

# Future wealth transfers and effects on inequality

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The wealth of older Australians has grown remarkably since the turn of the century. It has been buoyed by strong growth in house prices and superannuation balances, alongside low rates of asset drawdown to fund retirement. If these trends continue and current policy settings remain broadly unchanged, generations reaching the end of their lives in the future will leave much larger inheritances behind when they die than in the past.

Unlike previous research that has sought to estimate the size of inheritance flows in the future or the historical impacts of inheritances on wealth inequality, this novel research explores the likely impact of future inheritance flows on the distribution of future wealth. Focusing on younger generations of Australians, we find that, despite a projected fourfold increase in their size, inheritances are unlikely to significantly alter the distribution of wealth over the next 30 years, especially when compared with the effect of changes in housing prices.

This research is based on a dynamic cohort simulation model to project wealth accumulation. Cohort simulation models have been used widely in past Australian public policy research to explore questions about future incomes and wealth, but this is the first time this type of model has been used to examine effects of future inheritances on wealth inequality.

The model's initial population was based on the Household, Income and Labour Dynamics in Australia (HILDA) Survey, which was split into cohorts according to age, income, wealth, homeowner status and inheritance recipient status. The model projects population, income and wealth for each cohort using assumptions about mortality rates, income growth, rates of return, saving rates and drawdown rates. Each year, wealth in the model is transferred from older to younger generations via inheritances, based on the wealth of single people who are projected to die. Wealthier recipients are assumed to receive a larger share of total inheritances, based on distributions estimated in HILDA.

Under the base model assumptions, the total value of inheritances passed onto the next generation is projected to increase nearly fourfold between 2020 and 2050. This is partly driven by demographic factors — the ageing population means that the number of deaths is projected to double by 2050, and the long term trend of declining fertility means that older people in the future will have fewer children to leave their wealth to. Rising wealth among older age groups is also a large factor contributing to growing inheritances. Housing wealth in particular is a significant driver — older age groups own more housing wealth, they draw down on that housing wealth slowly, and they inherit large housing wealth from their partners in old age.

Consistent with analysis of their historical impacts in Australia (and overseas), inheritances are projected in future to increase absolute wealth inequality (which is measured in dollar terms) but reduce relative wealth inequality (which is measured in proportional terms). This is because wealth transfers received by the less wealthy constitute a larger proportion of their existing wealth than wealth transfers received by wealthier people. While the projected sizes of total wealth and transfers were highly sensitive to changes in rates of return on assets, the finding that wealth transfers moderate relative wealth inequality holds regardless of assumed rates of return.

Scenario analysis demonstrates that wealth transfers could increase relative wealth inequality in the future if, when compared to past outcomes, wealthier people receive much larger inheritances, or they save a much larger share of their inheritances compared with less wealthy recipients. The likelihood of this occurring in future is uncertain.

Nevertheless, the projected effects on relative wealth inequality under all scenarios were found to be relatively small. A one percentage point change in the rate of return on housing led to relative wealth

inequality effects that were more than triple the effect of wealth transfers by 2050. It is likely that fluctuations in asset prices will drive larger changes in inequality than wealth transfers.

**Key Words**

Inheritance, wealth transfer, wealth inequality