Attitudes to inheritance

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An exploratory study

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Introduction

It is often suggested that, in the future, older people will feel less desire to pass on their wealth to their children and more inclined to use it for personal enjoyment, to meet everyday needs or capital expenditures such as the costs of housing repairs, or to pay care costs. Currently older people appear reluctant to draw on their housing equity, which may be due to a desire to pass it on to their children. A change in attitudes could result in increased demand for equity release products. However, a recent study of equity release by the Institute of Actuaries (2001) concluded that there was little evidence either to support or to contradict the suggestion that attitudes are changing. This exploratory study is a first step towards filling that gap.

1 Aims and methods

Our aims were fourfold:

- To establish what is known about how, if at all, people's attitudes towards bequeathing and inheriting wealth are changing.
- To establish what is known from demographic and other trends about how opportunities for bequeathing and inheriting wealth are likely to be changing; for example, the later occurrence of deaths, changes in patterns of fertility, divorce and remarriage all have implications for the number of potential heirs, their ages at the point of inheritance and so on.
- To draw out implications for financial provision for old age.
- To identify fruitful avenues for further research.

These aims have been pursued through:

- A review of existing academic research evidence.
- A gathering of available market research and other industry survey evidence.
- Preliminary analysis of existing national household surveys and other population data for relevant demographic facts, such as the numbers of potential heirs.
- Preliminary analysis of attitudinal surveys which have readily usable data.

By way of background, we have also assembled available information on the current scale and prevalence of inheritances in Britain.

2 Inheritance and opportunities for inheritance in the UK

Estates passing on death

Inland Revenue statistics (Inland Revenue, 2002) show that in 1998–1999, 274,811 estates passed on death (see Table 1), suggesting that about 43 per cent of people who died left an estate.[1] The total value of these estates, net of mortgages, other debts and funeral expenses, was £29.6 billion,[2] an average of about £108,000. The median value was lower at about £60,000, and 12 per cent of estates were worth less than £10,000.

More than half (56 per cent) of the 274,811 estates included 'immovable property', largely residential buildings. In total, immovable property accounted for £11.2 billion, or 38 per cent of the £29.6 billion. The distribution of immovable property values was rather different from the distribution of total estate values. The median fell between £80,000 and £100,000, higher than the mean of around £72,000. However, as many as 7 per cent of properties passing on death had a net value of less than £25,000.

Half the total number and net value of estates were those of people aged 75 and over who were widows or widowers, single or divorced. This means that an average of £105,000 was bequeathed in 1998–1999 by people aged 75 and over to heirs other than a spouse. The majority (around two thirds) of such estates were left by women. In 1999 approximately 283,660 widowed, single or divorced people aged 75 and over died,[3] so just under half of them left an estate. The estates of such people accounted for 46 per cent of the total net value of immovable assets passing on death, at an average value of £74,000.

Existence of living children

The British Social Attitudes Surveys of 1986, 1995 and 1998 and a special module of the January/ February rounds of the ONS Omnibus survey (Grundy *et al*., 1999) asked respondents whether they had living adult children (aged 18+). In 1986 and 1995 around 80 per cent of respondents aged 75 and over who were widowed, single, divorced or separated had at least one living adult child (including step-children). In 1998 and 1999 the figure had fallen to about 76 per cent. In 1986, two thirds of those with any living children had more than one child; in 1995 the corresponding figure was 72 per cent and in 1999 it was 70 per cent.[4] These percentages are based on quite small samples. There seems to have been a small fall in the availability of living adult children who could inherit from their parents but there may have been a slight increase in the proportions having more than one child to whom they could leave a bequest.

Table 1 Estates passing on death, 1998–1999

	All estates		Immovable property	
	Number	Net value (£bn)	Number	Net value (£bn)
Total	274,811	29.6	154,620	11.2
Left by widows/widowers, single, divorced or separated people aged 75+	139,495	14.6	70,108	5.2
Percentage of total	51	49	45	46
Left by widows, single, divorced or separated women aged 75+	96,330	9.8	46,648	3.4
Percentage of those left by widows/widowers, single, divorced or separated people aged 75+	69	67	67	66

Source: Inland Revenue Statistics, available at www.inlandrevenue.gov, Inheritance Tax tables T12.4 and T12.5.

Scale and frequency of inheritances received

Some information is available on the scale and frequencies of inheritances from the 1995 General Household Survey (GHS). Overall about 10 per cent of GHS respondents aged 16 and over had received an inheritance from someone other than a spouse, in the preceding 10 years (Table 2). Those

Table 2 Receipt of inheritances (excluding inheritances from husbands/wives) in last 10 years, by age and gender (GB 1995)

	Age group				
	16–39	**40–59**	**60–79**	**80+**	**16+**
Men					
Percentage who have received an inheritance worth £1,000+ in last 10 years	6	12	11	2	9
Sample size (all in age group)	3,113	2,562	1,755	242	7,672
For those who have					
mean value (£s)	69,000	20,000	18,000	–	33,000
(standard error)	(53,320)	(1,430)	(1,660)		(14,630)
median value (£s)	5,000	10,000	10,000	–	8,000
whether it included:					
dwelling (%)	5	11	12	–	10
share of dwelling (%)	7	15	9	–	11
proceeds from sale of dwelling (%)	24	25	26	–	26
dwelling, share of dwelling or proceeds from sale of dwelling (%)	37	50	46	–	45
other money, shares or securities (%)	71	58	63	–	63
anything else (%)	9	11	7	–	9
Sample size (those who had received an inheritance)	188	296	194	5	683
Women					
Percentage who have received an inheritance worth £1,000+ in last 10 years	6	14	11	6	10
Sample size	3,620	2,862	2,111	463	9,056
For those who have					
mean value (£s)	17,000	23,000	25,000	–	22,000
(standard error)	(2,760)	(3,030)	(3,040)		(1,730)
median value (£s)	4,000	9,000	10,000	–	8,000
whether it included:					
dwelling (%)	7	11	13	–	11
share of dwelling (%)	11	11	14	–	12
proceeds from sale of dwelling (%)	25	27	21	–	25
dwelling, share of dwelling or proceeds from sale of dwelling (%)	41	8	45	–	46
other money, shares or securities (%)	65	61	66	–	63
anything else (%)	13	11	7	–	11
Sample size (those who have received an inheritance)	232	392	230	28	882

Source: General Household Survey; –, sample size too small for reliable estimate.

aged 40–59 were the most likely to have received an inheritance (12 per cent men, 14 per cent women) followed closely by those aged 60–79 (11 per cent for both men and women). Few men aged 80 or more (just 2 per cent) received an inheritance but 6 per cent of women aged 80 and over had received an inheritance. This is the same proportion as for the age group 16–39, reminding us that inheritances may not always channel wealth down the generations. The median inheritance value was £8,000, being higher for heirs aged 40 years or more than for those under 40. A quarter of all inheritances included proceeds from the share of a dwelling, between 11 per cent and 12 per cent included a share of a dwelling and between 10 per cent and 11 per cent included a whole dwelling. Overall 45 per cent of inheritances received by men and 46 per cent received by women included a dwelling, a share of a dwelling or proceeds from the sale of a dwelling.

Table 3 presents data from the 1991 British Household Panel Survey (BHPS). It shows that 9 per cent of outright owners had inherited or been given their homes. Where a woman was the main owner (the first person mentioned in response to the question, 'In whose name is this house/flat/room owned?') the figure was higher (11 per cent) than where the main owner was a man (7 per cent). Among women aged 40–59 who owned their homes outright, 14 per cent had inherited or been given their homes. Unlike the GHS, the BHPS did not explicitly exclude inheritance from a spouse.

Table 3 Percentage of outright home-owners who inherited or were given their homes (GB 1991)

	Age group of main owner				
	16–39	**40–59**	**60–79**	**80+**	**16+**
Main owner is a man (%)	–	6	6	7	7
Sample size	26	221	438	55	740
Main owner is a woman (%)	–	14	10	10	11
Sample size	13	110	324	68	515
All main owners (%)	(21)	9	8	9	9
Sample size	39	331	762	123	1,255

Source: British Household Panel Survey; –, sample size too small for reliable estimates. Values in parentheses are estimates based on a sample of less than 50 but more than 30.

3 Inheritance attitudes and behaviour: what the literature tells us

Identifying literature

Potentially relevant literature was identified in four ways: electronic searches of literature databases; electronic searches of university library catalogues; contact via the Association of British Insurers (ABI) with the financial services industry and manual follow-up of literature cited in publications found through the other search methods or brought to our attention in other ways. The electronic database used was the ISI Web of Science (http://wos.mimas.ac.uk) social sciences database of journal articles from 1981 to the present. A range of appropriate key words relating to inheritance, attitudes and older people were used in various combinations (see Box). The results of the searches were then filtered to remove obviously irrelevant papers and stored in a Procite database, where they were further filtered by examining abstracts so that only material likely to be genuinely pertinent to the study was reviewed in detail.

The ratio of potentially useful to irrelevant material produced by the search was generally low. Certain key words proved particularly problematic, including 'inheritance' itself, which produced many articles on genetics when used on its own, and even when deployed in combination with some of the secondary key words. Besides results such as these which had nothing to do with the material we were seeking, the search also found many records of peripheral relevance to the subject, relating, for example, to inheritance tax and intergenerational transfers (in both directions) through the state.

Electronic literature databases contain mainly literature published in academic journals. Searches of library catalogues helped to identify books and other forms of literature. Industry literature (e.g. market research reports) is not well represented in university libraries, hence the need to contact the industry directly. The ABI kindly circulated an e-mail to its members summarising the aims of the project and asking for help in identifying industry literature. This yielded only limited literature, although a number of replies asked to be kept informed of the project's findings.

Overview of literature identified

The literature identified in this way included a large body of quantitative economics literature, much of it relating to the USA. To the extent that this literature has attempted to identify attitudes to

Key words used in electronic literature searches

Primary key words (used alone and in combination with secondary key words)
inheritance
beque* (to cover bequest, bequeath, etc.)
intergenerational transfer
trans*

Secondary key words (used in combination with primary key words)
money
care
attitud*
old*
health
trust
estate
gift
altruis* (to cover altruism, altruistic, etc.)

inheritance (or more accurately attitudes towards leaving bequests) it has sought to infer them from observed savings and bequest patterns. Only in the more recent economic literature have attempts been made to elicit attitudes through direct questioning of survey respondents.[1] There is also a substantial body of economic literature on intergenerational transfers. Bequests/inheritances and lifetime transfers feature in this literature. So too do transfers from younger to older generations. However, much of it is concerned with the operation and interpretation of pension systems, as mechanisms which transfer wealth between generations, and so has less direct relevance to the present study.

The spread of owner-occupation has also generated a literature (and debate) on its likely consequences for inheritance and the distribution of wealth (Hamnett *et al*., 1989; Hamnett, 1991, 1995; Watt, 1993). This has not been concerned directly with attitudes to leaving or receiving inheritance but has suggested that past claims of rapid increases in the scale and incidence of inheritances as a result of more widespread owner-occupation may have been exaggerated. For example, Hamnett (1991) quotes a projection by Morgan Grenfell (1987) that by the year 2000, inherited residential property would be worth £24.3 billion, more than double the £11.2 billion shown in Table 1 for 1998–1999.

Another group of studies covers those in which attitudes to inheritance were examined in the context of paying for long-term care. Parker and Clarke's UK study (1997a, 1997b) employed both quantitative and qualitative methods. Sloan and Norton (1997) and Lindrooth *et al*. (2000) used the US survey of Asset and Health Dynamics Among the Oldest Old and the Health and Retirement Study. We have found only a small number of studies that have explored attitudes to inheritance in other contexts or at a more general level. We identified just a handful of UK qualitative studies that have attempted to examine this issue in any depth (Finch and Mason, 2000; Edwards *et al*., 2001; Swiss Re, 2001; Financial Services Authority, 2002).

Economics literature

Much of the economics literature concerns the development of theoretical models of how bequests, accidental or intended, might explain savings behaviour in terms of wealth accumulation and disposal over the life cycle. In the absence of bequests, the life cycle model of saving (Modigliani and Brumberg, 1954) predicts that people will save when their current income is high in relation to their needs, and run down their savings when it is low. Retirement is expected to be a time when income is low relative to needs, but older people's saving behaviour has been found to be inconsistent with this pure life cycle model. As Modigliani puts it:

> *In the stylized, pure life cycle model, wealth must be clearly declining after retirement, and at a sufficiently fast pace to reach exhaustion at the end of life. The actual behaviour of wealth by age seems quite different ... Several studies find that dissaving is small at best ... Some studies ... even find that wealth actually continues to rise in retirement.*
> (Modigliani, 1988, p. 23)

This has led to the formulation of extended models that allow for bequest and other additional motives for saving. Where appropriate data exist, empirical estimation of the parameters of these models has been used to test their consistency with those data and to attempt to establish the magnitude and nature of the influence that bequest motives may have on savings behaviour. In other cases, simulations have been performed with different assumed values for the models' parameters to establish their potential to explain aggregate savings. Modigliani (1988) provides a review of both sorts. More recent examples of the former include Gale and Scholz (1994), Wilhelm (1996), Horioka and Watanabe (1997) and

Kazarosian (1997). A variety of reasons for wanting to leave bequests has been postulated in this literature:

- 'Altruism', understood to mean that the expected future well-being of one's heirs has a direct effect on one's own welfare; altruism is expected to manifest itself in bequests which favour less well-off descendants.
- The exchange motive; bequests are seen as part of an implicit contract between parents and children in which children 'pay attention' to their parents in expectation of an inheritance.
- Accident: bequests are the results of precautionary saving in the face of uncertainty about life expectancy and other costly events, e.g. needing long-term care, and such precautionary savings occur because annuity / insurance markets function imperfectly.
- Concern to leave one's mark: this is a variation on the altruism motive which says that people derive benefit from the expectation that society will be impressed by the economic fortunes of future members of their 'dynasty'. In this case, the distribution of bequests is not expected to be related to the economic well-being of potential heirs.

These explanations for bequests are also found, if differently conceived, in the literature of other disciplines.

Assessing the empirical validity of these motives with available data has produced mixed conclusions on their relative importance in explaining savings behaviour. This may be due to shortcomings of the data used, particularly in older studies, and the inability of the data to accommodate complexities which newer data suggest exist. A US study by Laitner and Juster (1996) collected data on a sample of retirees' attitudes towards leaving bequests; whether they used their pension funds to purchase an annuity and if so whether those annuities were guaranteed to pay anything to the annuitants' heirs in the event of their early death; whether and how many children sample members had; lifetime earnings; and other characteristics. The authors examined, among other things, the consistency of annuity behaviour with expressed attitudes towards bequests, on the basis that those wanting to leave money to their heirs would be more likely to opt for guaranteed annuities. Overall they concluded that within what was a fairly homogeneous sample in terms of income level:

> *... there was a surprising heterogeneity of values and preferences; personal attributes beyond the scope of the present analysis seem largely to determine which households behave altruistically and which do not.*
> (Laitner and Juster, 1996, p. 907)

Economists tend to be sceptical of the value of asking people about their attitudes or intentions, rejecting information based on answers to questions about hypothetical or future situations or seeking respondents' subjective assessments. Instead they favour approaches which allow preferences to be revealed through observing individuals' behaviour. However, this seems to be beginning to change, partly in recognition of the data and technical demands made by the revealed preference approach. Interesting examples of survey questions relevant to our present concerns can be found in Alessie and Kapteyn (2001). The authors present analyses of a Dutch longitudinal savings survey in which carefully designed questions were used to ask people about:

- the extent of uncertainty they felt about their future incomes and life expectancy
- how they valued future compared with present income / wealth (time discounting)

- 'procrastination' as an impediment to 'rational' financial planning (procrastination is attributed to the time costs, 'hassle' and unpleasantness of the process of financial planning, especially where it concerns planning for eventualities which people prefer not to contemplate, such as the need for long-term care)
- bequest motives.

On the last of these, respondents were asked to indicate which of the following four statements about parents leaving a bequest to their children would be closest to their own opinions:

1. If our children would take good care of us when we get old, we would like to leave them a considerable bequest.
2. We would like to leave our children a considerable bequest, irrespective of the way they will take care of us when we are old.
3. We have no preconceived plans about leaving a bequest to our children because we want to enjoy our own lives.
4. We don't intend to leave a bequest to our children because we don't want to do that.
5. None of the above.

More than 60 per cent of respondents chose statement no. 3, 16 per cent chose no. 2 and only 2 per cent chose no. 1. Other questions about motives for saving were included and the authors conclude from their analysis of them that the presence of children contributes significantly to the importance of a bequest motive and that the bequest motive is concentrated among high income/high education/ high wealth households. We cannot know whether these findings would apply in the case of the UK, but the survey could provide a useful model for a similar UK study.

Literature on stated attitudes

Most of the UK literature relating to expressed attitudes towards bequeathing or inheriting wealth results from small-scale qualitative research (Finch and Mason, 2000; Swiss Re, 2001; Edwards *et al*., 2001; Financial Services Authority, 2002). Notable exceptions are Parker and Clarke (1997b) and data collected for the Millennium Debate of the Age (Jarvis *et al*., 1998). There is also a small amount of literature which examines attitudes to inheritance of possessions other than financial assets (Curasi, 1999; Finch and Mason, 2000). This category of inheritance includes personal belongings or a piece of jewellery or other possessions to which the potential donor and/or recipient have a symbolic attachment. A recent review contrasts attitudes to the exchange of nursing care and housing assets in Japan and England (Izuhara, 2002).

The literature examines attitudes towards inheritance from the perspectives of donors and recipients, the use of inheritance for care and living costs including equity release, and intergenerational transfers in different types of families. Themes include factors that influence the choice of heirs and the distribution of inheritance among heirs, and related issues concerning morality and fairness in the way assets are divided among the recipients. Another theme concerns the effects of changes in family formation resulting from increased divorce, remarriage, repartnering and co-habitation. Other emerging issues include the extent to which differences in gender and ethnicity influence the transfer of inheritance and, more significantly, the possible consequences for patterns of bequests and inheritances of increased home ownership.

Attitudes towards leaving an inheritance

The Financial Services Authority (FSA) commissioned NOP to carry out a qualitative research study, involving focus groups and in-depth interviews, to explore how consumers in different age groups plan for their futures and their experiences of and attitudes and behaviour towards financial matters (Financial Services Authority, 2002). The FSA review suggested that the level of significance parents attached to leaving an inheritance was variable, and was more likely to be dictated by emotional feelings rather than by their age or their wealth. Other respondents considered passing on an inheritance as an aspiration, and for them the obligation to pass on an inheritance to their children was secondary to their own needs. However, older respondents who had themselves inherited were keen that their children should enjoy similar advantages. Those who had struggled without an inheritance were equally determined to ensure that their children enjoyed the wealth that they had not. Older people whose children had divorced and remarried were anxious to leave something for their grandchildren but there was little evidence to suggest that the anticipated increase in the cascading of wealth down the generations had or was taking place. It would seem from this study that the donor's sense of responsibility for leaving inheritance did not extend beyond their own offspring.

However, the findings of Edwards *et al*. (2001) and the Swiss Re Insurance Report (2001) suggest that attitudes towards leaving an inheritance may be changing among parents in the higher income groups. Edwards *et al*. (2001) used focus group discussions with people aged 30–45 and 50–65 to explore participants' views about receiving and leaving an inheritance and their views on whether or not inheritance money should be spent on long-term care needs. Attitudes towards leaving an inheritance and the main beneficiary thereof varied according to income level. In this study, people who were better off were more likely to favour their grandchildren, whereas people on lower incomes were more inclined to leave it to their children.

The Swiss Re Insurance Report (2001) was based on both quantitative and qualitative research. The quantitative element included face-to-face interviews with a nationally representative sample of 1,016 male and female respondents selected across a broad range of age, social class, marital status, living circumstances and working status. The qualitative element included in-depth interviews and group discussions with respondents from a variety of backgrounds, interviews with employers and a separate discussion involving respondents and a group of financial decision-makers. The Swiss Re Insurance Report draws similar observations about the changing attitudes of older people about the passing on of an inheritance during their lifetime to help their children with the cost of housing and/or childcare. Both these reports provide some tentative evidence to suggest a slight shift in attitudes towards passing on inheritance among older people in the higher income bracket.

Finch and Mason (2000) examined the meaning and values attached to the transfer of an inheritance in contemporary families from slightly different perspectives to those discussed so far. They used three sources of information: a randomly selected sample of 800 probated wills of people who had died in 1959, 1969, 1979 and 1989; interviews with a group of solicitors and other professionals; and 98 in-depth interviews with male and female individuals. The sample of individuals was drawn from a variety of socio-economic backgrounds including a small number of South Asian origin. The probated wills were analysed to establish whether any changes in the pattern of bequeathing had taken place over the years and the contents of the in-depth interviews were analysed to find out how the respondents handled inheritance issues within families. The study revealed that older respondents held strong views about the ownership of their assets and believed that they had an inalienable right to use or dispose of their assets as they wished. Most held uncompromising attitudes to protecting the ownership of their homes and had strong reservations about their children, the state or a financial institution staking a claim to their property. Although those who had children were generally keen to leave 'something' for their children, that was only if there was anything left over. Older respondents tended to place greater emphasis on leaving a nominal amount but did not feel under an obligation to do so. For the same reason some older respondents strongly disapproved of people scrimping and saving all their working life just to pass on inheritance to their children.

The analysis of probated wills indicated that there was little evidence that the pattern of bequeathing had changed over the years. There was no evidence, for example, that it had become more common for inheritances to skip a generation. With the exception of 'keepsakes', or cherished possessions, major assets continued to be left to children rather than grandchildren.

Finch and Mason's findings also revealed that the attitudes and decisions made by donors or testators were rarely affected by the gender of the recipients. The attitudes of respondents who had divorced and remarried revealed a desire to ensure that the assets did not pass down to someone who had no blood relationship to the donor.

Finch and Mason also argued that there were more similarities than differences in inheritance practices across ethnic divisions among their respondents. However, there was some evidence to suggest that cultural differences in attitudes to inheritance existed among South Asian respondents in extended families who believed that children and parents had mutual obligations to each other and it was the duty of the children to care for their elderly parents. It was expected that the parents in turn should pass on an inheritance to their children and should not borrow against the equity of their homes to spend the money on themselves. The study included only a very small number of respondents of South Asian background, so it was not possible to investigate the extent to which cultural and religious traditions and values determine attitudes to inheritance and equity release within minority ethnic communities.

Parker and Clarke (1997b) also found that most people gave a greater priority to saving for their old age than to passing on an inheritance. Some further analysis of Parker and Clarke's data is presented later.

Attitudes towards receiving an inheritance

Interestingly, emerging evidence from Edwards *et al*. (2001) and Swiss Re (2001) suggests that there was very little difference in attitudes towards receiving an inheritance across different age groups and income brackets. Younger respondents gave an outward appearance of not wanting to inherit from their parents, although many, particularly those in a higher income group, had in fact inherited large sums. Similar findings were also reported in the Swiss Re Insurance Report. The potential recipients tended to place greater emphasis on their own ability to make money and be successful and were not prepared to wait until the death of their parents to inherit. In some cases the need for avoiding a possible inheritance tax liability and the awareness of the increase in life expectancy and the possible costs of long-term care needs of parents, seemed to be lowering the expectations of an inheritance. Finch and Mason (2000) come to similar conclusions, suggesting that the attitudes of donors and recipients are bound up with the notion of good parenting. Respondents in their study stressed that an essential element of parental responsibility towards their children was to make their children financially independent and that children should strive for success in their own right and should not rely or expect an inheritance as of right. Adult children whose parents had remarried did not expect to inherit as of right at the death of their mother or father and wills were only contested if there was a danger of the inheritance passing outside the family. Potential beneficiaries regarded inherited property as a bonus rather than an automatic right, and there was some evidence to suggest that people who had inherited did not know what to do with the inheritance. However, evidence about the diminishing significance of receiving an inheritance remains inconclusive. Indeed, anecdotal evidence suggests that in the perception of the older generation, the younger generation of people is greedier and more demanding of their parents than was the case in the past.

Attitudes to home ownership, equity release and paying for long-term care

More people across all class groups now own their own homes and as a result potentially more people than before have something left to pass on to their relatives when they die. However, because of changes in demographic, social and financial pressures, assets linked to people's homes have increasingly been seen by policy makers and providers of financial services as a promising source of income to cover the costs of long-term care. Interest in this subject has generated a small but growing volume of literature which examines the values people attach to passing on an inheritance in the context of their attitudes and behaviour towards paying for long-term care and using equity release products (Diba, 1996; Parker and Clarke, 1997b; Finch and Mason, 2000; Edwards *et al*., 2001; Financial Services Authority, 2002). The findings of the FSA review suggested that the respondents tended to make a distinction between the wealth accumulated in their house and other investments. A family home was generally earmarked as a potential inheritance for children following the death of the parents but financial assets were seen as belonging to the individual. The idea of equity release was generally viewed with a great deal of scepticism and suspicion. The house was seen as a source of security and a valuable asset that they would only consider relinquishing in case of an emergency, or if their quality of life was seriously undermined. The lack of enthusiasm for generating income from the housing assets was also evident in studies conducted by Diba (1996) and Finch and Mason (2000). Contrary to expectations, respondents' concerns about investing in equity release schemes were linked to reasons other than a burning desire to safeguard an inheritance for the future generations. Indeed, their desire to protect and prioritise their own needs seemed to outweigh the need to pass on an inheritance. Respondents were keen to stress that no one other than themselves had a legitimate claim over their house – neither their children nor the state. They believed that the use of housing assets to pay for long-term care was particularly unfair to older people who had worked hard to save and paid their taxes and they should not be penalised twice.

Respondents' negative attitudes towards equity release schemes were also fuelled by the fear that they would lose control over their asset to a financial institution and thereby lose the 'right' to make their own decisions about their financial affairs. Unfavourable comments about equity release were also rooted in other factors such as their notion of independence, dignity, a comfortable life in old age and, more importantly, the fear of indebtedness. For some this freedom to exercise choice in old age also included having fun in old age.

Although there was a strong opposition to the use of housing assets to pay for long-term care, this was by no means the universal response. Indeed, the findings of Diba (1996) and Finch and Mason (2000) suggest that some respondents in their study accepted that it might be necessary to use their assets to cover the cost of long-term care but felt that the cost was too high and were concerned that nothing would be left to pass on to their children. This suggests that attitudes towards paying for long-term care may be viewed more favourably if home-owners were assured that they had something to leave for their children. Further differences in attitudes towards the use of equity were also apparent in the case of older respondents who considered their needs in retirement to be modest. They saw little point in raising income to spend it on themselves. Others expressed a preference for downsizing their property to generate extra income rather than entering into an equity release scheme.

Information about the extent to which older people run down their assets after retirement is fairly limited. Finch and Mason (2000) reported that attitudes of respondents in their study were generally mixed. Some respondents were in favour of older people depleting their assets because it offered a way round paying for long-term care. Others were less favourably inclined towards it because they were concerned that disposing of their asset to their relatives would lead to the loss of financial independence, dignity and self-respect.

4 Attitudes to inheritance: analysis of available data

There are two main sources of national survey data that contain information on people's attitudes towards inheritance. The first is the Survey on Care for Elderly People (SCEP) carried out between October 1995 and June 1996 by Social and Community Planning and Research (Erens and Turner, 1997) on behalf of researchers at the Nuffield Community Care Studies Unit at the University of Leicester (see for example, Parker and Clarke, 1997b). The first stage of this survey achieved interviews with 957 people in England and Wales aged between 25 and 70 years. The focus of the survey was care for older people and how it should be paid for. The second source of survey data was collected in July 1997 for Age Concern's Millennium Debate of the Age (MDA) through a special module in the ONS omnibus survey. The module covered topics relevant to the five themes of the MDA: paying for age; the built environment; health and social care; values and attitudes; work and lifestyles. Around 1,800 adults (aged 18 or over) living in Britain took part. The question of most interest to us here asked respondents whether they agreed, disagreed or neither with the statement 'Elderly people should be allowed to leave any savings they have, including capital assets such as their house, to their children, rather than using it to pay for care to look after themselves'. Thus like the SCEP, the MDA data are rooted in the subject of paying for care. A recent survey by insurance company Eagle Star interviewed 534 people over the age of 50. On the basis of this survey the company claim that:

> *A new generation of over 50s is spurning the tradition of leaving money for their children to inherit and are spending it on living the high life instead.*
> (Eagle Star, 2002)

Full details and analysis of this survey have not yet been published.

The SCEP included questions on reasons for saving and reasons for owning one's home. In seeking views on reasons for saving, respondents were asked to consider a married couple in their 40s, and to indicate the first and second most important reason for them to save money from the following reasons:

1. to leave to their children
2. for their own old age
3. to pay for care which their elderly parents might need in the future.

Respondents were subsequently asked the same questions in respect of a married couple close to retirement and a retired couple who have sold their home and moved to a smaller house giving them £20,000 to invest. In these cases the possible reasons read:

1. to leave to their children/grandchildren
2. to provide care in their own old age
3. to pay for care which their elderly parents need.

Analyses of the proportions giving 'to leave to their children (/grandchildren)' as the most important or second most important reason for saving are given in Tables 4–6 for the three different kinds of couples. Responses are shown by age group and by whether the respondent owns his/her home. Two general observations can be made from these tables. Leaving money to children/grandchildren was given as the most important reason for saving in only a minority of cases. However, in many age groups half or more of respondents gave this as the second most important reason for saving, and in every age and housing tenure category it was much more commonly given as the second than the first most important reason. The second observation is that among owner-occupiers the proportion saying 'to

Table 4 Reasons for a married couple in their 40s to save money (England and Wales 1995/1996)

	Age group 25–39	40–59	60–70	25–70
	Percentage giving 'to leave to their children' as most important reason			
Owner-occupiers	16	9	8	12
Others	16	24	8	17
	Percentage giving 'to leave to their children' as second most important reason			
Owner-occupiers	51	53	53	52
Others	40	33	50	39
	Unweighted sample numbers			
Owner-occupiers	242	297	156	697
Others	127	82	51	260

Source: Survey of Care of Elderly People.

Table 5 Reasons for a married couple approaching retirement to save money (England and Wales 1995/1996)

	Age group 25–39	40–59	60–70	25–70
	Percentage giving 'to leave to their children' as most important reason			
Owner-occupiers	21	12	14	15
Others	15	19	18	17
	Percentage giving 'to leave to their children' as second most important reason			
Owner-occupiers	46	55	57	52
Others	57	49	52	54
	Unweighted sample numbers			
Owner-occupiers	242	297	156	697
Others	127	82	51	260

Source: Survey of Care of Elderly People.

Table 6 Reasons for a married couple who have retired, sold their home and moved to a smaller one giving them £20,000 to invest, to save money (England and Wales 1995/1996)

	Age group 25–39	40–59	60–70	25–70
	Percentage giving 'to leave to their children' as most important reason			
Owner-occupiers	20	17	16	18
Others	22	26	19	23
	Percentage giving 'to leave to their children' as second most important reason			
Owner-occupiers	54	56	58	56
Others	55	47	49	52
	Unweighted sample numbers			
Owner-occupiers	242	297	156	697
Others	127	82	51	260

Source: Survey of Care of Elderly People.

leave money to children/grandchildren' was the most important reason for saving was highest among the youngest age group (25–39 years). This could be interpreted either as an indication that people in this age group want to leave bequests to their children or that they want/expect to receive inheritances from their parents.

A second useful question explored owner-occupiers' reasons for owning their homes. The question was put to all owner-occupiers and asked 'Apart from providing a place to live, people may have different opinions about owning their home. Looking at this card, please tell me which ones come closest to your own feelings about owning a home'. Suggested reasons were:

1 It is an investment for my future.

2 It is cheaper to buy than to rent.

3 Buying means I'm freer to make decisions about how to live.

4 It is security for my old age.

5 I will be able to sell it to buy another home for the future.

6 It is something of value which I can pass on to my family.

Respondents could give any or all of these reasons and they were also asked to choose which was the most important to them. The proportions giving each of the possible answers as one reason and as the most important reason are presented by age group in Table 7.

Responses to these questions paint a similar picture to those concerning reasons for saving. Around half of owner-occupiers gave the fact that a

Table 7 Reasons for owning one's home (owner-occupiers) (England and Wales 1995/1996)

	Age group			
Reason	**25–39**	**40–59**	**60–70**	**25–70**
	A reason for owning one's home (%)			
Investment for my future	68	57	50	60
Cheaper to buy than to rent	48	44	46	46
Freer to make decisions about how to live	38	38	40	38
Security for my old age	34	53	62	48
Able to sell it to buy another home for the future	53	43	29	44
Something of value which I can pass on to my family	46	47	57	48
	The most important reason (%)			
Investment for my future	37	24	17	27
Cheaper to buy than to rent	11	11	10	11
Freer to make decisions about how to live	13	15	15	14
Security for my old age	6	18	27	15
Able to sell it to buy another home for the future	10	7	3	7
Something of value which I can pass on to my family	10	10	16	11
Don't know/no answer	14	14	12	14

Source: Survey of Care of Elderly People.

home was 'something of value to pass on' as one reason for owning their own homes, but only 14 per cent gave it as the most important reason. For younger owner-occupiers the commonest most important reason was that it was an investment for the future, whereas for the oldest age group it was as security for old age.

Jarvis *et al*.'s (1998) analysis of the MDA question concerning whether elderly people should be allowed to leave any savings to their children rather than using it to pay for care implies overwhelming support for this proposition. Over 70 per cent of men agreed with the statement as did around two thirds of women. Support tended to be strongest in older age groups (Jarvis *et al*., 1998). Parker and Clarke's original analysis of the SCEP found that the degree of support for the state paying for the care costs of people who owned their own homes depended on the value of the home. In all, 77 per cent of respondents thought that the state should meet the care costs of an elderly person with no spare income but a home worth £25,000 compared with 55 per cent where the home was worth £100,000 (Parker and Clarke, 1997a). They also present some evidence that support for the state meeting care costs rather than elderly people having to sell their homes is slightly higher among men than among women (Parker and Clarke, 1997a). Clearly the context in which people are asked about their attitudes towards leaving money to their children may affect the answers they give and this needs to be considered in any future study.

5 Conclusions and avenues for further research

This concluding section has three objectives, namely:

- To summarise the available evidence on attitudes to inheritance that is contained in the literature discussed above.
- To begin to identify issues that may merit further exploration.
- To discuss, briefly, different methodological approaches that might be used in future studies.

Summary of available evidence

We have found little evidence as to whether attitudes are *changing*. None of the identified studies set out explicitly to assess changes in attitudes and we found no surveys which were repeated at intervals, followed the same people over time or investigated whether respondents' attitudes had changed. Although the economics literature spans almost 50 years, its conclusions are too mixed, and their data sources and methods are too varied, to conclude that differences between the findings of later and earlier studies indicate changes in attitudes.

The revealed preference approach used in much of the economics literature provides mixed evidence on the relative importance of different motives for saving in general, and in particular on the influence of bequest motives and of concerns for one's descendants' future economic well-being. Quantitative studies that asked respondents directly about inheritance as a motive for wealth accumulation/conservation indicate that it is uncommon for a desire to pass on wealth to one's children to be viewed as the most important reason for saving, but it is common for it to be viewed as a secondary reason. The qualitative literature reveals strong support for the right to conserve wealth to pass on to heirs, and strong objection to any requirement to use it to meet old age needs such as long-term care. There is also evidence that people feel an especially strong entitlement to protect the wealth that is tied up in their homes.

Much of the literature touches on the concept of fairness. Partly this concerns the right to conserve wealth in order to leave an inheritance. But it is also relates to how inheritances are divided among potential heirs. A number of studies hypothesised that lifetime gifts tend to favour less well-off descendants whereas inheritances are more likely to be divided equally. Some evidence was found to support this hypothesis.

Issues that may merit further exploration

Any further research in this area would benefit from being guided by a clear question of policy or practical significance. The appropriate role for private wealth in meeting care costs in later life is one that has motivated previous studies. With continued policy interest and development, any future research on attitudes to inheritance will undoubtedly have messages for this area of policy. How far the desire to leave an inheritance explains older people's reluctance to use equity release products was the impetus for this study and remains an unanswered question. There is also continued interest in equity release to meet both the costs of care at home and the costs of home repairs so that more older people are enabled to remain in their own homes ('care and repair'). All these are aspects of a more general problem faced by older people: how to make best use of their income and capital (held in various forms) in the face of the uncertainties of later life. These uncertainties include:

- Longevity: how long must capital last and how long will a pension or annuity, linked at best to price inflation, provide an acceptable standard of living?

- How will one's own needs in general change during retirement and what costs will increasing frailty bring?
- Will one's children be able and willing to provide any care?
- What will the state provide and at what cost to the individual?

The Foundation is concerned with those on modest means. Any future research it funds in this area will need to focus on these people. Similarly it will need to recognise that owning one's home does not automatically mean owning a high value asset. There is much regional variation in house prices and market values can be low for homes in poor repair or in undesirable neighbourhoods. Key unanswered questions for older people with modest incomes but some capital include whether the concern to leave an inheritance is a significant barrier to their making more use of their capital, whether there are other, possibly more important, barriers and how any of these barriers can be overcome.

Future research ought to have the potential to indicate how policies and products that help older people manage their finances can take account of their attitudes and beliefs about inheritance and those of their descendants. Any new research therefore needs to explore these attitudes in the context of inevitable trade-offs. If older people and their children want to be relieved of the costs of care so as to safeguard inheritances, does this mean that they are prepared to pay higher taxes on income? How great must the parents' needs be before both they and their children are prepared to sacrifice a future inheritance? How do children trade off their future inheritance and their willingness to provide informal care to their parents?

The heterogeneity of attitudes needs to be recognised and explored. For example, gender differences may be important, especially as the majority of older non-spouse bequests are left by women. From what do any gender differences stem? Is it differences in notions of independence, dignity, choice and control over their affairs in old age? Finch and Mason's (2002) findings suggest that equal treatment in passing on inheritance is taken very seriously irrespective of gender, quality of relationship, birth order or life circumstances of children. Does this also apply to minority ethnic groups? More challengingly, the research needs to indicate how policy and practice can accommodate and respond to such heterogeneity.

Some further exploration of the distinctions that people draw between their housing and other wealth may be worthwhile. Is it the house itself that concerns people? Is it a fear of being made homeless or other concerns about equity release products that deter them from releasing equity? Is it that ring-fencing the equity in their homes is simply a budgeting mechanism, such that housing equity is viewed as something to relinquish only in extreme circumstances?

A focus on the factors that may cause attitudes to change may also be appropriate. These include increasing longevity, changes in the relative roles of collective and individual provision for old age, changes in the financial return to saving, and in the balance of risk involved. Changes in the housing market may alter the dominant role of housing wealth in inheritance. Actual or potential changes include recent growth in the number of homes which have been bought and then subsequently let to tenants, the fact that owner-occupation rates may be reaching saturation levels, and government policy towards encouraging the construction of more affordable homes. In investing through the housing market as in other forms of investment, past performance may not be a good guide to future performance.

Expressed attitudes on any subject can be contradictory and may not be consistent with behaviour. Future research could attempt to explore such contradictions. Examples include:

- The view that the house is a security but a reluctance to use it to provide financial security.
- The view that one's own needs come before those of one's heirs but strongly held views that the funding system for long-term care should not threaten one's ability to bequeath (even though this may mean that one's children have to pay higher taxes to meet state-financed care).

Possible methodological approaches for future research

The lack of firm conclusions from previous studies is an indication of the difficulties in researching attitudes to inheritance. Quantitative surveys that are generalisable may need to be complemented by qualitative studies that permit more in-depth study. Questions that ask respondents directly about their attitudes will need to be carefully constructed, drawing lessons from past research and perhaps informed by new qualitative research. They may benefit from being anchored in specific policy contexts, e.g. long-term care financing or equity release; but it is probably desirable that they are not restricted to a single policy issue. Studies will need to confront interviewees with realistic policy trade-offs to avoid banal and predictable responses. Data on financial behaviour may need to be collected alongside attitudinal data as a check for consistency between expressed attitudes and actual behaviour. The perspectives of potential heirs, as well as those with a potential to bequeath, need to be covered.

Bearing in mind the Foundation's interest in those with least means, studies restricted to relevant subpopulations may provide value for money – for example, people who have become owner-occupiers through the right to buy, low income people who have used an equity release product, a care and repair scheme, or in some other way have used the capital in their homes to meet needs in later life, provided that there is some basis for comparison with otherwise similar people who have chosen not to do so.

Conclusion

The principal motivation for this exploratory study was to establish whether there is evidence to prove or disprove the common suggestion that older people's desire to leave inheritances prevents them from spending their wealth on themselves, and whether this is changing. Our conclusion is that there is not sufficient evidence to support or refute this suggestion, still less whether attitudes are changing. The role of inheritance in older people's financial behaviour remains, it would seem, largely a matter of anecdote and supposition. At a time when individuals are having to assume more personal responsibility for managing the financial uncertainties of later life, further research may be very timely. While we have not uncovered definitive evidence in existing studies, they do provide much of substance and method on which to build.

Notes

Chapter 2

1 In 1999, the total number of deaths in the UK was 632,062 (Age, sex and marital status Series DH1 no. 32).

2 The data relate to all estates for which there has been a grant of probate. Probate is required for most estates. Only those consisting solely of cash, personal effects or where the total sum does not exceed £5,000 and is held in National Savings, certain pension funds or friendly societies (Consumers' Association, 1999) are excluded from this requirement.

3 This assumes that the distribution of deaths by marital status within age group for the UK as a whole matches that for England and Wales and uses statistics from Age, sex and marital status Series DH1 no. 32 for the latter.

4 Special analysis undertaken by the authors.

Chapter 3

1 Although Modigliani (1988) quotes three US surveys conducted in the 1960s which questioned respondents directly about their motives for saving.

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