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@TheIFS

# Intergenerational transfers and life events



Economic  
and Social  
Research Council

- *Inter vivos* transfers are gifts and loans made during the giver's life
- Part of an intergenerational flow of wealth alongside inheritances
  - More discretion over the timing of *inter vivos* transfers
- Increasingly significant?
  - Rising levels of household wealth at retirement
  - Pension freedoms → more choice over wealth disposal
  - Slow income growth of younger generations
- What drives these transfers?

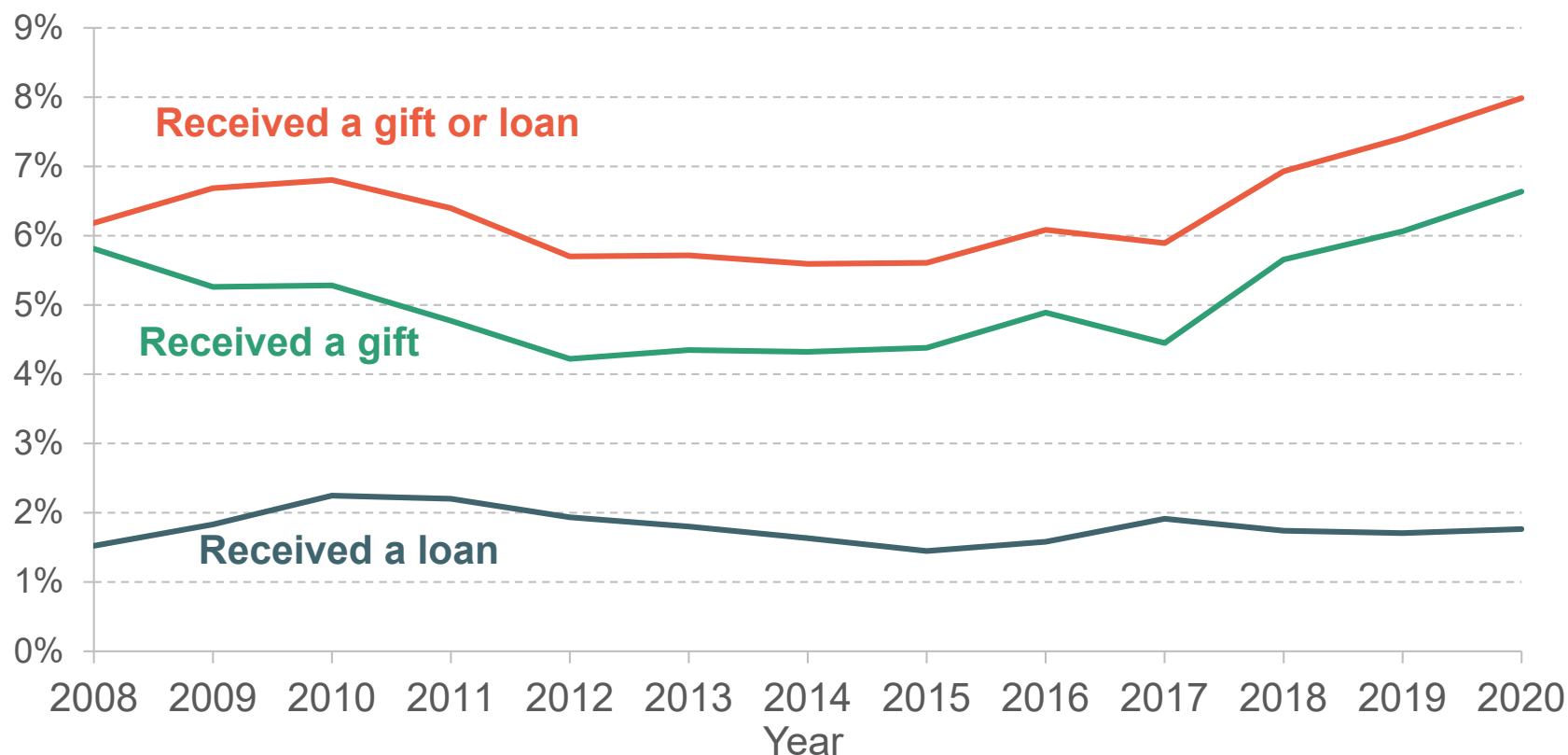
# This project

- Key questions:
  1. Have financial transfers become more prevalent or larger in recent years?
  2. Who gives and receives financial transfers?
  3. What drives the giving of transfers?
    - What life events are they associated with?
- Data: Wealth and Assets Survey (WAS)
  - 7 waves/rounds from 2006-08 to 2018-20
  - Questions about the size (and use) of gifts and loans received
  - From round 7: questions about giving, relationship to giver/receiver; more detail on purpose/use of transfers

- Literature on features of inter vivos transfers in the UK (Karagiannaki, 2011; ONS, 2018; Dolton et al, 2019; Nolan et al, 2020; Suh, 2020)
  - Total value in 2014 was 12% of total value of inheritances; median value of a transfer was £2,000 in 2014-16
  - 6% of adults in the UK reported receiving a gift or loan above £500 in the last two years in 2014-16
  - Receivers most frequently younger, higher-income
  - Gifts tend to be one-off, skewed towards smaller amounts
- Broad international evidence on what drives transfers (Bhaumik, 2007; Leopold and Schneider, 2010; McGarry, 2016)
  - Find that life events for receivers are important – marriage, divorce, childbirth

# Transfer reception increased from 2017

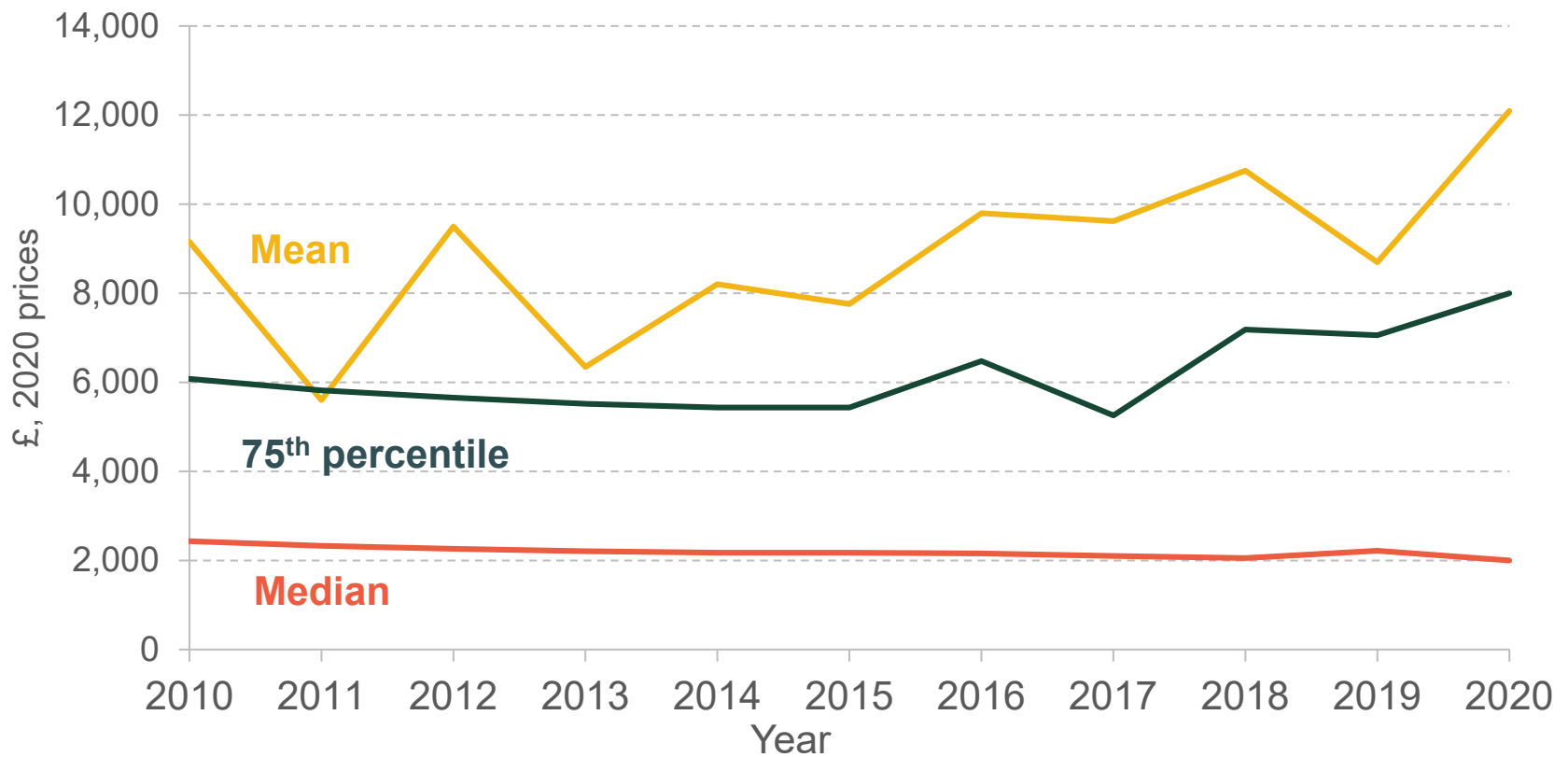
Percentage of adults reporting receipt of at least one transfer over the past two years, by year



Source: Authors' calculations using Wealth and Assets Surveys, waves 1 to 5 and round 6-7.

# Value of large transfers increasing over time

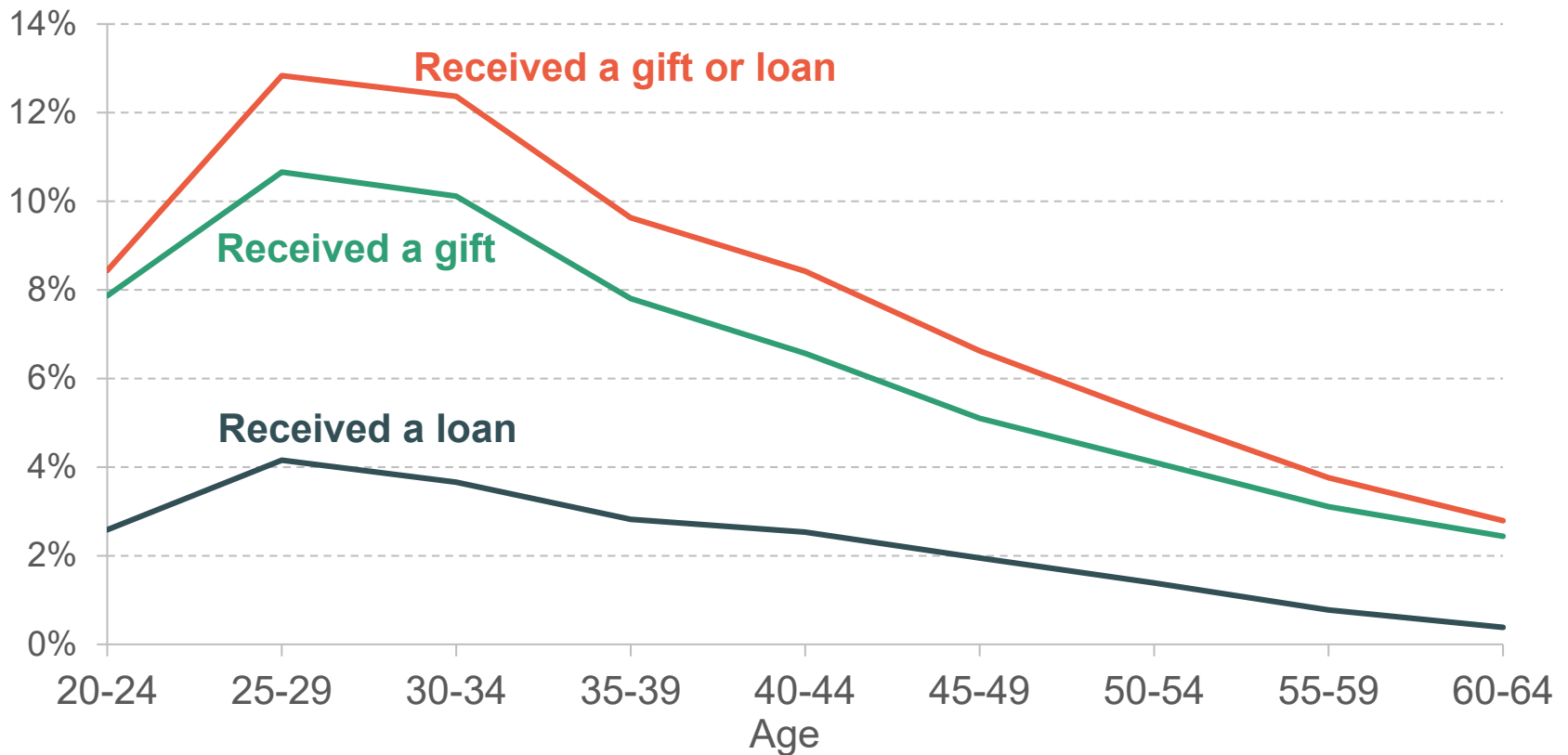
Mean, median, and 75<sup>th</sup> percentile value of total transfers (loans and gifts) received in the last two years, by year, among receivers



Source: Authors' calculations using Wealth and Assets Surveys, waves 3 to 5 and round 6-7.

# Transfers are more commonly received by younger people

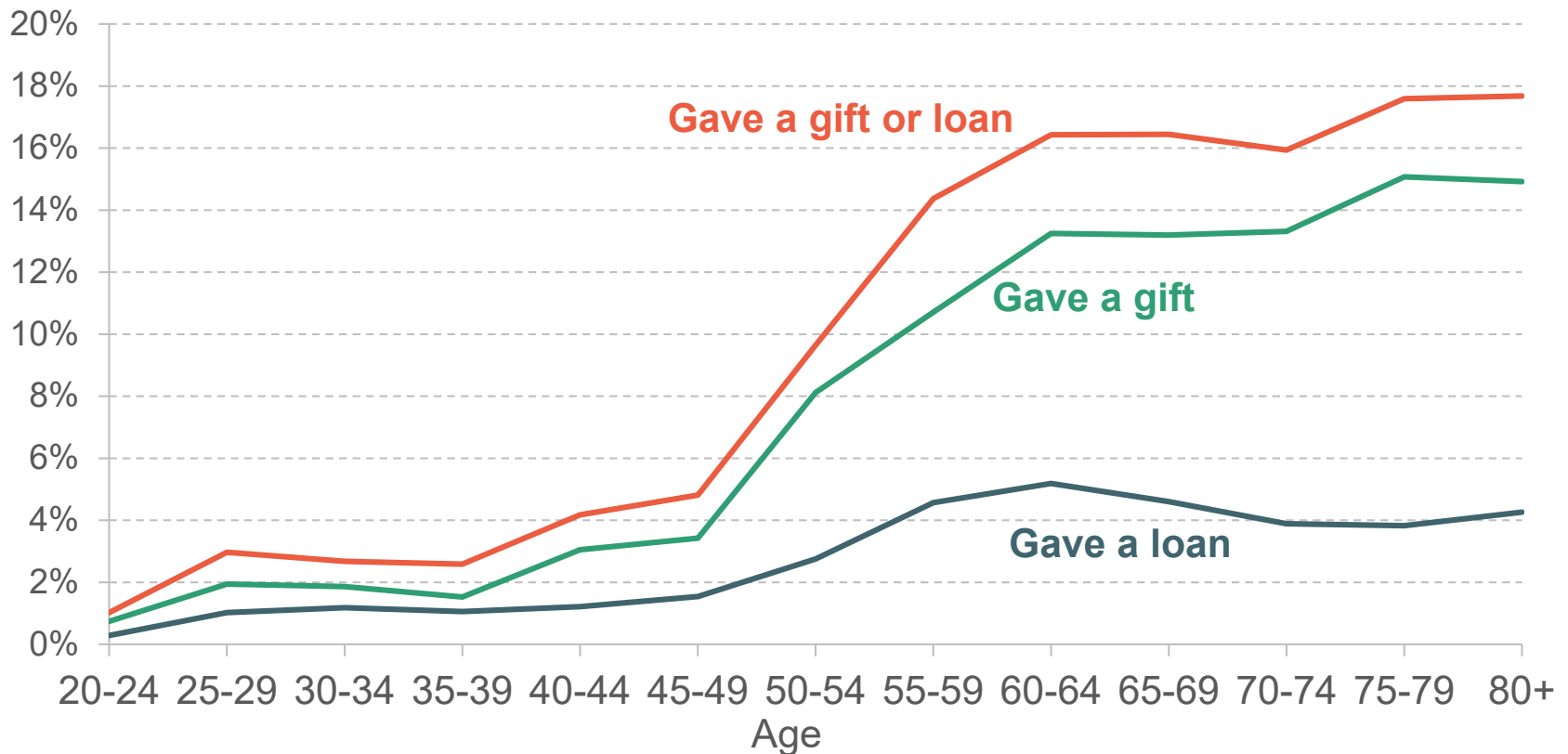
Proportion of adults reporting receipt of at least one transfer over the last two years, by age category



Source: Authors' calculations using Wealth and Assets Surveys, waves 3 to 5 and round 6-7.

# Transfers are more commonly given by older people

Percentage of individuals reporting having given at least one transfer over the past two years, by age category

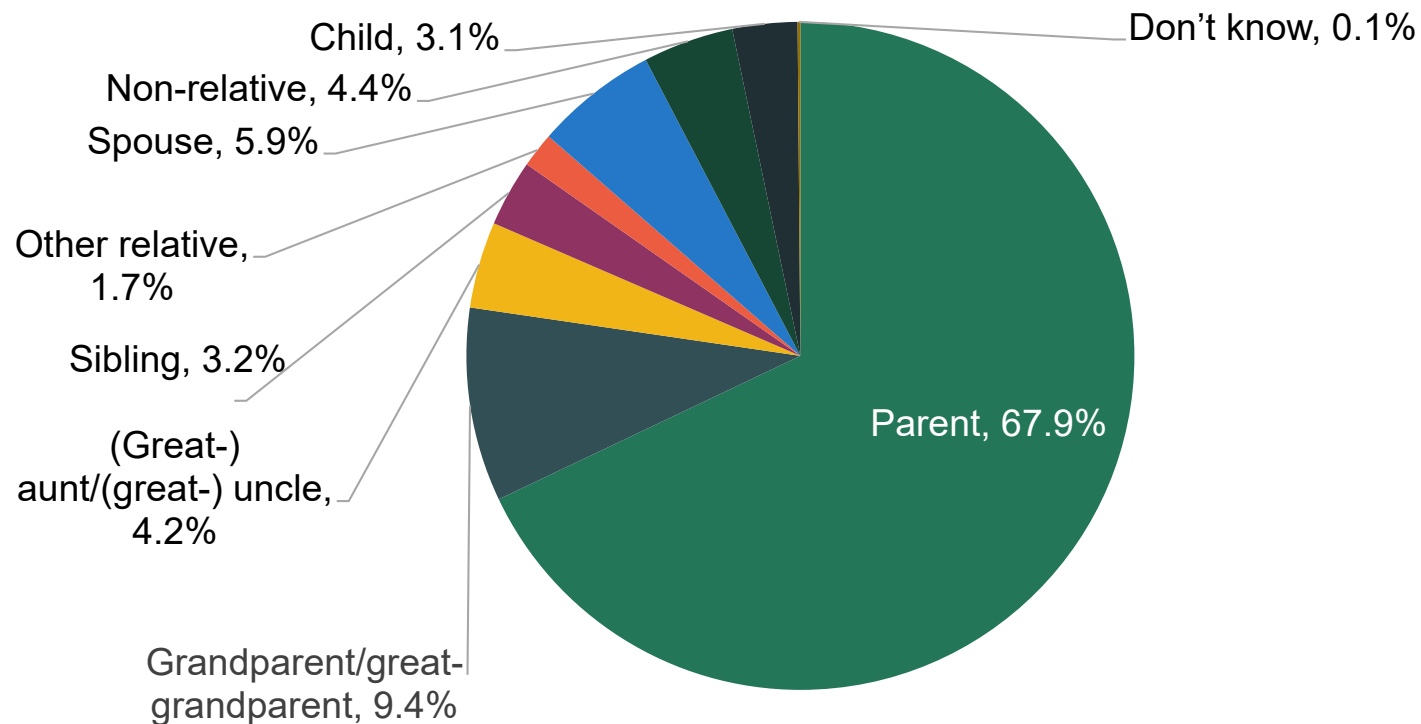


Source: Authors' calculations using the Wealth and Assets Survey, Round 7.



# The majority of gifts are received from parents

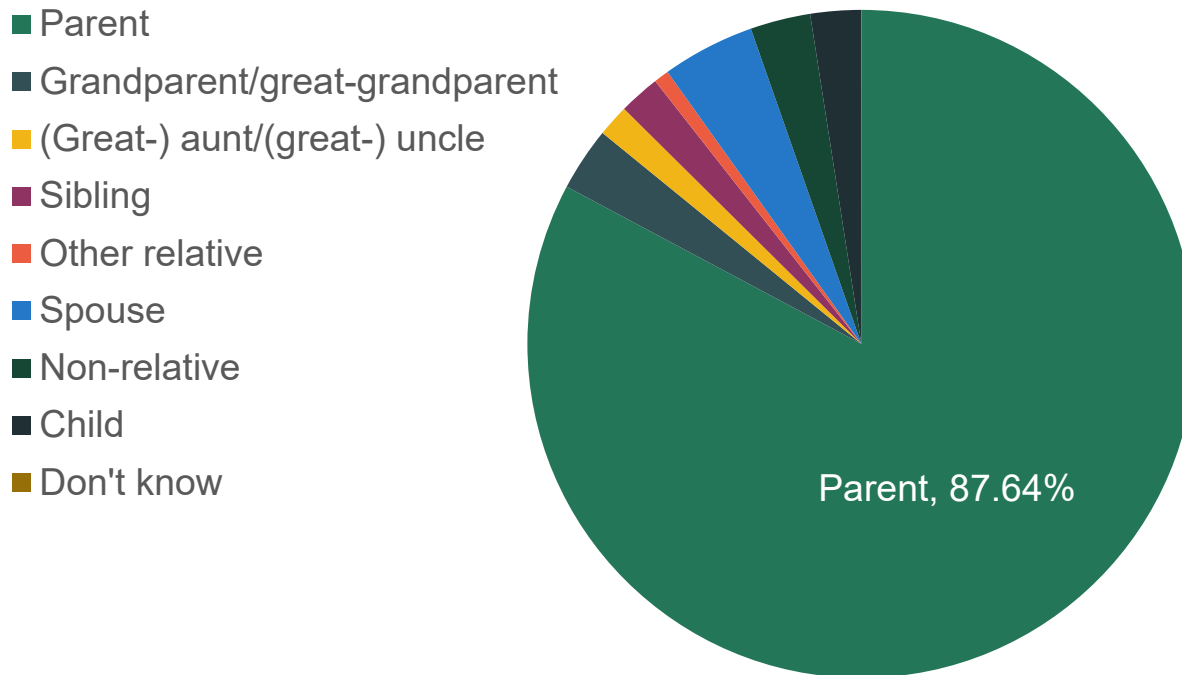
## Proportion of gifts received from different sources



Source: Authors' calculations using the Wealth and Assets Survey, Round 7.

# Parents contribute an even larger proportion of gift value

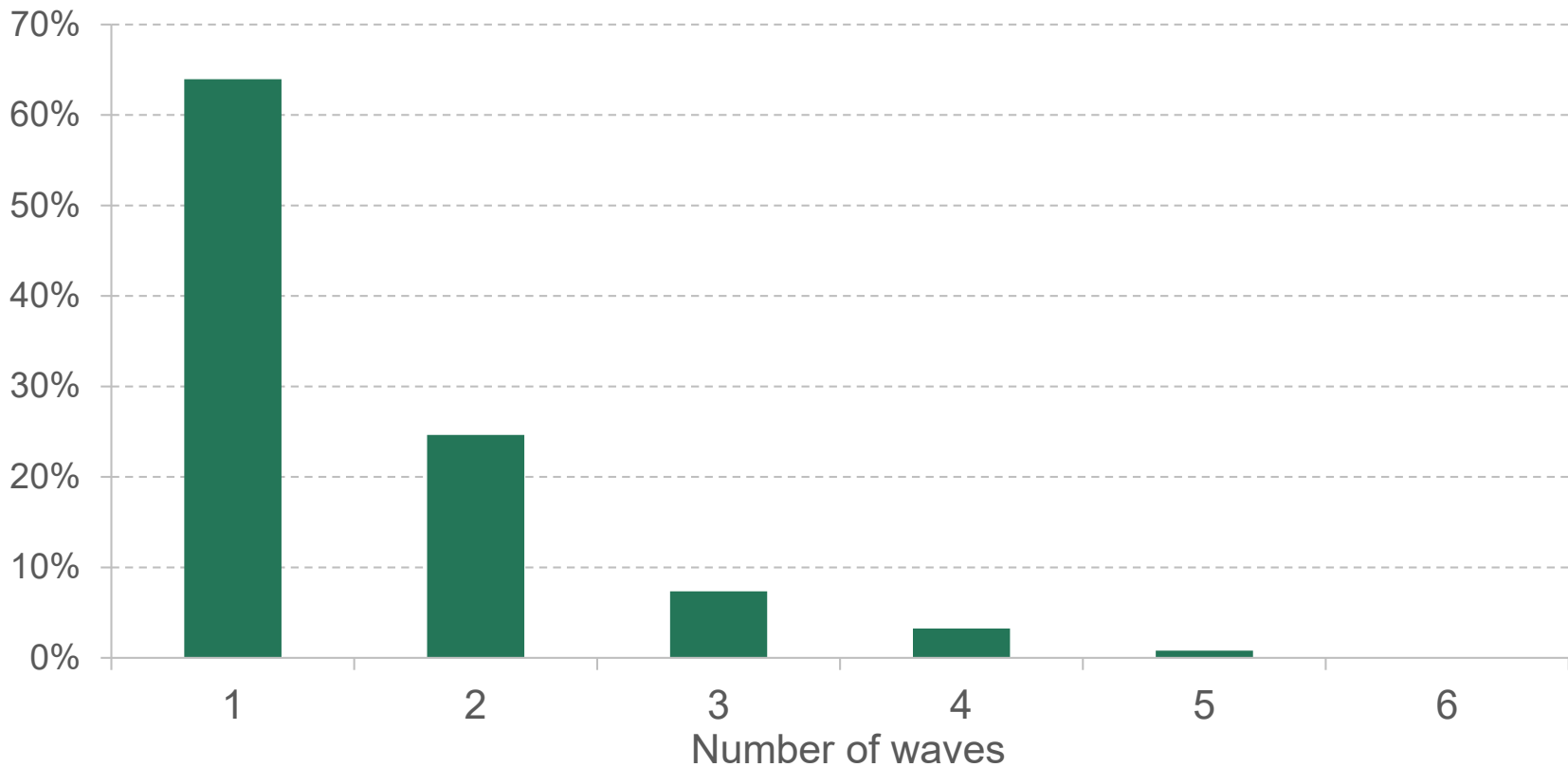
Proportion of total gift value received from different sources



Source: Authors' calculations using the Wealth and Assets Survey, Round 7

# Transfers are received infrequently

Number of waves in which individuals present from Wave 2 (2008-10) to Round 7 (2018-20) who received at least one transfer reported receiving transfers



Source: Authors' calculations using Wealth and Assets Surveys, waves 1 to 5 and rounds 6-7.

# What is driving these infrequent transfers?

- We examine a series of life events which take place between waves which might be associated with giving or receiving a transfer:

Receivers	Givers
Marriage	Becoming widowed
Separation/divorce	Receiving an inheritance
Having a child	Retiring
Becoming a homeowner	Beginning to draw a pension
Becoming unemployed	Paying off a mortgage
Experiencing a decline in employment earnings	(Downsizing)
Moving into self-employment	
Moving between regions	

# What is driving these infrequent transfers?

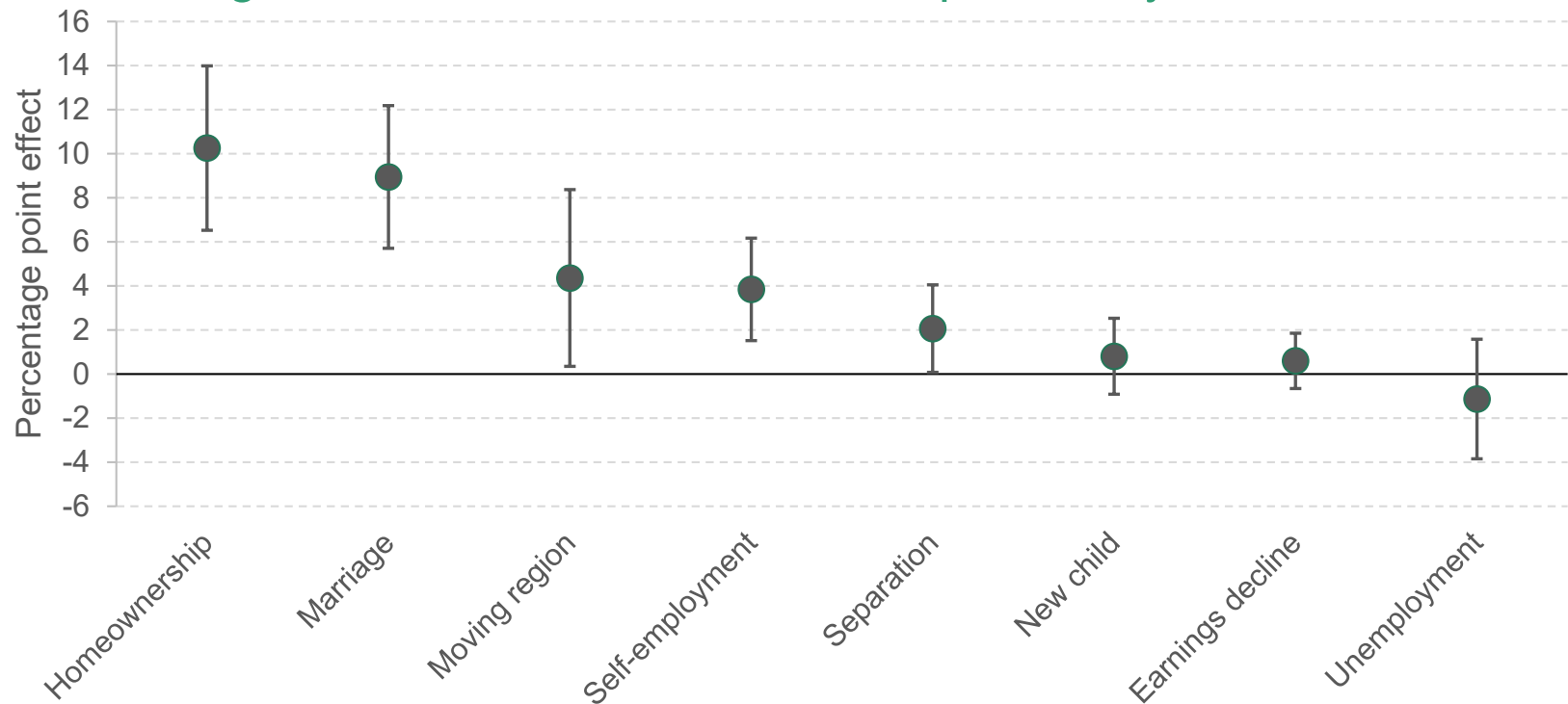
- OLS regression specification:

$$Y_{it} = \beta' X_{it} + \delta' L_{it} + \alpha_t + \epsilon_{it}$$

- Whether person  $i$  receives a transfer,  $Y_i \in \{0,1\}$ , at time  $t$  depends on a vector of demographic characteristics  $X_{it}$  and a vector of life events  $L_{it}$
- Also examine amount received as an outcome
- Run equivalent regression with giving as outcome

# Association between life events and transfer probability

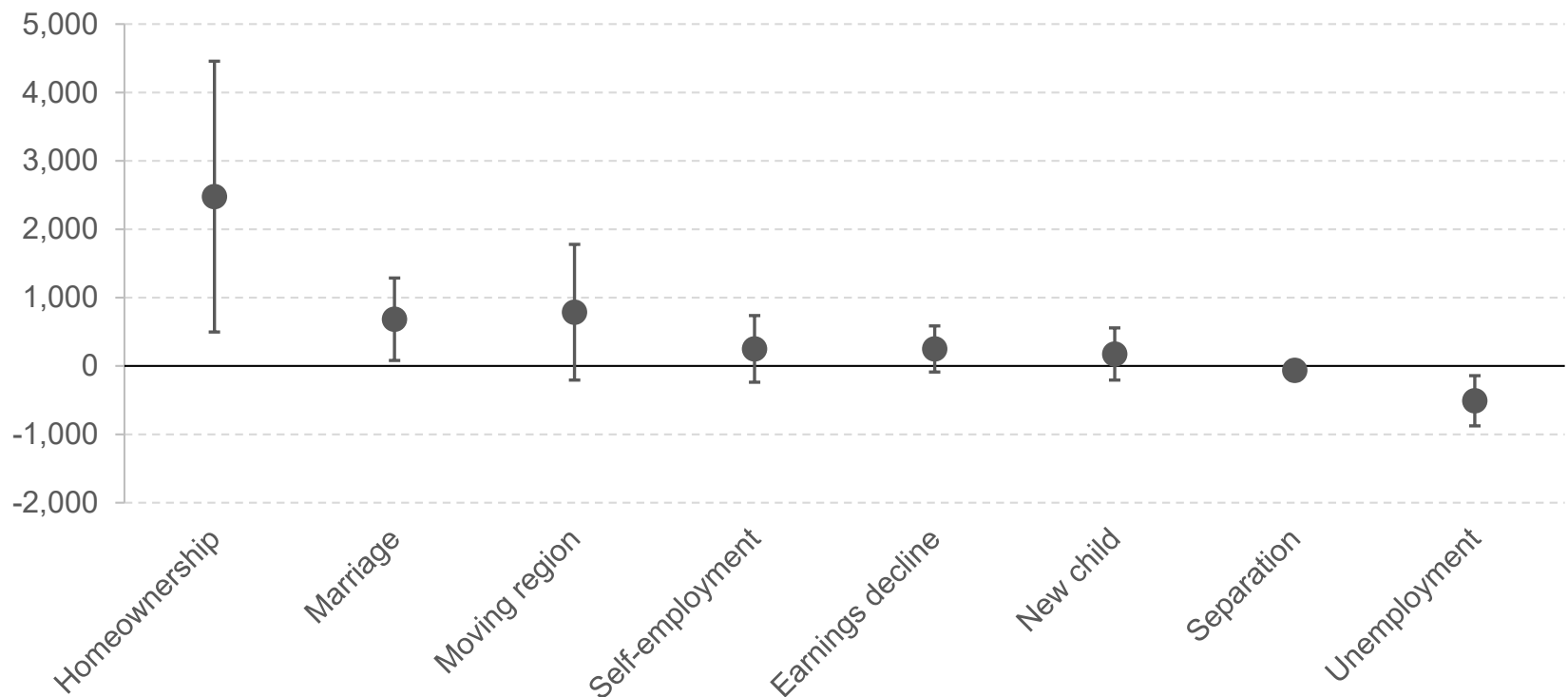
Percentage point association between life events and the probability of receiving at least one transfer over the past two years



Graph shows coefficient estimates and 95% confidence interval for various life events' effect on transfer probability, controlling for demographic factors: age, sex, wealth and income quintiles, homeownership status, marital status, education, children, parents' homeownership status and education level, dataset number, region

# Larger transfers associated with marriage, homeownership

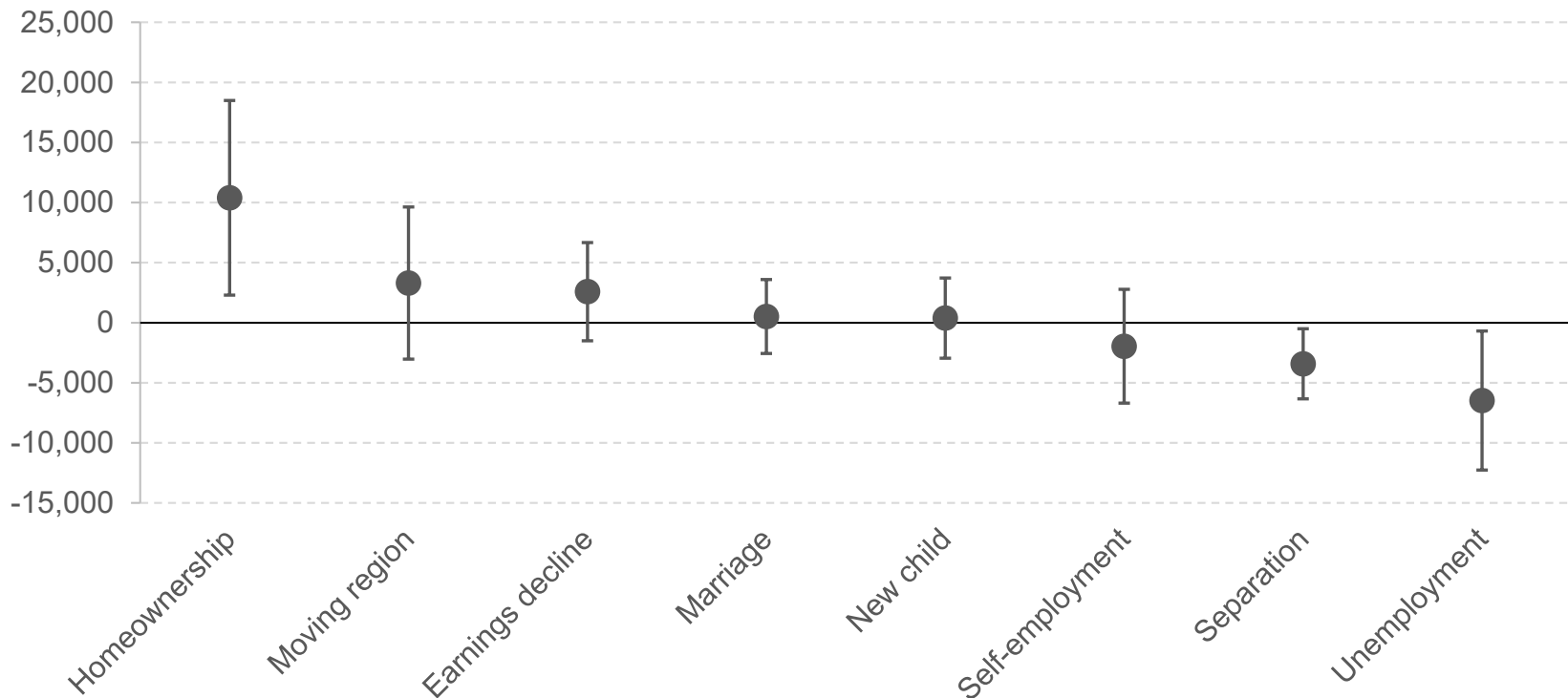
Association between transfer size and life events, amongst all adults



Graph shows coefficient estimates and 95% confidence interval for various life events' effect on transfer size, controlling for pre-transfer demographic factors: age, sex, wealth and income quintiles, homeownership status, marital status, education, children, parents' homeownership status and education level, dataset number, region

# Larger transfers among receivers associated with homeownership

Association between transfer size and life events amongst those who have received a transfer

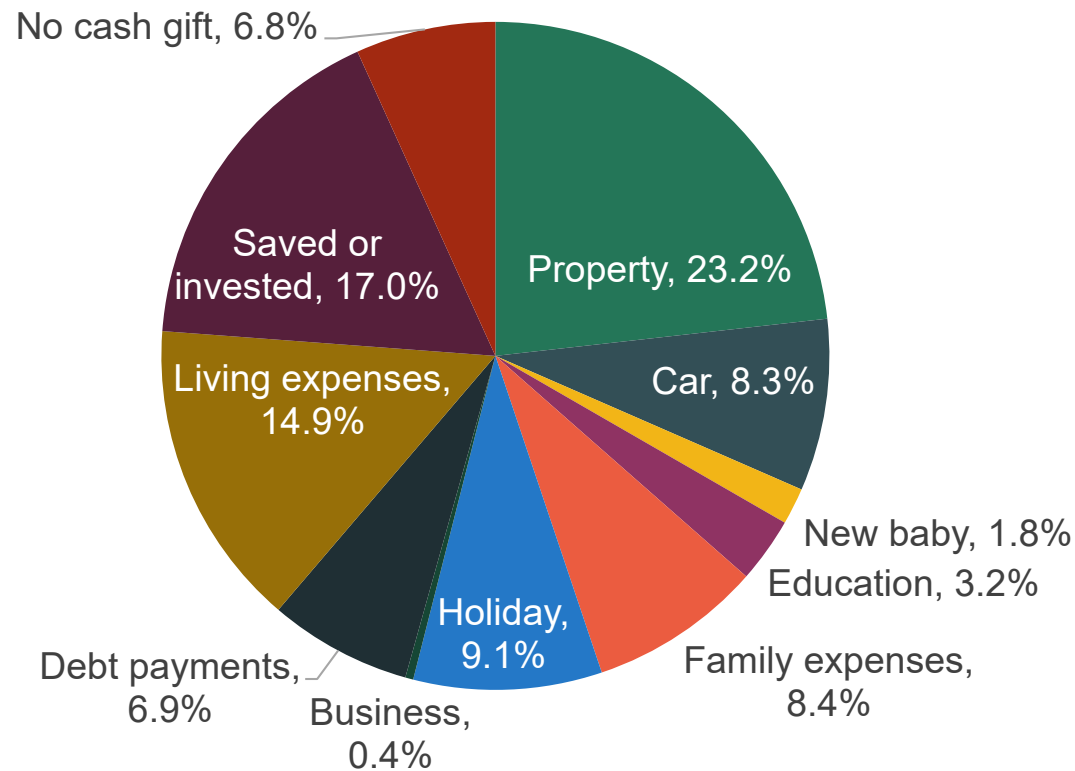


Graph shows coefficient estimates and 95% confidence interval for various life events' effect on transfer size, controlling for pre-transfer demographic factors: age, sex, wealth and income quintiles, homeownership status, marital status, education, children, parents' homeownership status and education level, dataset number, region



# Gifts used for property purchase, saved/invested, living expenses

## Proportion of gifts used for different reasons

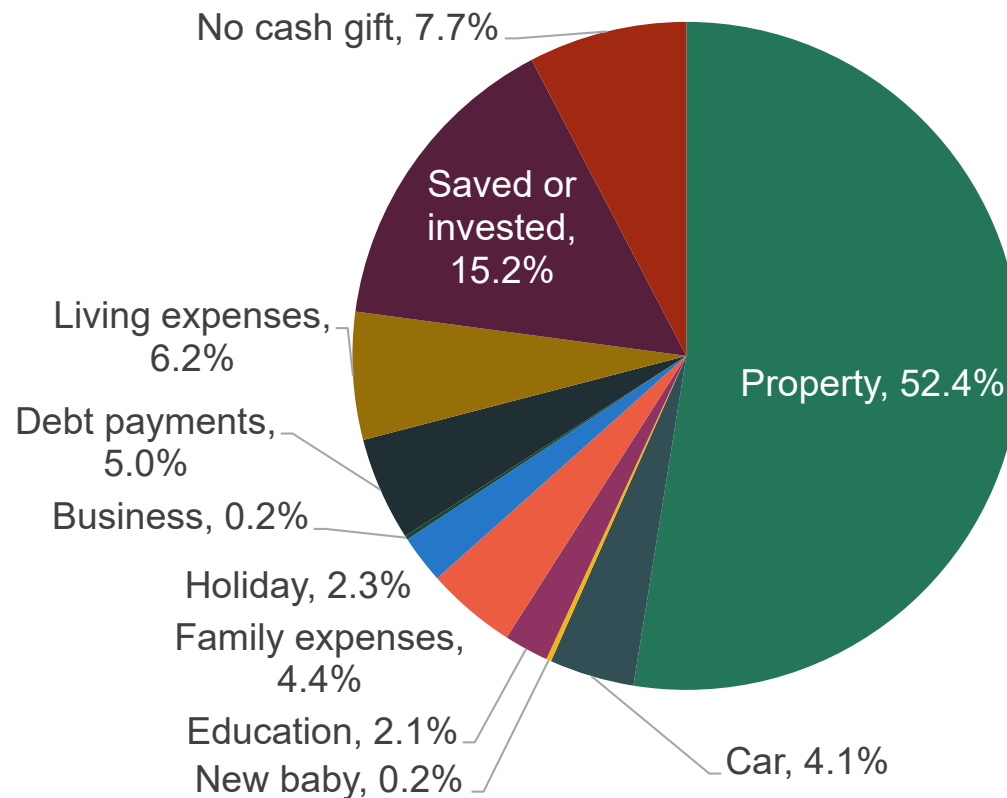


Source: Authors' calculations using Wealth and Assets Surveys, Round 7.

Note: recipients asked how they used up to three gifts

# Majority of gift *value* used for property purchase

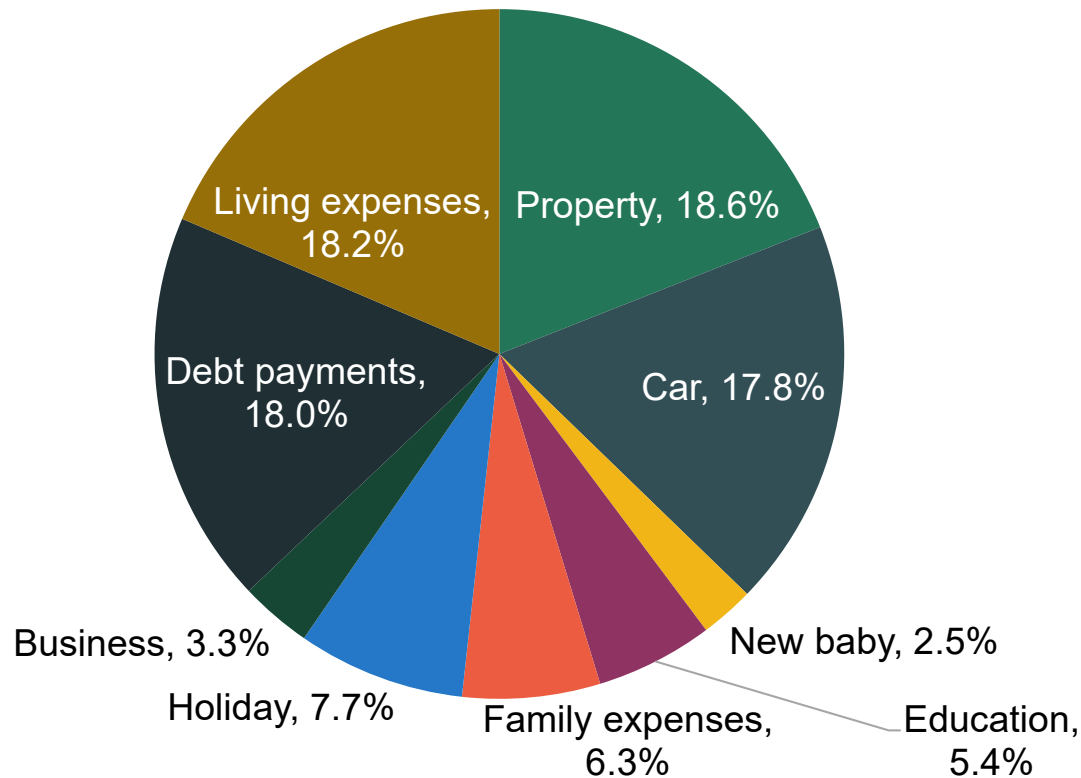
## Proportion of gift value used for different reasons



Source: Authors' calculations using the Wealth and Assets Survey, Round 7 (2018-2020)

# Loans are primarily used for property, vehicles, debt payments and living expenses

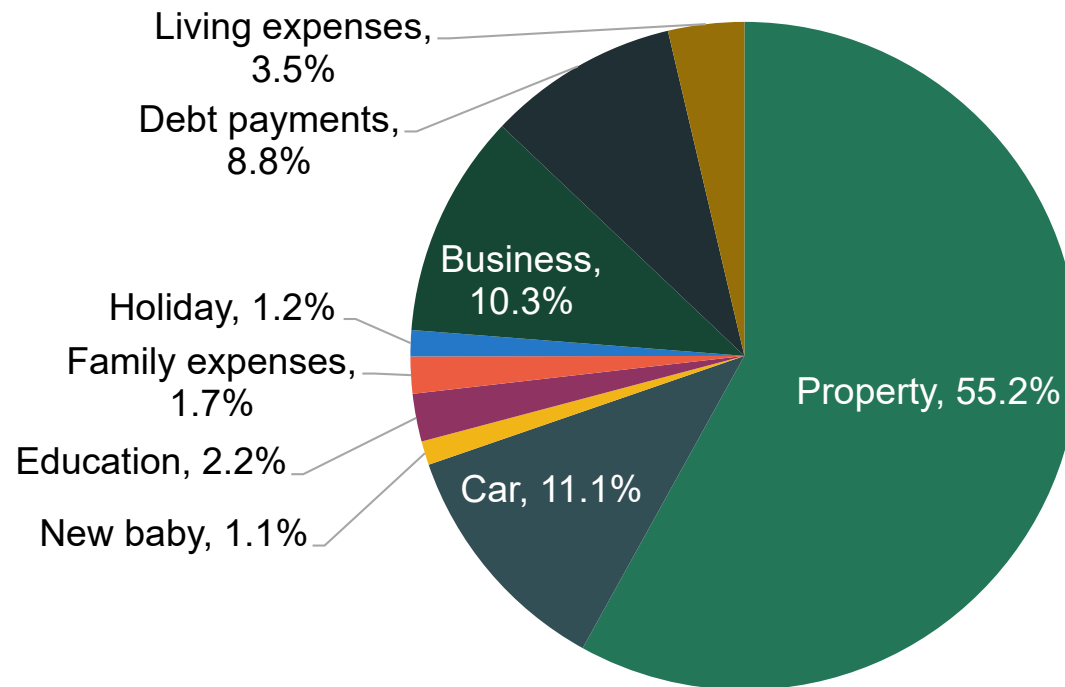
Proportion of loans used for different reasons



Source: Authors' calculations using Wealth and Assets Surveys, waves 1 to 5 and round 6-7.

# Majority of loan *value* goes towards property purchase

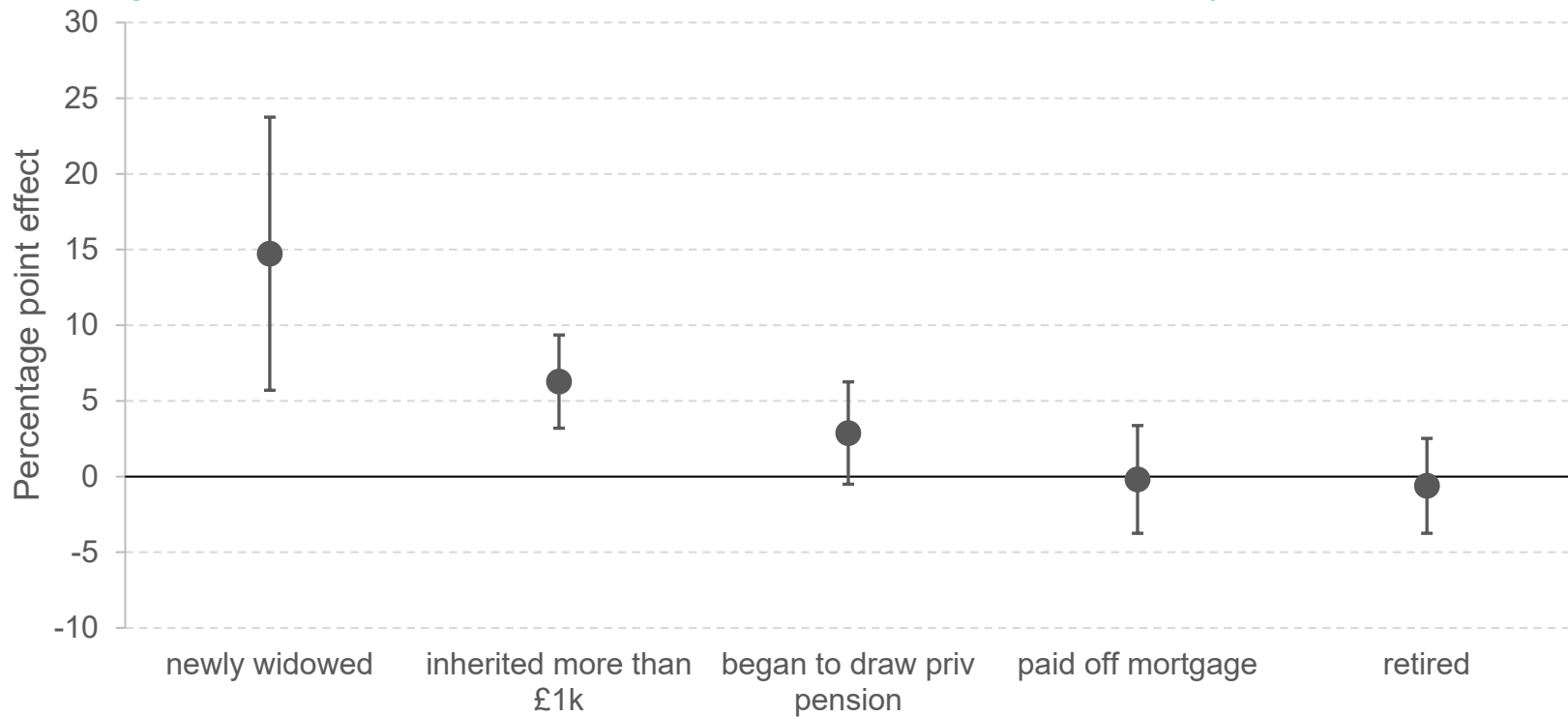
## Proportion of loans used for different reasons



Source: Authors' calculations using the Wealth and Assets Survey, Round 7

# Having been widowed and inheriting associated with making transfers

Percentage point association between life events and the probability of making at least one transfer of £500+ over the past two years



Graph shows coefficient estimates and 95% confidence interval for various life events' effect on transfer probability, controlling for pre-transfer demographic factors: age, sex, wealth and income quintiles, homeownership status, marital status, education, children, parents' homeownership status and education level, region

# Conclusions

- Transfer value and prevalence slightly rising in recent years – reflecting increased significance?
- Transfers received by younger individuals and given by older ones: most common relationship is parent-child
- Becoming a homeowner, marrying, becoming self-employed associated with transfer behaviour – all relatively foreseeable
- Homeownership in particular stands out in importance
- Events in the life of givers that are associated with transfers are less predictable – inheriting, being widowed
  - No strong association with drawing a pension, retiring, paying mortgage

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