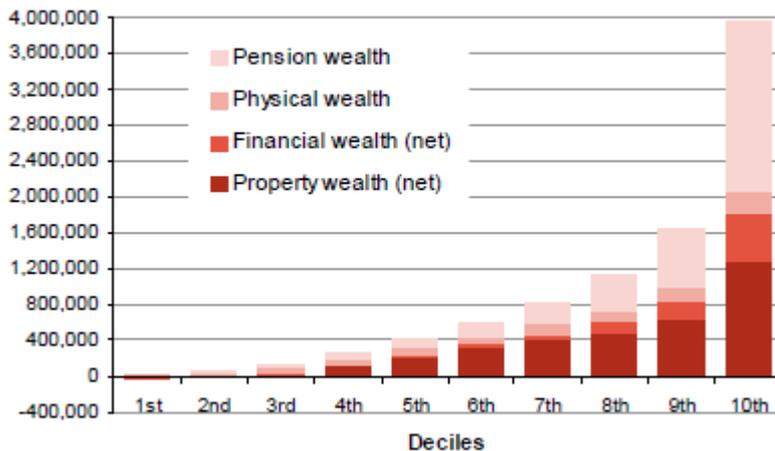
Or more simply: 'In 2006/08, the least wealthy half of households in Great Britain had 9 per cent of the total wealth (including private pension provision wealth), while the wealthiest half of households had 91 per cent of the total ... the wealthiest 20 per cent of households had 62 per cent of the total wealth including private pension wealth' (ONS, 2009).

The National Equality Panel (2010) used the same data to make the point that the top 10 per cent of the population are 100 times more wealthy than the bottom 10 per cent.

Figure 10 illustrates the distribution of wealth by dividing the population into 10 equal groups by size (deciles) and showing the level of wealth of each decile. This clearly highlights huge inequalities between the bottom deciles and the very top decile.

Figure 10 Breakdown of aggregate wealth by deciles and components 2006/08

£ million



Source: ONS, 2009

The ONS report also presents a standard measure of inequality, the Gini co-efficient, which takes a value between 0 and 1, with 0 representing a perfectly equal distribution and 1 representing 'perfect inequality'. In 2006/08 the Gini co-efficient varied by type of wealth as follows:

- 0.81 for net financial wealth
- 0.77 for private pension wealth
- 0.62 for net property wealth
- 0.46 for physical wealth.

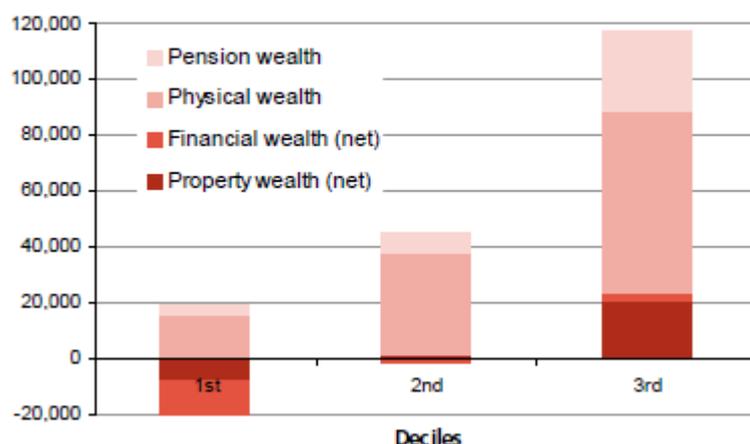
Thus, net financial wealth was most unequally distributed, followed by private pension wealth and then net property wealth. The least unequally distributed form of wealth was physical wealth.

Figure 11 gives a detailed breakdown of those with the least wealth in the UK in 2006/08. The first decile of households with the least wealth showed that they had 'negative values for both net financial wealth and net property wealth' (i.e. debts or negative equity) but had a small level of physical and private pension wealth (ONS, 2009). The second decile reflects households with a large proportion of physical wealth, small amount of private pension wealth and property wealth and a minor negative balance of financial wealth. The third decile shows that all components of total wealth were positive and physical wealth made up the largest proportion of that wealth, followed by property, pension and financial wealth (ONS, 2009). Collectively, these figures show that a significant proportion of the UK has little or no property or financial wealth. This kind of wealth is important because it is 'liquid' and can be drawn on in a way that is not possible with private pension wealth. Liquid forms of wealth can also be bequeathed in a way which is not possible with private pension wealth.

Figure 11 Breakdown of aggregate wealth: by lowest three deciles and components 2006/08

Great Britain

£ million



Source: ONS, 2009

Financial wealth is the most liquid form and so it is worth focusing on this in a little more detail. The wealth and asset survey (ONS, 2009) found that 10 per cent of households had informal financial assets worth £250 or more in 2006/08. Some children also held financial assets; half of children had assets in their names, while most children born since 1 September 2002 had Child Trust Funds. In 2006/08, 98 per cent of households had net financial wealth – either positive balances, if assets were greater than liabilities (75 per cent), or negative balances if liabilities were greater than assets (23 per cent). The distribution of ownership of net financial wealth is much more unequal than that of other forms of wealth. In 2006/08, half of the households in Britain owned 1 per cent of net financial wealth, while the wealthiest 20 per cent owned 84 per cent of net financial wealth.

One of the reasons why wealth is unequally distributed is simply that older people have had more time to accumulate wealth than younger people but this ‘lifecycle’ explanation for wealth inequality can only explain part of the inequality we report here. The National Equality Panel (2010) clearly document huge inequalities of wealth *within* different age groups. Such inequality is particularly stark for those who have recently or may recently retire (i.e. people aged 55– 64). Among this group, one in ten households have wealth of less than £28,000 while another one in ten have wealth of more than r £1.3 million (National Equality Panel, 2010).

As we have just seen, apart from physical wealth, housing is the most equally distributed type of wealth. According to the ONS (2009), the *mean* net (that is, housing equity after mortgages are taken into account) property wealth for owner-occupiers was £205,500 in 2006/08. The median net property wealth was £150,000 or less while ‘a quarter of property-owning households had net property wealth of £85,000 or less’ (ONS, 2009). These figures seem rather high given figures presented earlier in this report on average property prices (which were £180,000 in 2007). We might expect *net* property wealth to be substantially lower than gross property prices. However, net property wealth will include any second or subsequent

properties owned by one person. Another possible explanation for this discrepancy is that people may over-estimate the value of their housing in the ONS survey. Finally, the figures on property prices are based on all properties mortgaged by the Nationwide in a particular period, which may not accurately represent all properties sold, let alone all properties lived in. Limitations with data on both wealth and prices therefore need to be remembered.

While housing wealth is widespread, the recent recession has also led to an increase in negative housing wealth in terms of negative equity and mortgage arrears. MacInnes et al (2009) report some 200,000 mortgage loans a year falling into arrears for the first time in 2009 and some 400,000 in arrears on the latest statistics. They also report that there were 24,000 mortgage repossessions in the first half of 2009, a six-fold increase since the first half of 2004. While this is a large increase on 2004, the figure is lower than some had predicted due to record low interest rates that have helped some borrowers to keep up with their mortgage repayments, and a number of government initiatives to help home-owners avoid repossession. The government has also introduced a pre-action protocol, under which the courts can grant a repossession order only if all alternative measures to keep people in their homes failed. And the government has also generally called on lenders to exercise forbearance with those in arrears. While this is clearly to the benefit of struggling home-owners, no such measures have been put in place in relation to those struggling to pay their rent to help them avoid eviction. Owner-occupation is, therefore, clearly advantaged over renting (see below also).

Mortgages are, of course, only one source of borrowing; and mortgage arrears are only one source of problem debt. The wealth and asset survey (ONS 2009) found that nearly half of households (48 per cent) owed money in non-mortgage borrowing, with a half of these owing £2,700 or less. In terms of arrears, 10 per cent of households had fallen behind with payments on one or more household commitments, rising to 17 per cent of those with any non-mortgage borrowing commitments. This varied considerably by socio-economic status, with households comprising lone parents with dependent children, and households in which the head of household was unemployed or looking after the family home, among those most at risk of having done so.

Regional variations in wealth

There are considerable variations in wealth by region. In 2006/08, the wealthiest part of Great Britain in terms of total wealth (including private pension wealth) was the South East of England, with median wealth of £287,900. The North West was the English region with the lowest total median wealth, where half of all households had £168,200 or less (including private pension wealth) (see figure 12)

**Figure 12 Distribution of household wealth including pension wealth
Great Britain**

£



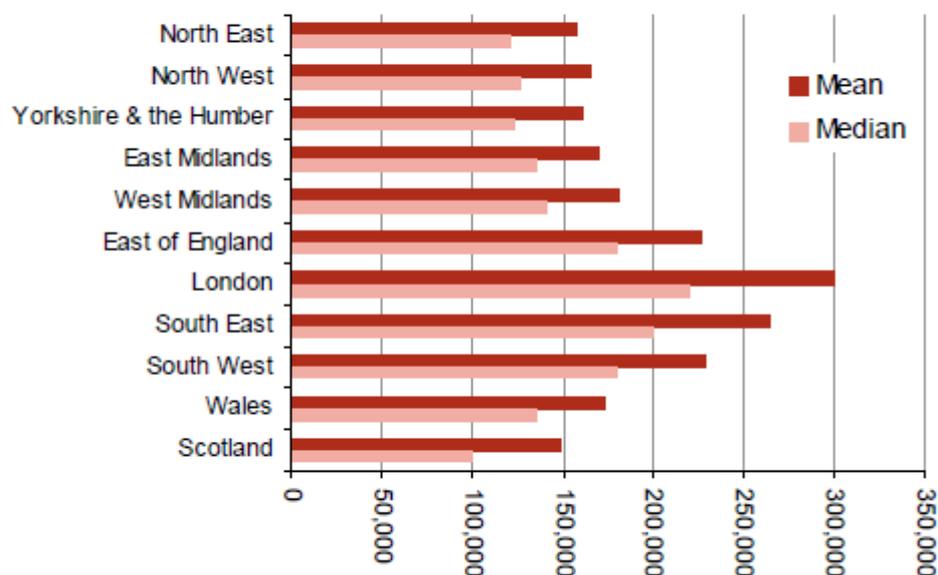
Source: ONS, 2009

The distribution of net housing wealth is even more unequal than wealth more generally. London has the highest property wealth (median of £220,000) with the South East coming second with a median of £200,000 (see Figure 12). However, these averages only apply to those with some housing wealth and levels of home-ownership in London are the lowest of all the English regions with 'only' 57 per cent of households owning their own homes (ONS 2009). The regions with the lowest average property wealth (among those who own homes) were Scotland, Wales and the North of England.

Figure 12 Distribution of household wealth including pension wealth

Great Britain

£



1 Results exclude households with zero net property wealth.

Source: ONS, 2009

Conclusions

This review raises a number of fundamental questions. What will happen to levels of owner-occupation in the future and should government policy continue to aim towards increasing home-ownership as it does now? What are the implications of current and possible future levels of owner-occupation for wealth inequality?

The expansion of home-ownership has created greater opportunities, but also greater risks for home owners:

‘In one sense the liberalisation of mortgage finance was socially progressive and helped to widen access to housing finance...[but] has been undermined by its impact on house prices, which in turn have narrowed access to home-ownership, while housing market instability has sharpened the risks associated with home-ownership by making future price trends uncertain’. (Stephens, 2007).

Levels of owner-occupation appear to be stagnating, if not declining, but the government still aspires to increase home-ownership in the UK. Achieving this aim would require expanding home-ownership to include more households on low and moderate incomes (Forrest, et al., 1990; Stephens, 2007; Williams, 2007). These households are often considered sub-prime and are higher risk borrowers (Forrest, 2008; Stephens, et al., 2008). The cost of home-ownership is also often prohibitive to many such buyers, and lenders may be increasingly cautious about serving this

group. This suggests that many groups are, and will continue to be, excluded from home-ownership. Government schemes for keyworkers, shared ownership, shared equity and support for those with mortgage arrears may help to some extent but the sustainability of current levels of owner-occupation look questionable (Collinson, 2010; Communities and Local Government 2008; Giles and Pimlott, 2009; Stephens, et al., 2008).

Young people's attitudes to home-ownership have become more negative in recent years in response to housing market recessions. While these attitudes tend to improve when the housing market recovers, there appears to be a general trend downwards (Wallace, 2010). Affordability is clearly an issue for young people here and is likely to continue, not least if the cost of university education increases following the review of tuition fees (Paton, 2009). It therefore looks unlikely that the government will achieve its aspiration for 75 per cent of the population to be home-owners any time soon.

This section of the report has also explored the relationship between housing wealth and wealth inequality. Widening access to home-ownership has been accompanied by significant increases in house prices. Holmans et al (2007) have argued that 'widening home-ownership and rising house prices helped to slow the general growth in wealth inequality'. But those at the bottom are being left further behind and there is an increasing divide between the 'housing haves' and the 'housing have-nots'.

Given all these trends, it's time to take a fundamental look at the tenure balance in Britain and the way that government policy affects this. Owner-occupation has been heavily subsidised and favoured, not least with mortgage interest relief in the past and still today with subsidies for right-to-buy, exemptions from capital gains tax on primary residences, tax-free imputed rent and support for people who fall behind with their mortgages (Hills, 2007). A review is needed to consider the primary objective of housing policy and then how to achieve it. For example, rather than focusing on the promotion of a particular tenure type, policy might be better focused on goals such as providing housing security and quality. This might lead to more investment in social housing and improved rights for tenants. A review of housing taxation would also be helpful here (Lloyd, 2009; Shelter, 2009). This is a complex issue, however, not least because of the considerable regional variations in housing wealth and the potential use of housing wealth as a retirement fund (see Section 2).

Owner- is very popular and it will take some political courage to have an open debate about the problems caused by maintaining or, indeed, trying to expand home-ownership on the current basis. However, if other forms of tenure are supported better, then they will be seen more favourably, as they are in other countries. And there are also signs that the public's love affair with home-ownership is experiencing a reality check given the current economic climate. Support for other tenures may therefore be more popular than was previously the case.

It would also be helpful to have a review of the balance between different kinds of asset accumulation/decumulation and the role of government policy. What balance of different kinds of assets should people aspire to have? Are people putting too

many resources into housing assets rather than pensions or in more liquid products such as ISAs? How should the government help people achieve the right balance, for example through provision of state pensions and/or setting different levels of taxation and/or subsidy for different forms of asset accumulation/decumulation? How does this relate to different stages of life and to different socio-economic groups? Such a review could build on two recent studies: Attanasio and Wakefield's (2008) study for the Mirrlees review which showed the link between tax incentives and increasing asset accumulation; and Boadway et al's (2008) review of wealth taxation for the Mirrlees review.

2. Housing wealth and the welfare of retired households

This part of the report explores the role of housing wealth in relation to the welfare of retired households. It considers whether or not home-ownership improves living standards in later life, discusses issues around paying for care in later life and assesses the case for promoting owner-occupation as a form of 'asset-based welfare' compared to alternative vehicles for saving for retirement and care needs.

Home-ownership and living standards in later life

Home ownership is extremely popular, with 84 per cent of adults hoping to be home-owners in 10 years time (Pannell, 2007). People see home-ownership favourably as both a financial investment (saving money on rent and accumulating an asset) but also as a way to have control over their housing. Most retired people are owner-occupiers and most of these are outright owners (see figure 2). One of the benefits of this is, clearly, that they have no rent to pay. This could amount to a considerable saving. However, people on low incomes who are renting are entitled to claim housing benefit, and so if these home-owners were renting, many might qualify for housing benefit on the basis of low income (Hancock, et al., 1999; Toussaint and Elsinga, 2009). The benefits of home-ownership in this case are therefore only enjoyed by those on middle and high incomes in later life, who would not qualify for housing benefit. The financial benefits of home-ownership may therefore not be as great as we might at first think.

Indeed, home ownership may have associated costs. Askham et al (1999) carried out qualitative research among older home-owners, some of whom considered home ownership to be a financial burden. The cost of maintenance, repairs and improvements were hard for many older people on low incomes to afford, and organise. Those living in rented accommodation could expect their landlords to pay for, and organise, repairs and maintenance though they may have little control over what and when this is done (Pensions Policy Institute, 2009).

While the costs and organisation of property maintenance and repairs were seen as a burden by some older people, most nevertheless recognised that their property was an asset that they may be able to draw on or leave to future generations (Askham, et al., 1999). This is certainly not an option for people living in rented accommodation and is a clear potential benefit of home-ownership. Housing wealth may be drawn on in a number of different ways in later life. Rowlingson and McKay (2005) found that people, particularly those in their 50s and 60s, were willing, if not keen, to use up some of their equity in later life though they also wished to save some for bequests. Ways of withdrawing equity from housing include moving to a cheaper property, selling up and moving into rented accommodation, or remaining in the home and taking out an equity release scheme.

It is estimated that equity release schemes could increase the weekly incomes of pensioners by up to 20 per cent which is a significant sum (Davey, 1996). Rowlingson and McKay (2005) found that more than six in ten home-owners who

knew about equity release schemes thought they were a good idea 'in theory'. However, many of these people had concerns about the value for money of the schemes, their complexity and potential riskiness as well as whether or not the providers could be trusted. And for those receiving means-tested benefits such as Pension Credit and/or Council Tax Benefit, the extra income released from their home may reduce their entitlement to these benefits. Such concerns and disincentives may help explain why only 1 per cent of owner-occupiers of the total UK mortgage market had an equity release scheme in 2006/08, although this figure increases to 2 per cent in the over-65 age bracket (ONS, 2009).

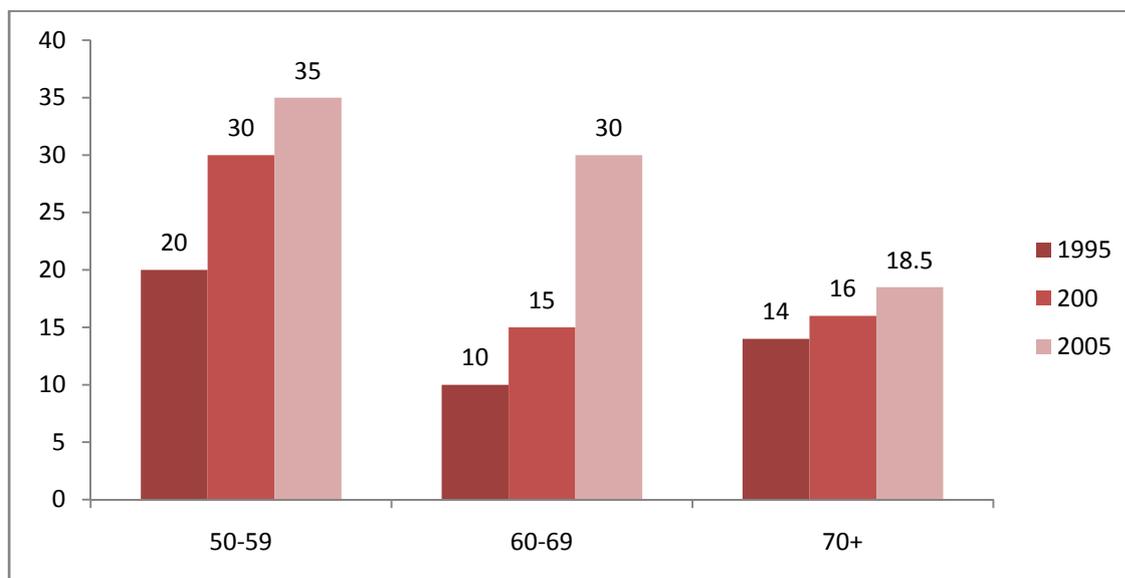
It must be remembered, however, that even if more people were prepared to take out equity release schemes, such schemes cannot help the significant minority of older people who are not home-owners. Nor can current schemes help those home-owners with relatively small amounts of housing wealth as equity release providers will often impose a minimum value of the property owned. The poorest older people, who are in most need of extra resources will therefore be unable to benefit. In 1999, it was estimated that 60 per cent of pensioners in the lowest fifth of the income distribution did not own their own homes and so did not have any housing assets on which they can draw as a source of equity (Hancock, et al., 1999).

The recent decline in the value of property also means that many will not be able to withdraw (substantial) equity from their home (Buiter, 2009) though this decline has now ended for the moment.

For all these reasons there is now considerable doubt as to 'whether "new" housing asset-based welfare can really function as an adequate safety net for those in need' (Toussaint and Elsinga, 2009). However, home-ownership is likely to increase among older people over the next decade and beyond and the number of pensioners that are income-poor and housing-rich is also predicted to rise (Sodha, 2005) so equity withdrawal, in one form or another, may become increasingly important.

A counter-balance to this, however, is that the amount of money older people owe on their mortgages has increased in recent years and may continue to do so. This may mean that there is less equity to draw on. Figure 13 shows that in 1995, those aged 60–69-years-old with outstanding mortgages owed an average of £10,000. By 2005, that amount had tripled to £30,000.

Figure 13 Median amounts owed on mortgages (for those with mortgage) by age and year



Source: Analysis of British Household Panel Survey from McKay, et al., 2008

Equity release and long-term care

Equity release may not currently play a major role in improving older people’s living standards but it does play a major role in relation to paying for long-term care. Use of long-term residential care is still unusual. According to analysis of the 2001 Census carried out specifically for this review, less than 1 per cent of 60–79-year-olds were living in communal establishments. But Table 3 also shows that communal living was higher for those aged 80–84 (with 3 per cent live in nursing homes and a further 3 per cent in residential care homes). Of those aged 95-plus, two in five were living in communal establishments.

Table 3 Older people living in communal establishments by age

	70–74	75–79	80–84	85–89	90–94	95+
Nursing home (%)	1	1	3	6	10	17
Residential care home (%)	1	1	3	8	15	23

The percentages may be small at the moment but it has been estimated that, by 2050, there will be twice as many people aged over 85 as there are now and so demand for care is likely to grow quite dramatically (Collins, 2009). Of course, predictions for demand for long-term care are difficult to make as there is a trend towards domiciliary rather than residential care. But Glasby et al (2010) have estimated that the real cost of providing social care will double in the next 20 years.

The current system of paying for residential care is complex and varies depending on where people live in the UK (Scotland for example has a rather different system from England). Broadly, however, social care is means-tested both in terms of income and capital (including housing wealth). From April 2009, anyone with capital

of their own above £23,000 was assessed as being able to pay at the 'standard rate' for care. Those with capital between £14,000 and £23,000 were expected to make a contribution but those with less than £14,000 were not expected to make a contribution from capital but would still be expected to contribute from income. In November 2008, Age Concern quoted a figure of around £24,000 per year to cover the costs of long-term care, suggesting that assets would be depleted very quickly. This system is very unpopular but Whittaker (2010) proposes a number of changes that might make the system more acceptable. For example, he suggests building on existing powers held by local authorities to take a charge on a property so that payment for care can be deferred until the property is sold. He also discusses the option of a fully-functioning state-sponsored equity release scheme to help those who cannot access private schemes of this kind.

It is widely agreed that the UK does not have an adequate system for paying for long-term care (Hirsch, 2006). The reasons for this are lack of funds, lack of coherence, and lack of equality.

Research has indicated that individuals are unwilling to provide for their own long-term care, for example through insurance, even if they have the means to do so (Office for Public Management, 2009). Therefore the most equitable way of providing long-term care might, arguably, be through general taxation (Glasby, 2009) but tax rises are unpopular and there is currently a heated debate about ways of paying for care. When in opposition the Conservatives floated the idea of an optional £8,000 fee early in retirement so elderly people can avoid paying for residential care later in their lives while the Labour government suggested a compulsory £20,000 fee paid from the estate after death (dubbed the 'death tax') (Oakeshott, 2010)

Conclusions

Housing is a key source of wealth and 'the ability to convert housing equity into income (equity withdrawal) has blurred the relationship between wealth and income' (Stephens, 2007). Housing and welfare remain key policy issues, particularly given that the UK has an ageing population, poor pension provision and rising costs of care. While it is true to say that housing plays a significant role in the growth of wealth and is a key source of wealth for many owner-occupier households, the distribution of wealth among this group is highly uneven. Equity release therefore is not a panacea for all home-owners and cannot cover all potential needs (Davey, 1996). As the Pensions Commission (2004) concluded, home-ownership 'does not provide sufficient solution to the problem of pension provision' because those with greatest need for extra income to supplement low pension income have relatively low levels of housing wealth.

Housing wealth cannot completely plug the funding gap for pensions and long-term care. But there are signs that some people would be willing to access some of the equity in their homes if more appropriate, less risky and better value products were available. The Joseph Rowntree Foundation has been active in piloting schemes that involve local authorities in publicising and advising on the schemes, allow people to withdraw relatively small amounts of money, minimise the risk that entitlement to means-tested benefits such as Pension Credit will be affected, and ensure that other

financial solutions are considered before deciding to withdraw equity (Terry and Gibson, 2010). Further work here would be very helpful (see also Williams, 2010).

The role of housing wealth in relation to welfare must be considered alongside other forms of support. For example, if income from (state) pensions was higher then there would be less need for people to withdraw equity from their homes to raise their living standards. Pension policy therefore needs to be considered alongside asset-based welfare to provide the most appropriate package of support to meet people's needs at different times in their lives.

3. Housing and the intergenerational distribution of wealth

In Section 1, we saw that owner-occupation and house prices both increased in recent decades. We also saw that the distribution of wealth was highly unequal. In Section 2, we saw that this increase in housing wealth might be seen as an additional resource to draw on in later life, though there are limitations with this at the moment. This part of the report now turns to issues around housing assets and the inter-generational distribution of wealth. We ask: is Britain a nation of inheritors, with wealth ‘cascading down’ the generations? Is inheritance widening or narrowing wealth inequalities? And how might this change in the future? This part of the report also looks at the issue of intergenerational distribution through lifetime gifts to see what role they might play in helping younger people, for example, to accumulate their own housing assets as first-time buyers.

Is Britain a ‘nation of inheritors’?

Owner-occupation expanded significantly from the 1950s onwards (as shown in Section 1), leading some commentators in the 1980s to argue that:

‘we are approaching the point where millions of working people stand at some point in their lives to inherit capital sums far in excess of anything they could hope to save through earnings from employment’. (Saunders 1986)

This echoed Nigel Lawson’s view that Britain was ‘about to become a nation of inheritors’ (Holmans, 1997a).

However, analysis of Inland Revenue data by Holmans (1997b) suggests that the number of estates including housing assets had not increased but actually declined between 1969–70 (when there were 149,592) and 1992–3 (when there were 142,446). Hamnett (1997) concludes from this that ‘there has been no increase in the scale of housing inheritance over the last 25 years’. The future prospects for increased inheritance also looked weak at that time as Holmans (1997b) estimated that ‘not much more than one half of all non-married men and women even a quarter of a century hence will leave owner-occupied house property’.

So why has Britain not (yet) become a nation of inheritors? Two main explanations have been put forward relating to a combination of cohort and ageing effects on the one hand, and social factors on the other. The first explanation suggests that the large cohort of people who became home-owners in the 1980s are not yet old enough to die and pass on their wealth to future generations. At present, owner-occupation is highest among those in their 40s, 50s and early 60s. As these people age, and live longer than previous cohorts, we can see that housing wealth is ‘slowly but surely becoming more concentrated in the hands of older households, and the number of older households with housing wealth is growing fast’ (Holmans, 2008). Holmans (2008) finds that despite the ‘staggering’ amounts of housing wealth held in private hands, it will take some time before this ends up in inheritance. This is partly due to the fact that this cohort is enjoying increasing longevity: ‘deaths among older

home-owners ... is [sic] now lower than foreseen in studies made more than a decade ago'. His conclusion is that: 'the UK is unlikely to become a nation of inheritors in the foreseeable future' (Holmans, 2008).

Alongside these cohort and ageing effects, another explanation relates to people's (changing?) attitudes to inheritance. Rowlingson and McKay (2005) found broad support for the idea of leaving bequests but also a view that people should not scrimp and scrape to do so. The 'baby boom' generation (those in their 50s and 60s) seemed particularly keen to make use of their assets during their own lifetime though they also wished to pass something on to the next generation when they died.

Does inheritance widen or narrow inequalities of wealth?

It will be some time before the increase in owner-occupation witnessed in the 1980s will result in a significant increase in the amount of inheritance people receive. But what do we know at the moment about the relationship between inheritance and inequality? Does inheritance widen or narrow inequalities of wealth?

Within economics, there has been a long tradition of estimating the effect of bequests on the transmission of wealth inequality (Wedgwood, 1929; Atkinson, 1971; Harbury and Hitchens, 1979; Menchik, 1979; Wilhelm, 1997). Most of these studies have agreed with the conclusions of Gokhale et al (2001) that 'the inheritance of bequests is an important contributor to wealth inequality'. Research in housing studies and social policy also suggests that inheritance has a negative impact on the distribution of wealth. This is due to the bottom 30 per cent or so of the population being excluded from housing wealth and to the fact that, among owner-occupiers, housing wealth is unequally distributed (Hamnett, 1991).

The most recent empirical evidence on this subject at the time of writing comes from a survey of 2,008 people, carried out for the Joseph Rowntree Foundation in 2004 (Rowlingson and McKay, 2005) (NB the ONS Wealth and Assets survey provides an extremely rich source of new data). It found strong links between inheritance and social class and tenure. Over half of owner-occupiers had received an inheritance at some stage of their lives, compared with under a third of social tenants and private tenants (see Table 4). There was a similar gradient for social class. Some 70 per cent of senior professionals (in social class A) had inherited (or their partner or child had done so), compared with 57 per cent among clerical workers (C1s), and under half even among skilled manual workers (Ds). Only three in ten of those in social class E had inherited something. It is possible, of course, that housing tenure is, itself, the result of a previous inheritance. But social class is not so affected by this issue of timing or causation.

Table 4 Receipt of inheritance by tenure and social class

	Received (%)	Unweighted base
Tenure of respondent		
Own outright	56	677
Own with mortgage	51	694
Social tenant	30	335
Private tenant	34	153
Living with family	25	115
Social class		
A	58	71
B	58	456
C1	49	537
C2	40	409
D	38	287
E	28	237
All	46	2008

Source: Rowlingson and McKay, 2005

An inheritance may include one or more items, such as property, cash, personal items and household goods. Table 5 shows that 46 per cent of respondents had received some kind of inheritance; 34 per cent had received money (or savings), 22 per cent some kind of personal item, while 11 per cent had received a property (or share in it). Clearly these separate figures add up to rather more than 46 per cent, indicating that some people had inherited more than one kind of asset. In fact 14 per cent of the sample had inherited on more than one occasion (30 per cent of those ever inheriting had done so on two or more occasions). Rowlingson and McKay (2005) compared their findings with previous studies and suggest that there has been some increase in receipt of inheritance in the last decade or so but only a very small one.

Table 5 Receipt of different items in an inheritance

	%
House/flat/property	11
Money or savings	34
Personal items (e.g. car, jewellery, ornaments)	22
A business	0>1
Any of these	46
Number of times inherited	
None – never inherited	54
1	32
2	10
3+	4
Unweighted base	2008

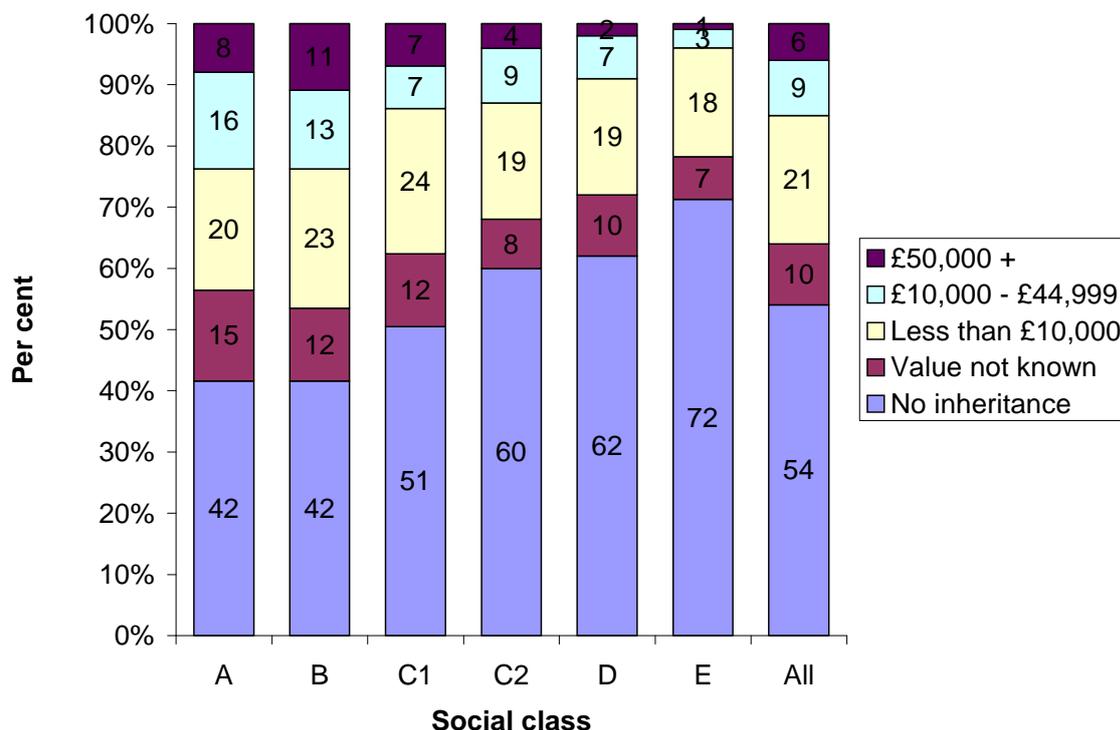
Base: All

Source: Rowlingson and McKay, 2005

Forrest and Murie (1989) and Forrest et al (1990) have rightly argued that it is important to look at the *value* of inheritances rather than just the fact of having

received something. Respondents in the JRF inheritance survey (Rowlingson and McKay, 2005) were asked for the financial value of any inheritance, *at the time they received it*. Since this could be many years previously, with some instances dating back to the 1930s, it is important to uprate the figures (2004 prices are used). The amount received in inheritances varied by different social classes as shown in Figure 14. Those in middle class occupations were not only more likely to have received an inheritance, but they also had most experience of the larger-valued inheritances. Among social classes A and B (senior and middle-ranking professionals) around one in ten had received an inheritance worth at least £50,000 in today's money. This compares with only one or two per cent among those in classes D and E.

Figure 14 Receipt of different real amounts in an inheritance by social class



Source: Rowlingson and McKay, 2005

Regression analysis confirmed that social class had a strong effect on the chances of inheritance even after taking into account other factors such as age, tenure and family composition (see Appendix 1 for full regression results). Those in social class E were least likely to have received an inheritance, and particularly one worth at least £5,000. The strong effect of housing tenure in the bivariate analysis (Table 4) was also borne out in this more complex modelling. Those with mortgages (and outright owners) were the most likely to have received inheritances. The disadvantaged position of those in social housing was particularly pronounced – even after controlling for age, social class and so on. This may, however, also reflect the fact that housing tenure may be an *outcome* of inheritance, especially larger valued inheritances

People in the professional classes were more likely to inherit than others. They were also more likely to inherit substantial amounts. But it could be argued that even a

relatively small amount of inheritance might make a major difference to someone with very few assets. Wolff (2002), for example, used data from the US Survey of Consumer Finances to analyse inheritances and wealth inequality in the US from 1989–1998. He found that richer households did receive greater inheritances and other wealth transfers than poorer households. But, as a proportion of their current asset levels, wealth transfers were actually greater for poorer households than richer ones. As he puts it ‘a small gift to the poor means more than a large gift to the rich’.

New analysis of the 2004 JRF survey (Rowlingson and McKay, 2005) carried out for this review calculates the real value of any inheritances received by respondents as a percentage of their overall levels of wealth (the value of any properties they owned and any financial assets they had, e.g. savings, stocks and shares). Table 6 shows that those in the professional classes were more likely than other social groups to have received an inheritance but that this inherited wealth was more likely to account for less than 10 per cent of their current wealth stocks. It was unusual for any group to have inherited wealth accounting for more than half of their current stock of wealth, with little real difference between social classes in this respect.

Table 6 Wealth and the role of inheritance

	AB	Social class C1C2DE	All
No inheritance	35	45	43
Under 10% of current wealth	25	14	17
10-49.9%	10	6	7
50-99.9%	4	2	2
100% or more	2	5	4
Missing inheritance data	7	6	6
Missing wealth data	17	21	20
Unweighted base	527	1470	2008*

Note *: including some with social class unknown

Source: *analysis of the Attitudes to Inheritance Survey, 2004* (Rowlingson and McKay, 2005)

But even if some of those in more disadvantaged groups did receive a high proportion of any current wealth in the form of inheritance, this may actually be quite a small inheritance (e.g. if they have no wealth at all or very little, a small amount will be a large percentage). And as Wolff (2002) himself argues, poorer people may be more likely to spend their small inheritances while rich people are able to add them to their current stock of assets. Analysis of the Attitudes to Inheritance Survey, 2004 does indeed suggest that those in the higher social classes were more likely to save or invest their inheritances, therefore adding to their stock of wealth.

Lifetime gifts

The evidence presented in this section so far suggests that due to a combination of ageing, cohort and social factors, it will be a number of decades before substantial sums of housing wealth are passed down to the next generation. But people may be conscious of this and want to help their children at the point when they need it, for example to get a foot on the housing ladder and/or pay for higher education.

Rowlingson and McKay (2005) found that 77 per cent of the general public agreed that 'it is better to give children money when they need it than to save it to leave as an inheritance'. And some people were putting this into practice. Rowlingson and McKay (2005) collected data on the giving and receiving of lifetime gifts valued at £500 or more. They found that close to one third (31 per cent) of the general public of all ages had received gifts worth at least £500 at one point or another (see Table 7). There was a wide and diverse range of gifts. Buying or maintaining a property was the fourth most common use of such gifts overall, followed by education. Table 7 also shows variation in receipt of gifts by social class with those in the professional classes (AB) much more likely to receive such gifts than others. For example, 13 per cent of those in social classes AB had received a lifetime gift to help them buy or maintain property compared with only 3 per cent of those in social classes DE (unskilled and semi-skilled manual workers) and C2 (skilled manual workers).

Table 7 Receipt of gifts worth £500 or more by social class

	AB	C1	C2	DE	All
Cash to spend	15	10	6	4	9
Wedding or large social occasion	15	9	6	4	9
Buying a car	11	9	5	3	7
Buying/maintaining property	13	6	4	2	6
Education	9	8	2	1	5
Paying for driving lessons	5	6	3	*	4
Birth of children	6	5	4	3	4
Paying off debts	2	3	3	3	3
Paying for holiday/other luxury	3	6	2	1	3
General living expenses	3	5	1	3	3
Starting a business	1	1	1	0	1
Other type of gift	3	3	1	1	2
Cannot remember	1	1	*	2	1
Unweighted base	527	537	409	524	2008

Source: analysis of the Attitudes to Inheritance Survey, 2004 (Rowlingson and McKay, 2005)

The total amount received in lifetime gifts also varied greatly by social class with more than a quarter of those in the professional classes (ABs) having received at least £10,000 at some point compared with only 5 per cent of those in social classes DE and 6 per cent of those in social class C2 (Table 8).

Table 8 Amount of lifetime gift received by social class

	AB	C1	C2	DE	All
£500-999	10	18	26	47	20
£1,000-4,999	34	41	36	24	35
£5,000-9,999	15	12	23	15	15
£10,000-24,999	17	8	4	5	10
£25,000-49,999	6	3	1	0	3
£50,000+	3	2	1	0	2
Don't know	16	16	10	8	14
Unweighted base	216	178	86	73	553

Source: analysis of the Attitudes to Inheritance Survey, 2004 (Rowlingson and McKay, 2005)

Those who had received inheritances were also more likely to receive lifetime gifts: 39 per cent of those who had ever received an inheritance had also received a lifetime gift compared with 23 per cent of those who had not inherited (Rowlingson and McKay, 2005). So people were not receiving lifetime gifts as some kind of

alternative to inheritance, since receipt of the one is positively correlated with receipt of the other. Instead people were spreading the benefits of their wealth and spending power over time to make best use of it for themselves and their families.

Lifetime gifts may be funded through high incomes but another way of funding them is through withdrawing equity from housing (e.g. by re-mortgaging, trading down or taking out an equity release product). Smith and Vass (2004) quote from the 2003 Survey of English Housing which found that a third of householders who had moved or remortgaged in the previous five years had withdrawn some equity. In terms of the amount of money withdrawn, this was highest among those who traded down or left home-ownership altogether (amounting to an average of £56,500 and £72,000 respectively for each of these groups). Not all of this will go to children, of course. Some will go to home improvements or to raising living standards in one way or another but it is highly likely that children will benefit from this to some extent.

Lifetime gifts may therefore help to explain the puzzle around how the number of first-time buyers has remained relatively resilient despite a massive decline in affordability (see Section 1). Tatch (2007) for example, estimated that 38 per cent of first-time buyers under 30 received financial help from their parents towards their deposits. They point to significant regional variation in this with London having particular problems with affordability and a particularly high rate of parental assistance. They estimate that assisted first-time buyers in London accounted for a fifth of *all* house purchases for owner-occupation. It is difficult to judge the value of assistance but Tatch quotes one estimate that the average help given was £18,000 in 2006. One of the consequences of parental assistance for home purchase is likely to be that home-ownership becomes even more unaffordable for others. Inequality in housing wealth is therefore likely to increase further.

Conclusions

Inheritance is fairly widespread, with almost half the population having received something at some point in their lives. But receipt of inheritances of substantial value is fairly unusual and is heavily skewed by socio-economic characteristics. It is predicted that any increases in the number, and value of, inheritances will be slow due to a combination of cohort, ageing and social factors. The baby boom generation who became the 'nation of home-owners' are living longer than expected and may not remain home-owners until they die. Some may spend the equity they have on themselves, use it to pay for care and/or give it to their families while they are still alive. Receipt of lifetime gifts seems to follow a similar pattern to receipts of inheritance, with those in better-off families receiving most. Inequality seems likely to widen as a result.

The distribution of wealth through inheritance appears to mirror the distribution of wealth more generally, with some redistribution towards those in the 'middle', but those at the bottom are falling further behind.

Inheritance tax could be one mechanism for ensuring a fairer distribution of wealth. The threshold has been frozen at £325,000 for single people and £650,000 for married couples and civil partners until 2014/15 (HMT, 2010). No tax is paid below

this threshold and money left above this amount is taxed at 40 per cent. The Conservative party has a policy to raise the threshold to £1,000,000 though they have said that this is not a priority at the moment given the economic climate. Such a policy would constitute a tax cut for the wealthy as only the top 5 per cent of estates paid this tax in 2004-5 (Prabhakar, et al., 2008). But inheritance tax is unpopular and it will take considerable political courage to make the case for increasing it. Reform of this tax may also make it easier to defend, for example by changing it to a capital receipts tax (taxing the recipient rather than the estate) and introducing a range of thresholds (Prabhakar, et al., 2008).

While it is important to look at the impact of inheritance and lifetime gifts on the distribution of wealth it is also important to remember that families provide their future generations with many other forms of capital: human, social, and cultural. These all ensure that '*social background really matters*' in terms of children's outcomes later in life (National Equality Panel, 2010). While the data on social mobility is complex and controversial, there is no evidence that social mobility has increased in recent years. For example, the chances of being in professional employment are around 70 per cent greater among children whose parents are graduates compared with parents lacking any qualifications (McKay, 2010; Panel on Fair Access to the Professions, 2009). These broader dimensions of inequality need to be considered alongside wealth inequality.

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Appendix 1 Logistic regression models of receiving inheritances (odds ratios)

	Any inheritance	Inheritance £1,000 or more	Inheritance £5,000 or more
<i>Ethnic group (ref=White)</i>			
Asian	0.209**	0.219*	0.292
Black	0.089**	0.003	0.006
Other	0.804	0.785	1.153
<i>Social class (ref=C1)</i>			
A	1.131	1.486	1.369
B	1.391*	1.532**	1.852**
C2	0.726*	0.964	0.915
D	0.710*	0.749	0.799
E	0.547**	0.494**	0.315**
Missing	0.462	0.867	0.758
Female	1.472	1.215	0.930
<i>Age group (ref=40-49)</i>			
18-29	0.719	0.564*	0.328**
30-39	0.781	0.769	0.787
50-59	1.088	1.008	1.448
60-69	1.280	1.382	1.771*
70-79	0.913	1.246	1.425
80+	0.704	0.712	1.236
<i>Family type (ref=couple)</i>			
Couples + child(ren)	0.970	-	0.656
Single person	1.354*	-	1.729**
<i>Housing tenure (ref=mortgage)</i>			
Own outright	1.071	1.025	0.956
LA tenant	0.570**	0.549*	0.367**
Private tenant	0.728	0.668	0.572
Live with family	0.454**	0.601	0.282*
Other (e.g. rent-free)	1.065	1.095	1.067
Has dep. children	-	-	1.766
R-squared (Nagelkerke)	0.14	0.12	0.15
Cases included	2007	2007	2007
Positive outcomes	953	532	348

* = significant at 5% level; ** = significant at 1% level