Passing on the pounds

The rise of the UK's inheritance economy

Kings Court Trust
Your partner through probate

Executive summary

In the next 30 years, **£5.5 trillion** will pass between generations in the UK. This is the inheritance economy.

This report provides new insights into an area of growing importance to the UK economy – **intergenerational wealth transfers**.

With an ageing population and rising levels of wealth, the country is set to see substantial growth in the number of inheritances and financial gifts taking place each year.

It is estimated that over £5.5 trillion will pass between the generations within the next thirty years. This amount of inheritance is unprecedented and raises both opportunities and threats for the financial services industry.

This 'inheritance economy' creates challenges for policymakers, families and the financial advisers who potentially stand to lose millions of pounds of assets as they cascade from one generation to another.

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Household net worth has risen from £2.8tn to £10.2tn between 1995 and 2015

Source: ONS

Over a million adults received an inheritance in a given year

2012 to 2014

The total value of inheritances in 2016 stood at a staggering £61 billion

2012 to 2014

Average house prices rose by 273% (7.2% pa)

1996 to 2016

Between 2012 and 2014, average inheritances rose from £43,000 to £54,000 and one-off gifts rose from £5,000 to £6,000

Total intergenerational wealth transfers rose from £49bn to £59bn between 2012 and 2014

Property is expected to account for over 70% of the wealth transferred over the coming years

172% increase in financial wealth of households between 1995 to 2015

Source: ONS

That's a huge rise from £1.6tr to £4.3tr

1995 to 2015

More deaths will result in a 14% increase in the number of adults receiving an inheritance

2017 to 2027

Over 70% of household wealth in the UK is held by the over 50s

A 66% increase in annual intergenerational wealth transfers rising from £69bn to £115bn

2017 to 2027

The over 65s are set to push up the average value of inheritances from £62,000 to £91,000

2017 to 2027

Foreword

Paul Toghill, Chief Executive Officer at Kings Court Trust

Between 1995 and 2015 the total net worth of households increased from £2.8 trillion to £10.2 trillion. This rise in wealth is only set to grow, with the younger generation set to receive a bigger inheritance than ever before.

This report, produced for us by The Centre for Economics and Business Research (Cebr), examines a phenomenon of increasing importance in the UK – intergenerational transfers of wealth. That is, the rise of a gifting-and-inheritance-based economy.

The economic success of the Western economies following the Second World War contributed to an environment in which an unprecedented number of individuals acquired well-paid work, generous pensions and the ability to buy an affordable home. These favourable circumstances have created the wealthiest ever older generation in the UK.

As one of the UK's leading estate administration providers, we have seen these increases in the amount of wealth passed from one generation to another first hand. Over the past 15 years, Kings Court Trust has helped thousands of families receive their inheritance.

The economic environment is much more challenging for today's young and one financial upside for this generation is the prospect of a greater inheritance. The rise of the "inheritance economy" creates deep social and political divides – with life options becoming increasingly determined by the chance of receiving a sizeable inheritance. It also creates challenges for families, as estate planning has become a more complex issue for a greater number of households.

For financial services providers there are both challenges and opportunities associated with retaining client wealth as it passes down between family members. Understanding the generation who are set to receive this 'pay-day' inheritance will be key to the future success of this sector.

Paul Toghill

The wealth boom in the UK

Despite a backdrop of economic weakness, slow growth in employee pay and the UK experiencing lower productivity than France, Germany and the US, wealth has been on the rise – and strongly so. As a country, we are wealthier than ever.

The rise of wealth in the UK in recent decades has been phenomenal. National Accounts data produced by the Office for National Statistics (ONS) show that between 1995 and 2015 the total net worth of UK households increased by a factor of 3.6, rising from £2.8 trillion to £10.2 trillion. While net worth fell by a sharp 8% in 2008, subsequently it has risen by an average annual rate of 6.3%.

The total net worth of UK households[1] increased by a factor of 3.6, rising from £2.8 trillion to £10.2 trillion.

1995 to 2015

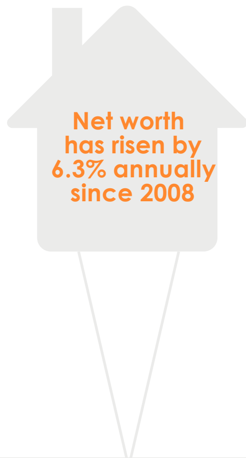
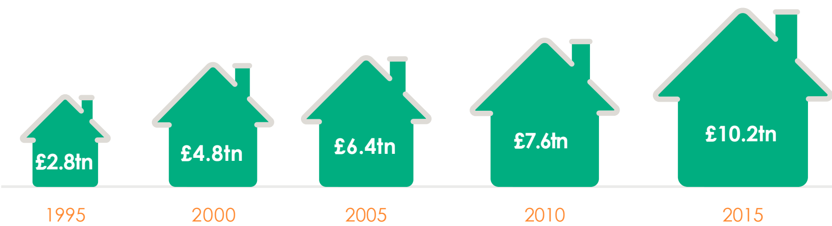


Figure 1: Net worth of UK households and non-profit institutions serving households, nominal terms (net worth LHS)



Source: ONS

1 Including non-profit institutions serving households. Non-profit institutions serving households make up an institutional sector in the context of national accounts consisting of non-profit institutions which are not mainly financed and controlled by government and which provide goods or services to households for free or at prices that are not economically significant. Examples include churches and religious societies, sports and other clubs, trade unions and political parties.

The wealth boom in the UK...

Housing as a driver of wealth

Nowhere has the rise in wealth been more evident than in housing. Over the 20 years between 1996 and 2016, average house prices rose by 273% on the Nationwide house price measure – an average annual growth rate of 7.2%. This is far in excess of general inflation and earnings growth over the same time frame, with homeowners seeing a substantial increase in their wealth. Unsurprisingly, this has increased the share of household[2] net worth from 39% in 1995 to over half (51%) of net worth by 2015.

Not all have shared in the boom in UK housing wealth, however. Rising levels of unaffordability have contributed to a situation in which homeownership has declined sharply for those under the age of 35, while ownership rates have actually risen slightly for over 65s, as shown in Figure 2 and Figure 2.1. As such, a rising proportion of the UK's housing wealth is concentrated in the hands of older age groups.

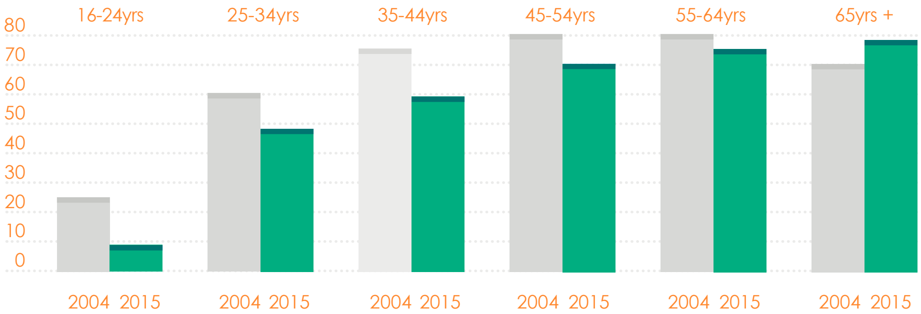
Average house prices rose by 273% on the Nationwide house price measure – an average annual growth rate of 7.2%.

Q4 1996 to Q4 2016

Unsurprisingly, this has increased the share of household[2] net worth from 39% in 1995 to over half (51%) of net worth by 2015.

Figure 2. Trends in homeownership in England

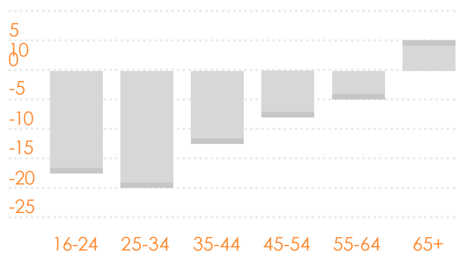
Homeownership rate, %, in age categories



Source: English Housing Survey

Figure 2.1. Trends in homeownership in England

Change in homeownership rate, 2005-2015, percentage points, in age categories



Source: English Housing Survey

[2] Including non-profit institutions serving households

Financial wealth

Financial wealth in the UK has increased strongly over the past couple of decades, though less impressively than housing wealth. Between 1995 and 2015, total net financial wealth held by households[3] increased by 172% according to the ONS from £1.6 trillion to £4.3 trillion. After falling by 8.0% in 2008, average annual growth between 2009 and 2015 was 7.5%.

Such increases in financial net worth are likely to reflect two key drivers. Firstly, growth since the financial crisis in part reflects the deleveraging that took place in the years immediately after the economic downturn, which reduced financial liabilities. Furthermore, there has been a substantial stock market rebound since the financial crisis.

From the trough seen during the 2008/09 economic downturn, the FTSE 100 index approximately doubled by the end of 2016.

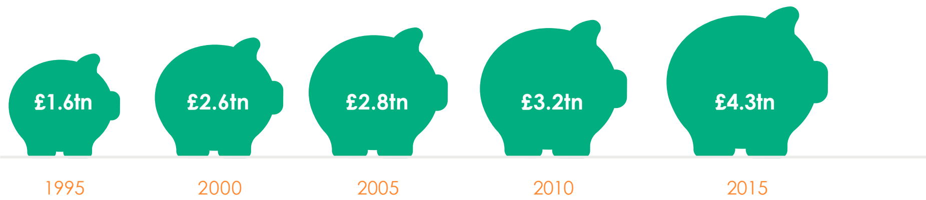
Despite low interest rates, which have suppressed returns on savings, many investments have performed strongly in recent years, and financial asset prices have been supported by central bank policies – namely quantitative easing which has injected substantial sums of money into the financial system.

Figures 3 and 4 below draw upon ONS data to highlight the growth in the financial net worth of UK households and the FTSE 100 Index in recent years.

Total net financial worth held by households[3] increased by 172% according to the ONS from £1.6 trillion to £4.3 trillion.

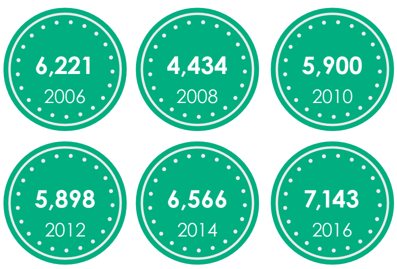
1995 to 2015

Figure 3: Financial net worth of UK households and non-profit institutions serving households, in £trillions



Source: ONS

Figure 4: FTSE 100 index, closing prices, December



Source: London Stock Exchange

[3] Including non-profit institutions serving households

The wealth boom in the UK...

The concentration of money and wealth

As described earlier in this report, the UK's wealth boom is not being enjoyed equally. Traditional class tensions are emerging. Some commentators have argued that central bankers and politicians have enacted policies which have benefited the rich at the expense of the poor. For example, the Bank of England's policy stance of low interest rates and quantitative easing has arguably greatly suppressed savings income for 'ordinary households' while pushing up the prices of assets disproportionately held by wealthier households – such as equities and bonds.

There is also huge intergenerational wealth divides. The growing number of over 50s has in part led to the rising role of the 'silver pound' in the economy.
The number of over 50s increased by 3.3 million between 2005 and 2015, accounting for 70% of the 4.7 million increase in the UK population as a whole over this time period.

However population growth is only part of the story. Older generations are reaping the benefits of the favourable economic conditions that existed in the past –more generous pension schemes, higher returns on savings and a more affordable housing market (that allowed them to get on the ladder and enjoy subsequent price rises). Meanwhile, high house prices have locked a higher proportion of younger individuals out of the property market, which has held back the ability of this group to accumulate assets. Relatively high rents (especially in London and the South East) in turn limit the ability of younger households to save, as do lower levels of job security.

Further to this, lower annuity rates and the uncertainties associated with defined contribution rather than defined benefit pensions mean that many younger individuals today face a substantial pension pot shortfall, relative to their desired retirement incomes.

Research by the Institute for Fiscal Studies (IFS) shows that younger people are on course to have lower real (inflation-adjusted) wealth on average at each age than earlier generations[4]. Research by the Resolution Foundation shows that, since the financial crisis, recently retired households have become wealthier than under 45s[5] and past Cebr research for Saga suggests the over 50s currently hold about 70% of all UK household wealth[6].

The challenging "new normal" for developed economies – with lacklustre economic growth, low interest rates and the job threats posed by automation – means that for a growing number of households inheritance and gifting from older generations are likely to be financial lifelines. As we show in the next section of this report, the wealth boom and its concentration in the hands of older households are set to drive a surge in the value of intergenerational transfers taking place in the UK each year.

For a growing number of households, inheritance and gifting from older generations are likely to be financial lifelines.

[4] http://www.ifs.org.uk/publications/8239
[5] http://www.resolutionfoundation.org/media/press-releases/7735/
[6] http://www.saga.co.uk/newsroom/press-releases/2016/january/over-50s-contribute-more-than-6-trillion-to-the-uk-economy.aspx

The rise of the inheritance economy

Coinciding with higher levels of wealth among the UK's older generations is the rise of an economy that revolves around inheritance and gifting from one age group to another – commonly referred to as "intergenerational wealth transfers".

The extent to which this has changed in recent decades is hard to measure – it is not well captured in official statistics and inheritance tax figures are not a reliable guide because the tax only applies to some estates and there are high levels of evasion7 and avoidance. Intuitively, it has almost certainly seen considerable growth, in line with rising levels of wealth.

The Wealth and Assets Survey (WAS) produced by the ONS provides some insights into the most recent trends and shows remarkable growth in intergenerational transfers even over a comparatively short space of time.

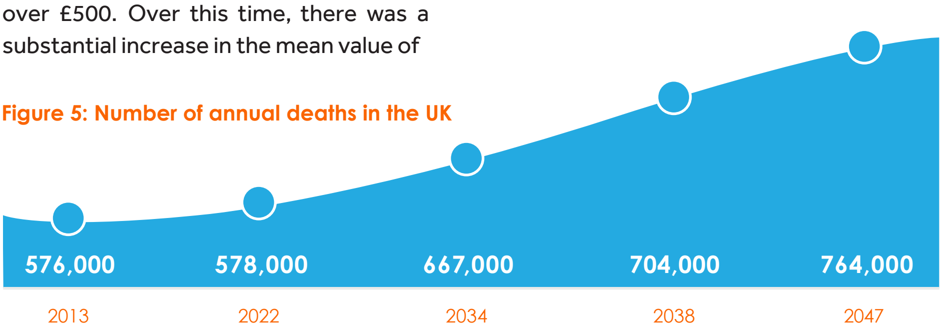
Between 2012 and 2014, 2% of adults (just over 1 million) received an inheritance of more than £1,000 in a given year, and about 2% (870,000) received cash gifts of over £500. Over this time, there was a substantial increase in the mean value of inheritances and gifts. Mean inheritances rose from £43,000 to £54,000, while mean gifts rose from £5,000 to £6,000. Total intergenerational transfers[8] are estimated to have increased from about £49bn to £59bn, a rise of 22%. A significant driver of this increase in transfers is likely to reflect the turnaround in the housing market after 2012, with prices rising strongly in 2013 and 2014.

We anticipate a significant increase in intergenerational wealth transfers going forward, driven by two key factors:

- The UK's ageing population, which is set to lead to rising numbers of deaths over the coming decades;
- Higher levels of wealth, predominantly driven by rising house prices.

ONS population projections show a 7% increase in the number of deaths in the UK between 2017 and 2027, from 566,000 to about 606,000 per year. We estimate that this is set to drive a 14% increase in the number of adults receiving an inheritance each year from about 1 million to just over 1.1 million. Over the next thirty years, the annual number of deaths is expected to rise above the 750,000 mark, with over 1.5 million adults receiving an inheritance in a given year.

Figure 5: Number of annual deaths in the UK



Over the next thirty years, the annual number of deaths is expected to rise above 750,000.

2013 to 2047

[7] In its 2016 "Measuring Tax Gaps" publication, HMRC estimated a gap of £500 million between inheritance tax liabilities and the amount actually collected. [8] Cebr work on the basis that the overwhelming majority of inheritances are intergenerational in nature – something borne out in ONS statistics:
http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/dcp171776_333036.pdf

The rise of the inheritance economy...

Rising levels of property and financial wealth among the UK's over 65s are set to push the mean value of inheritances from £62,000 to £91,000 between 2017 and 2027 (a 47% increase), with average gifts rising from £6,000 to about £8,000 (a 29% increase). By 2047, average inheritances and gifts are forecast to stand at £206,000 and £13,000 respectively. These projections are based on Cebr's macroeconomic forecasts for house prices, interest rates and household incomes, which have been used to predict trends in property and financial wealth over the coming decades.

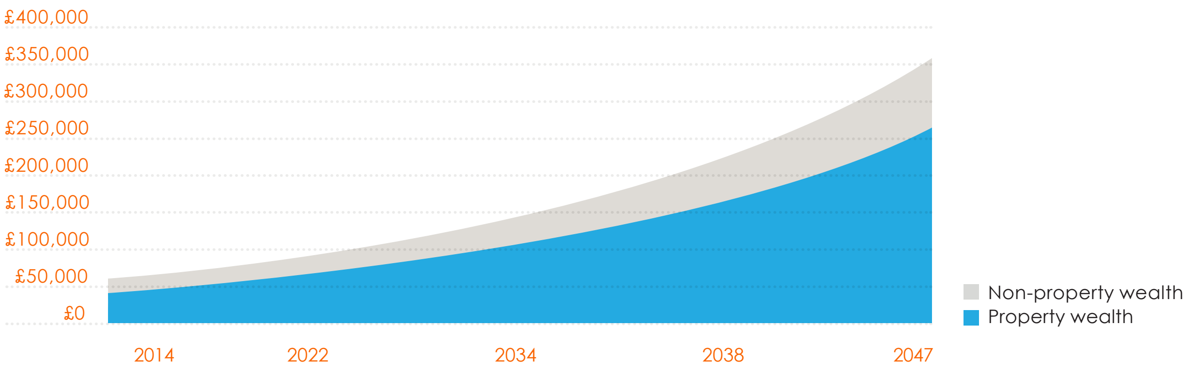
In aggregate, these trends are forecast to drive a 66% increase in the total value of intergenerational transfers taking place annually between 2017 and 2027, with transfers rising from £69 billion to £115 billion. Continued increases in wealth, as well as rising numbers of deaths, are expected to leave annual intergenerational transfers standing at £355 billion in 2047.

Notably, as shown in Figure 6, property is expected to account for over 70% of the wealth transferred over the coming years. This could represent an opportunity for financial advisers as property is sold for cash which could be invested elsewhere.

Close to £1 trillion of intergenerational transfers are set to take place between 2017 and 2027. Between 2017 and 2047, the total value of transfers is estimated to stand at about £5.5 trillion.

This colossal figure has significant implications for the financial services community, as well as the families involved.

Figure 6: Total intergenerational transfers taking place in the UK, £ millions



Source: Cebr analysis

Conclusions

This report is the first to explore the size of the UK inheritance economy in such detail. The numbers are substantial and growing. The financial services industry faces huge challenges and opportunities as wealth cascades from older clients to the next generation.

Dependent households

A growing dependence of younger households on intergenerational transfers looks set to create social and political challenges over the coming years. There is a risk of a deep and growing divide between those who receive sizeable inheritances, and those who do not. This is particularly pertinent at a time when high house prices and low levels of job security limit the ability of individuals to accumulate assets and wealth through their own endeavours.

Older generation's wealth

The UK's older generation has seen a substantial increase in wealth in recent decades. More individuals than ever are able to leave behind a sizeable estate
to assist their partners, children, grandchildren and other family members. This creates new challenges for the families involved – more individuals have complex financial circumstances, creating additional need for specialist estate administration advice.

The challenge

The challenge for the financial adviser community is how to continue to manage wealth on their client's behalf as it is dispersed from one generation to another over time. This is not a given, and financial advisers could lose millions of pounds of assets under their management if beneficiaries and gift recipients do not ultimately become clients.

The opportunity

As well as challenges, there are some substantial opportunities for financial advisers. Illiquid property wealth is set to be sold off on an enormous scale as individuals inherit estates over the coming years – increasing the stock of cash that could be invested and the number of individuals needing investment advice. This shift from property wealth to financial wealth could significantly increase the amount of funds under management by financial advisers, but only if they seize and take advantage of the developments that are set to take place over the coming years.

At Kings Court Trust, we know that these changes significantly impact the financial services industry. That's why we're committed to working with financial advisory firms to assist advisers, their clients and their clients' relatives in the most effective way possible. At a difficult time, we help to build high levels of trust between the advisers and beneficiaries. And we aim to encourage this relationship to flourish in the long term.

The challenge is how to continue to manage wealth on your client's behalf, through the generations. Millions of pounds could be lost if beneficiaries do not become clients.

Contact us

If you would like to talk to Kings Court Trust about this report, or how our market-leading estate administration service could help support you and your clients, please contact us on **0300 303 9000** or **partners@kctrust.co.uk**

About Kings Court Trust

Kings Court Trust only does one thing: estate administration.

We set out to disrupt, challenge and change our industry for the better, by putting the family first.

As a result, we create value for our business partners, both commercially and by providing the best possible service for the family at a difficult time.

Our business partners share our philosophy; they put the client at the heart of everything they do.

Over the past 15 years we've helped thousands of families pass wealth from one generation to the next, and we're proud to say we do it really well.

Data methodology

For further information about the methodology and research data included in this report please contact the Centre for Economics and Business Research (Cebr).

Follow the conversation **#inheritanceeconomy**

Visit **inheritanceeconomy.co.uk**

Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The views expressed herein are those of the authors only and are based upon independent research by them.

The report does not necessarily reflect the views of Kings Court Trust.

London, February 2017.

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