IN THEIR DREAMS: WHAT WILL BOOMERS INHERIT?

Introduction

The topic of inheritances lends itself to wishful thinking. Even if we already know there are no prospects of receiving a windfall from a parent or grandparent, or from some generous benefactor who thinks we are deserving, the idea of an inheritance, like winning the lottery, leads us to dream about many possibilities. However, for the large majority of boomers, inheritances will remain only a dream.

Inheritances and Saving

Inheritances are not just the stuff of dreams. They have potentially important public policy implications. Scholars disagree about whether aggregate wealth mostly represents saving out of earnings ("life-cycle" saving) or saving out of transfers, including inheritances from parents or grandparents, and the differences in their estimates are wide. Some argue that 80 percent of saving is life-cycle saving (Modigliani, 1988), while others say it is only 20 percent (Kotlikoff, 1988). If the latter, then public policy focused on promoting saving may prove fruitless, since so little saving occurs out of earnings. If transfers dominate saving, greater effort should perhaps be directed at strengthening the estate tax to bring about greater equity in the distribution of wealth.

Inheritances, Work, and Retirement

Inheritances are also important from the standpoint of behavioral effects, e.g., if they affect the labor supply or savings behavior of those who receive or expect to receive them. Windfalls and the prospects of windfalls could affect both consumption and labor supply.

Several researchers have examined the effect of unearned, transitory income on labor force participation. Holtz-Eakin et al. (1993) found that the likelihood of leaving the labor force increases with the size of the inheritance. Other research has concluded that aggregate boomer inheritances are not likely to reduce the labor supply substantially (Joulfaian and Wilhelm, 1994). A study of lottery winners found that those between 55 and 65 years old reduced their labor earnings more than younger winners (Imbens et al., 2001). Overall, however, the impact of unearned income on labor force participation was small.

Some research has looked at the effect of unexpected income gains from the stock market in the 1990s on the timing of retirement (Coronado and Perozek, 2003; Sevak, 2002). Although these studies did not examine boomers, they concluded that people who received large capital gains near their retirement were likely to move up their retirement dates. To the extent that stock market and inheritance windfalls are analogous, we would expect people who receive large inheritances near retirement to retire earlier than those who receive a small inheritance or nothing at all.

In 2003, we examined data on inheritances from the Federal Reserve’s 2001 Survey of Consumer Finances to determine whether boomers and other birth cohorts had either received or expected to receive inheritances or gifts of some kind (Ng-Baumhackl et al., 2003). Because financial security in retirement is increasingly a preoccupation for aging boomers, whether they are going to inherit substantial wealth from their parents may be an important consideration in the calculus of retirement needs.
In this report, we update our 2003 study based on the latest (2004) data from the Federal Reserve Board’s Survey of Consumer Finances (SCF) as well as the previous 5 SCFs to determine whether these data reveal any changes in the receipt or amounts of inheritances, or in expected inheritances. As in the earlier report, we rely on self-reported inheritances, gifts, or trusts in the SCF, a triennial survey providing detailed information on the finances of U.S. households. For simplification, we use inheritances to refer to any inheritances, gifts, or trusts and report the present value of all amounts received.1

We present our findings for three age cohorts:

- **pre-boomers**, born before 1946;
- **boomers**, born from 1946 through 1964; and

After discussing how many households have received or expect inheritances, we examine the value of inheritances received, the distribution of inheritances by income, and the distribution of inheritance dollars by existing net worth. We then comment briefly on the home as a source of inheritance and on some publicized reports that windfalls on the order of $10 trillion to $40 trillion will pass to boomers in the next few years.

**How Many Households Have Received an Inheritance?**

Figure 1 shows that about 20 percent of all households in 2004 reported that they had received at least one inheritance. Although larger than the 2001 estimate, this percentage has been fairly consistent over the six surveys. Regarding differences among birth cohorts, the percentage of families who have received at least one inheritance increases with the age of the cohort. Although the 2004 estimate was the highest percentage for each of the three age cohorts, the percent of families receiving an inheritance for a given cohort has not changed much over the 15 years covered by the six Federal Reserve surveys. While we might expect this for pre-boomers, who tend to have no living parents, we might expect some gradual increases over time in the other two cohorts.

In 2004, 30 percent of pre-boomer households (born before 1946), more frequently than the other cohorts, reported having received at least one inheritance during their lives. The percentage for this cohort was 6 percentage points higher in 2004 than in 2001, but the 2001 percentage was unusually low, and the 2004 estimate was only slightly higher than had been reported in earlier surveys. In 2004, members of this age group were aged 59 and older, so they are not likely to experience increases in the occurrence of inheritances, particularly since only 22 percent of them reported having a living parent in 2004. Nevertheless, as we shall see, even in this group, some expect to receive inheritances in the future.

Between 16 and 19 percent of boomers have reported receiving at least one inheritance between 1989 and 2004. The 2004 estimate of 19.2 percent was slightly higher than all previous years. Among boomer families, those who had already received inheritances were less likely to have living parents (70 percent) than those who had not received any inheritance (86 percent).

Among post-boomers, the birth cohort born after 1964, 13 percent reported having received inheritances. Post-boomers are consistently the least likely to report having received inheritances, with only 10 to 13 percent

---

1 We assume a 3 percent rate of inflation, and that each reported inheritance is increased by a real interest rate of 3 percent since the year of receipt and is adjusted for inflation.
reporting at least one in the six surveys between 1989 and 2004.

**How Many Householders Expect to Receive an Inheritance?**

While the receipt of inheritances increases with the age of the birth cohorts, the *expectation* of receiving an inheritance in the future decreases with the age of the birth cohorts, with the youngest (post-boomer) cohort the most likely to report expecting a future inheritance (see Figure 2). This makes intuitive sense, since younger respondents are more likely to have living parents and grandparents. In fact, in 2004, 98 percent of post-boomers had living parents, compared with 83 percent of boomers and only 22 percent of pre-boomers. However, among those pre-boomers who still had expectations of receiving inheritances, 70 percent had living parents, as opposed to only 20 percent of those who had no expectations of receiving inheritances.

The percentages of all respondents expecting to receive inheritances in any given survey year has not been as consistent as the percentages reporting having already received one. In fact, the percentage expecting an inheritance has generally declined over time. This also makes intuitive sense, because expectations should probably decline for each birth cohort as fewer and fewer parents remain alive and able to leave bequests. Among post-boomers, the percentages expecting inheritances ranged from a high of 25 percent in 1992 to a low of 18 percent in 2001, from a high of 27 percent for boomers in 1989 to a low of 15 percent in 2004, and from a high of 11 percent in 1989 to a low of 5 percent in 2004 for pre-boomers over the six surveys. More proximate circumstances may also influence the leaving of bequests, including personal or family issues that are probably impossible to tease out of a survey.
One circumstance likely to affect expectations for all age groups is the state of the economy. Perhaps down markets would lower expectations. However, that does not appear to be the case in Figure 2. Rather than expectations declining in recessions and rising in booms, what appears to occur is a general decline over time in inheritance expectations in all three age groups. The one exception is an uptick in expected inheritances among post-boomers in 1992 and again in 2004.

This decline might also be the result of more realistic assessments by families of all ages of the costs of aging, or simply the result of a reduction in optimism with the passing of time about the likelihood of receiving an inheritance bonanza.

**How Many Households Have either Received or Expect Inheritances?**

Summing together those who received and those who expected to receive inheritances should provide a relatively “high side” estimate of the percentage who will ultimately receive inheritances. Given that some who have already received inheritances might still expect to receive others, we thought considerable overlap might exist between those who said they had received and those who said they still expected inheritances. However, we found relatively little overlap—that is, those who have received an inheritance generally did not expect another.

Figure 3 shows that the percentages who have *either* received or expect to receive inheritances varies less across birth cohorts than either question did alone because, as we saw above, the percentages who have already received an inheritance increased slightly with age, while the percentage who expected one declined with age. Combining the two questions results in similar percentages across the birth cohorts.
Figure 3 also shows that, for the most part, the percentages having received or expecting to receive an inheritance declined gradually from 1989 to 2001, but then increased in 2004. Also, the percentage for all age groups except the boomers was 4 to 6 percentage points higher in 2004 than in 2001.

**How Much Money Do Households Receive from Inheritances?**

Among boomer families that had ever received an inheritance by 2004, the median amount received was $49,000 (in 2005 dollars). In comparison, the medians for pre-boomers and post-boomers were $70,000 and $24,000, respectively (Figure 4). These amounts may include both *inter vivos* (between living people) gifts as well as bequests (transfers following death).2 There appears to be an upward trend over time for all three cohorts. Although these figures are adjusted for inflation from the time of the receipt of the gift or inheritance, they are not adjusted for appreciation in asset values.

If we assume, as we did in our previous report, that assets appreciated at 3 percent above inflation from the time the asset was received, the inheritances received in the earlier years have a longer time to compound and may, in part because of this assumption, exceed in value those received in later years. This changes the trend in inheritance values, with only boomers seeming to enjoy slightly rising inheritance values. With an assumed 3 percent rate of return, boomers’ median inheritance in 2004 was $64,000. The median for pre-boomers was $105,000, and for post-boomers, $30,000 (Figure 5).

**How Are Inheritances Distributed by Income?**

The distribution of inheritances by amount for each age cohort in 2004 is shown in Figure 6. As noted earlier, the largest

---

2 The survey question does not specify what should be considered a gift. It is therefore not possible to determine if gift amounts include wealth transfers such as college expenses paid by a parent.
Figure 4. Median Value of First Three Inheritances, by Birth Cohort, 1989-2004
(2005 dollars, adjusted from the date of receipt)

Figure 5. Value of First Three Inheritances, by Birth Cohort, 1989-2004 (assuming three percent real growth after receipt, in 2005 dollars)
Figure 6. Percent Distribution of Inheritances, by Age Group and Inheritance Amount, 2004

Do the Rich Get Richer?

In our 2003 study (Ng-Baumhackl et al.), we found that, among those who had received at least one inheritance, families with high net worth received larger inheritances than those with low net worth in 2001. That proved to be true in 2004 as well. Table 1 shows the distribution of all inheritance dollars for families that received at least one inheritance by the net worth quintile of the family receiving the inheritance. Therefore, the cells in the table sum to 100 percent, and the percentage within each cell represents a “dollar-weighted” percentage of all inheritances for all inheritance recipients (the percentages for boomers alone are in parentheses).

The marginal totals at the end of each row show what percentage of all inheritance dollars were in amounts under $20,000, $20,001-$50,000, and so forth. The column marginals show what percentage of all inheritance dollars went to households in each of the net worth quintiles.

For example, 40 percent of all inheritance dollars to all recipients totaled $100,000 or more. And almost 25 percent of all inheritance dollars (for all recipients and also for boomers) were received by households in the highest net worth quintile and were in amounts exceeding $100,000. Households in this top quintile had net worth exceeding $449,739 in 2004. It does seem fair to say that the rich got richer in the
sense that the wealthiest received the largest inheritances.

**Homeownership and Housing Bequests**

The low rates of inheritance receipt among all age groups and the high rates of homeownership among older families raise an obvious question—what happens to those houses when homeowners die? Since there is a strong reluctance on the part of most older persons to sell or give up their homes, it would seem likely that many parents would leave at least their houses to their children.

The SCF data for 2004 show that only 2.5 percent of all the families of all ages had received their primary residence as an inheritance. And of those who had received any inheritance, 12.5 percent had inherited their principal residence. Since many may inherit homes but not necessarily live in them, this result only suggests that children are not living in homes inherited from their parents.

**Table 1. Percentage of Inheritance by Inheritance Amount and Net Worth Quintile for All Families Receiving Inheritances, 2004 (boomer percentages in parentheses)**

<table>
<thead>
<tr>
<th>Value of inheritance</th>
<th>Net Worth Quintile</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lowest</td>
<td>2nd ($6,670-$54,280)</td>
</tr>
<tr>
<td>Up to $20,000</td>
<td>4.3%</td>
<td>6.2%</td>
</tr>
<tr>
<td></td>
<td>(3.1%)</td>
<td>(8.1%)</td>
</tr>
<tr>
<td>$20,001-$50,000</td>
<td>1.1%</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>(1.3%)</td>
<td>(3.3%)</td>
</tr>
<tr>
<td>$50,000-$100,000</td>
<td>0.4%</td>
<td>2.1%</td>
</tr>
<tr>
<td></td>
<td>(0.1%)</td>
<td>(4.1%)</td>
</tr>
<tr>
<td>More than $100,000</td>
<td>0.4%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>(0.4%)</td>
<td>(2.0%)</td>
</tr>
<tr>
<td>Total</td>
<td>6.2%</td>
<td>14.4%</td>
</tr>
<tr>
<td></td>
<td>(4.9%)</td>
<td>(14.9%)</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances, 2004

**Inheritance Windfalls for Boomers?**

A number of studies have attempted to estimate the total amount of wealth that will pass to boomers from their parents over the course of their lives. This line of inquiry may have been initiated by Avery and Rendall (1993), who used the 1989 SCF to project future wealth that would accrue to boomers. They did so by estimating the total wealth that cohorts aged 50 and older in 1989 (when the youngest boomers were 25) would ultimately accumulate by their deaths, making certain assumptions about accumulation and expenditure in later life. They concluded that boomers stood to receive more than $10 trillion (in 1990 dollars) over their lifetimes from their parents.

Intrigued by these findings, others have extrapolated even further to reach conclusions that at least $41 trillion will pass from one generation to the next over the next 60 years (Havens and Schervish,
Unfortunately, these figures have been interpreted in the media as meaning that boomers will inherit $41 trillion. In fact, the time period the authors discuss encompasses two or more generations. Furthermore, the $41 trillion is before estate taxes, so a much smaller amount would be inherited. The authors suggest a much more modest outcome for boomers, perhaps a net total of $7 trillion in inheritances (Havens and Schervish, 2003).

We used the SCF to investigate the plausibility of these estimates, aggregating all gifts and inheritances reported by boomers (as well as pre-boomers and post-boomers), adjusting their value for inflation (CPI-U), and growing them at the somewhat arbitrary rate of 3 percent per year. We found that the value of all inheritances for all households in 2005 dollars was just under $12 trillion, with the vast majority of this amount ($9.2 trillion) in the hands of pre-boomers and $2.1 trillion held by boomers. The small remainder was owned by post-boomers.

It is possible that these amounts could grow to reach the levels projected by Avery and Rendall in 1993. In fact, Avery and Rendall projected that by 2005, the 50 and older generations that they examined would have passed about $1.9 trillion (in 1990 dollars) to their heirs. That number is not far from the $2.1 trillion we found in the 2004 SCF. However, the Avery and Rendall figures were in 1990 dollars, so adjusting for inflation only (no real growth in asset values) with the CPI would yield a total of about $2.8 trillion, considerably more than we obtain from boomers themselves.

We therefore conclude that inheritances, despite wishful thinking and optimistic projections, are not likely to bail out the boomers.

Conclusion

Our analysis of the SCF data found that, by 2004, the overwhelming majority (80.8 percent) of boomers had yet to receive an inheritance.

Among all boomer families who received at least one inheritance by 2004, the median value was $64,000 (in 2005 dollars), assuming a 3 percent rate of return on the inherited assets. However, inheritance size is positively correlated with net worth: families with a net worth of $450,000 or more received almost two-fifths of all inheritance dollars, and families with more than $160,000 in net worth received 60 percent of all inheritance dollars. Other research suggests that these families may reduce their labor earnings if the inherited amounts are substantial.

As of 2004, only 14.9 percent of boomers expected to receive an inheritance in the future, suggesting that for most boomers, inheritances will remain an elusive, or small, contributor to their retirement security.

In general, inheritances are unlikely to make a significant contribution to the retirement savings of most boomers. Nor are inheritances likely to have much of an effect on labor supply. For those nearing retirement, a large inheritance might be a factor in the timing of their retirement, but only the most affluent are likely to receive such inheritances. In general, inheritances are not likely to rescue most boomers if they have failed to prepare for retirement on their own.
References


