



**Australian Government**  
**Productivity Commission**

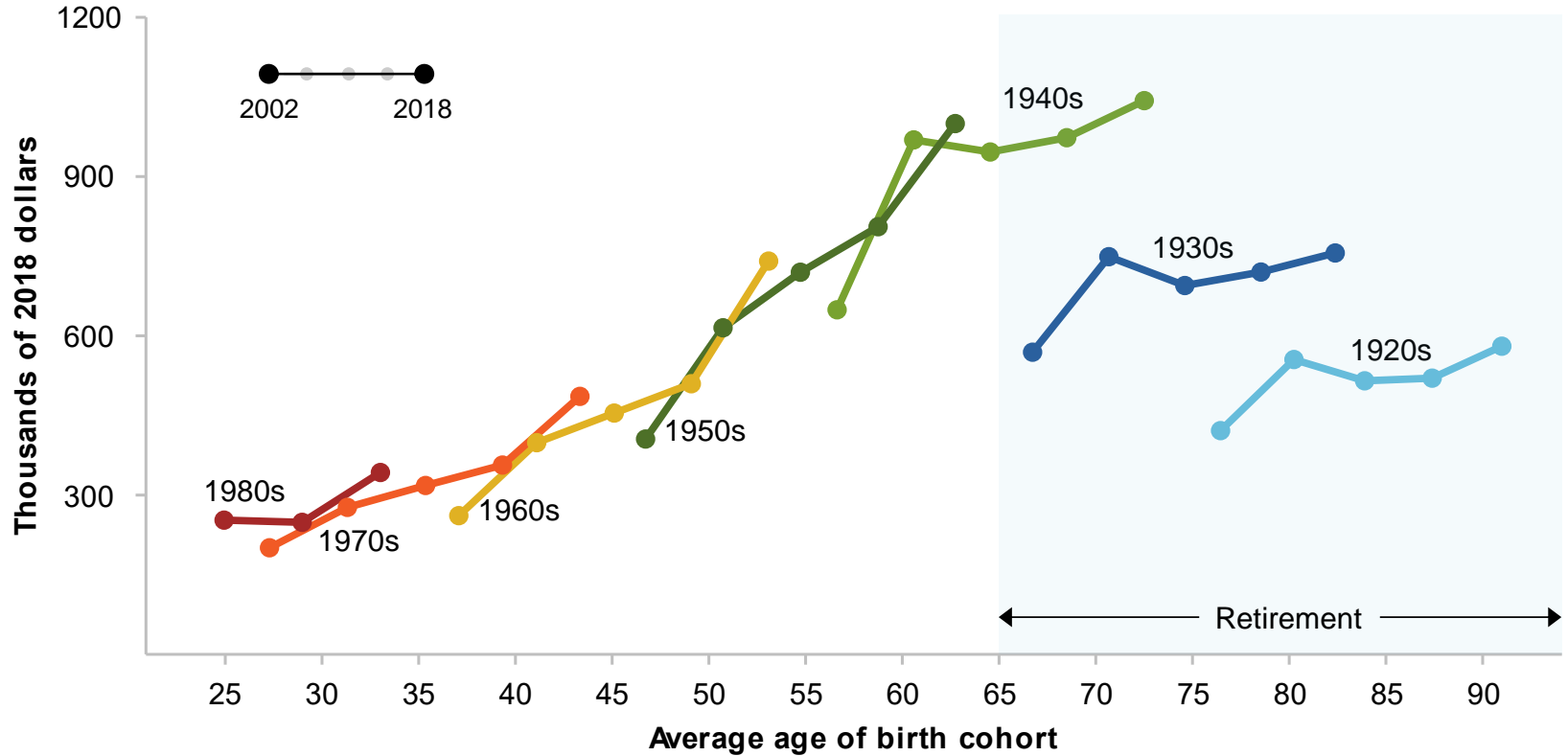
# **Future wealth transfers and effects on inequality**

Australian Conference of Economists, Hobart, 13 July 2022

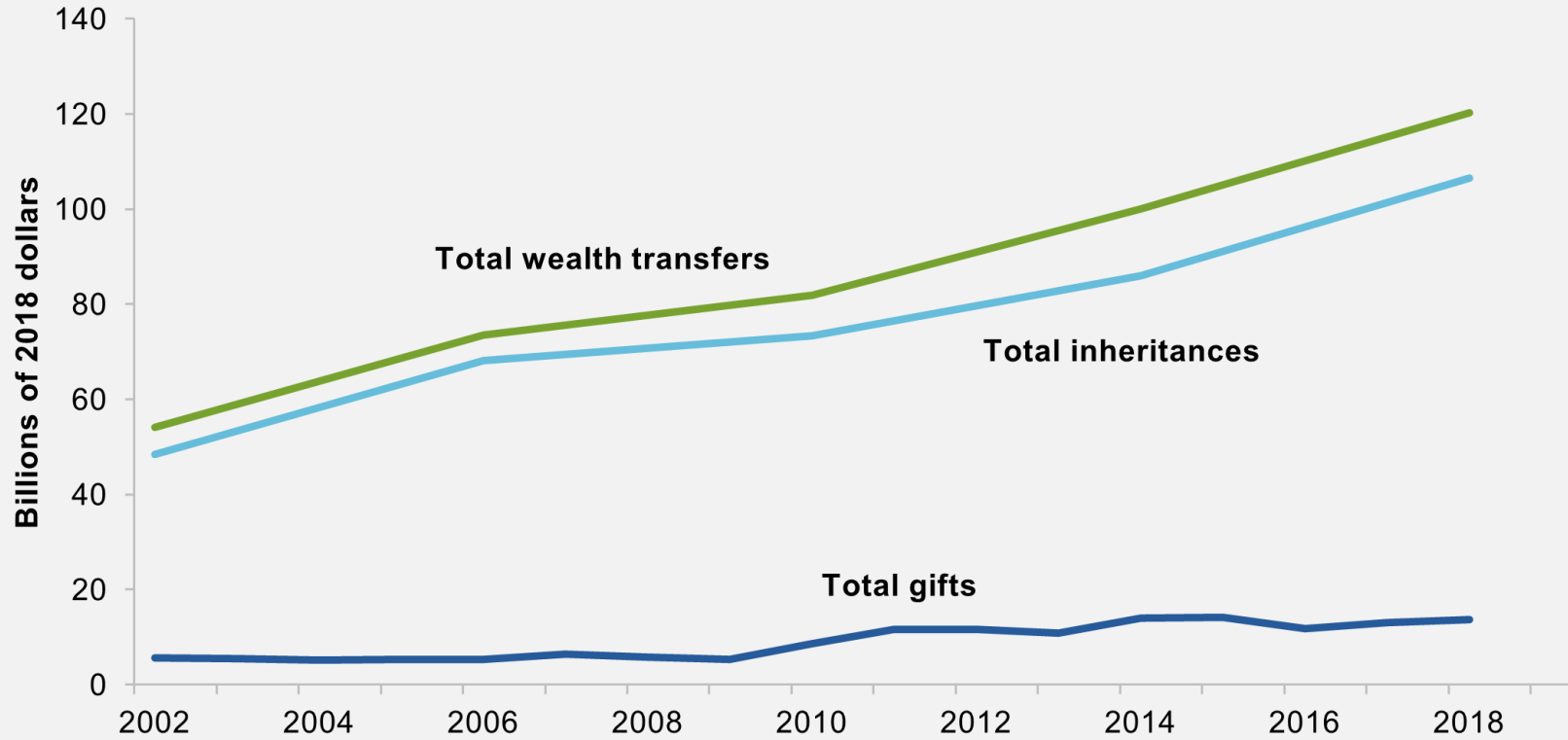
Rebecca Chin

# Older Australians are getting wealthier

Average equivalised wealth by age and birth decade



# Wealth transfers are growing



# Research questions

1. Will the growth in wealth transfers continue?
2. How might future wealth transfers affect wealth inequality?

# Modelling future wealth transfers

Projected to 2050

## Cohort model

- Simpler than some other model types but provides useful insights
- Cohorts based on age group, income, wealth, homeowner status, inheritance received

Household, Income and Labour Dynamics Australia (HILDA)  
Survey used for initial population and many parameters

- No births or migration modelled
- Focus on inheritances

# Modelled wealth and inheritance processes

## During each year

Wealth accumulates and decumulates via ...



saving, drawdowns and returns in housing, superannuation and other assets



wealth transfers given and saved

## The end of each year

A share of each cohort passes away ...



... leaving their wealth as inheritances

... which are distributed to younger cohorts based on parent age  
... and the wealthiest in each age group receive the largest inheritances



# Inheritances are projected to continue growing

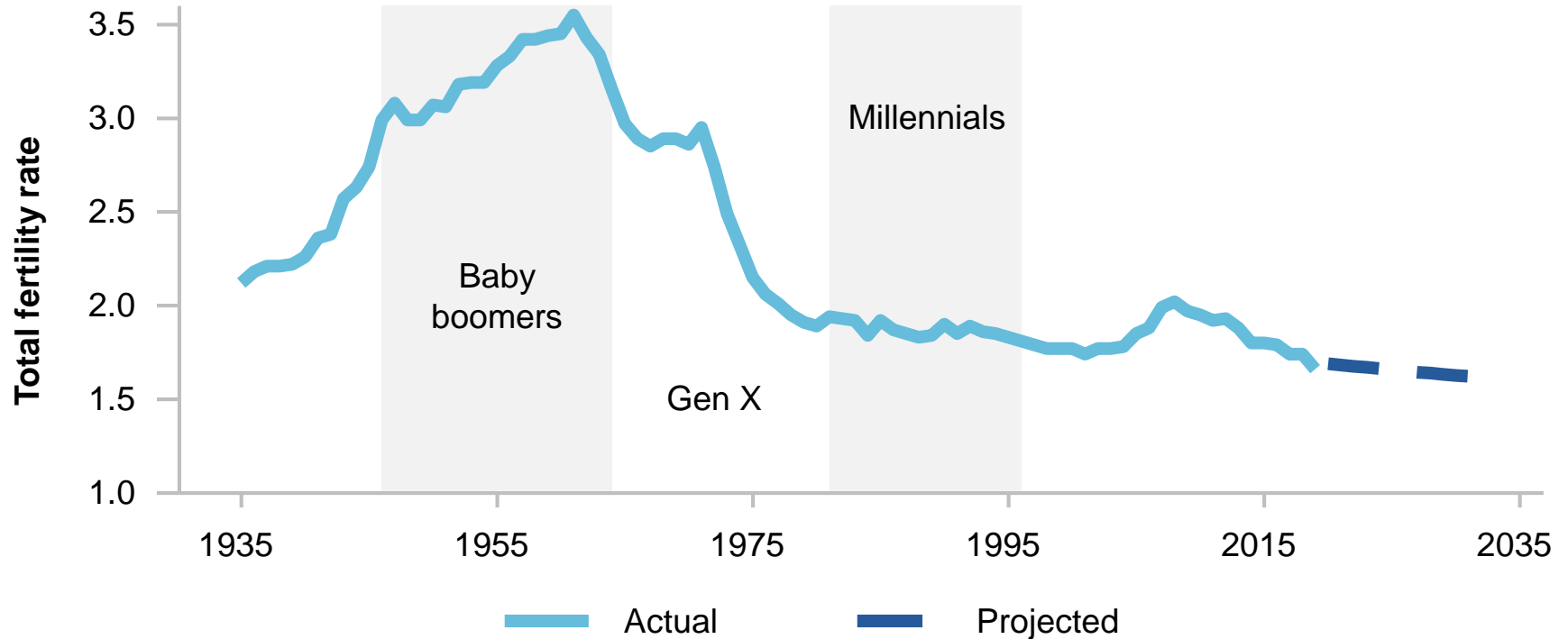
 **4x**

total value of intergenerational inheritances  
between 2020 and 2050 in real terms

- Ageing population and falling fertility
- Rising wealth among older age groups

# Demographic factors drive growing inheritances

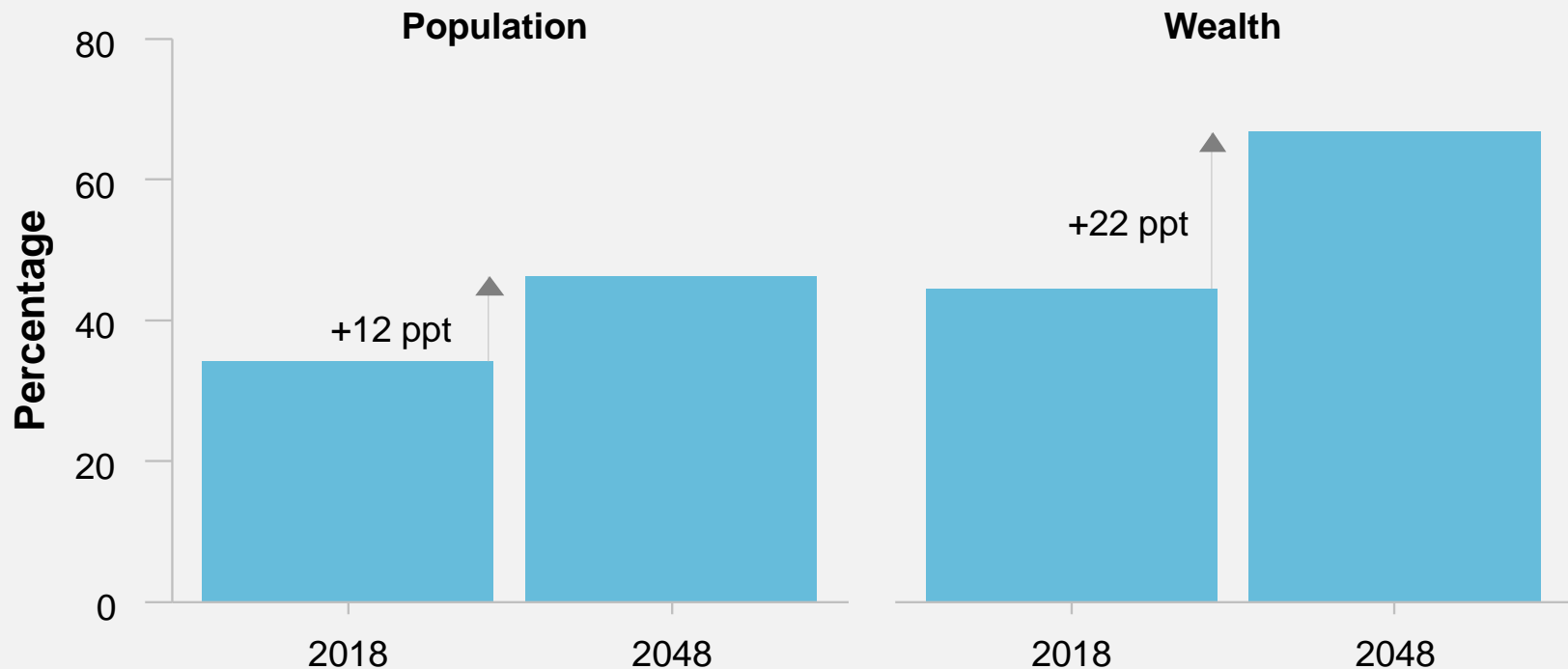
Fertility rate (babies per woman)





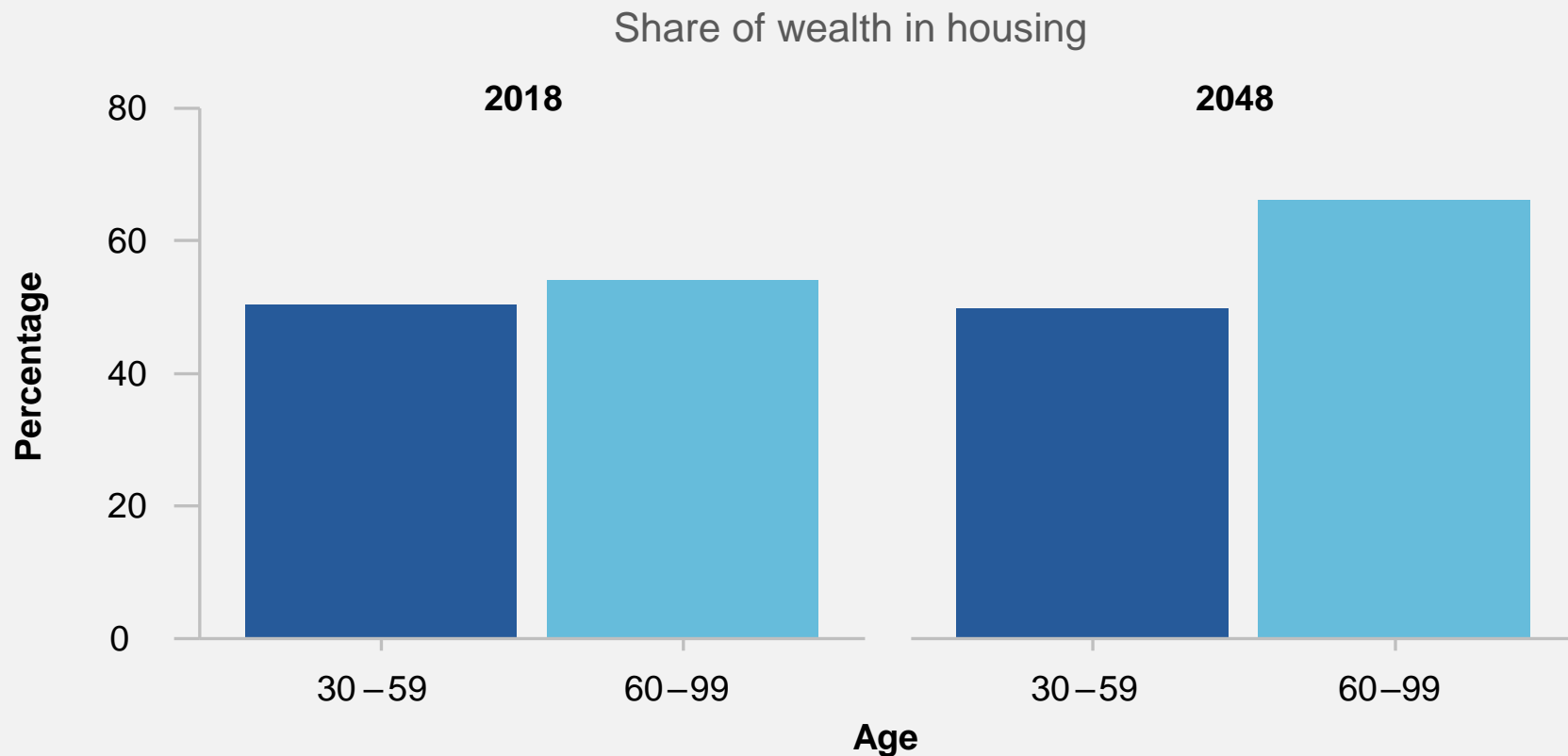
# Older people are projected to hold more wealth

Share of population aged 60+\*



\* Among 30-99 year olds

# Older people are projected to hold more wealth in housing



# Wealth inequality concepts

**Absolute** wealth inequality: inequality in the *level* of wealth

- Everyone gets \$5 – unchanged
- Everyone gets 5% increase – increases

**Relative** wealth inequality: inequality in the *share* of wealth

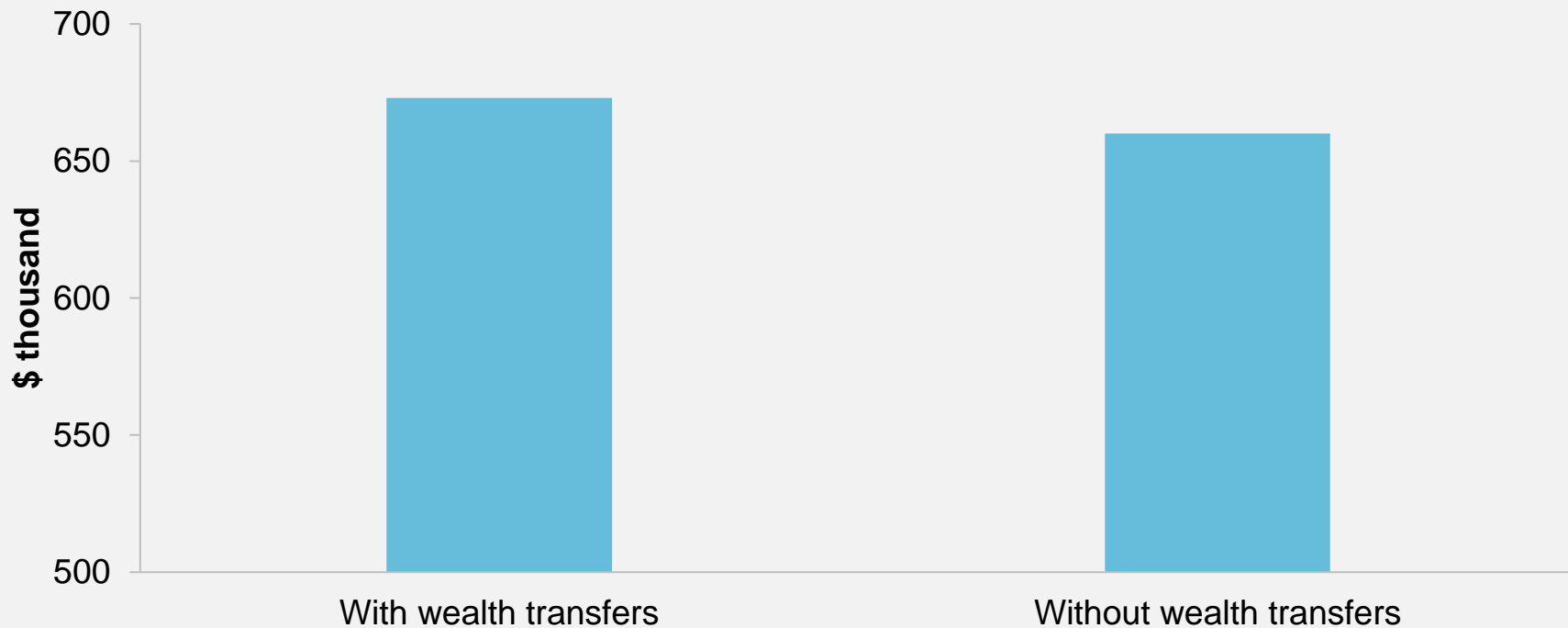
- Everyone gets \$5 – decreases
- Everyone gets 5% increase – unchanged

# Literature on effects of inheritances on inequality

- Absolute inequality worsens
  - Wealthier people tend to receive larger inheritances
- Relative inequality improves in immediate term
  - Less wealthy people tend to receive larger inheritances as a share of existing wealth
- Mixed evidence on relative inequality effect in long term
  - Depends on patterns of spending or saving associated with receiving inheritance

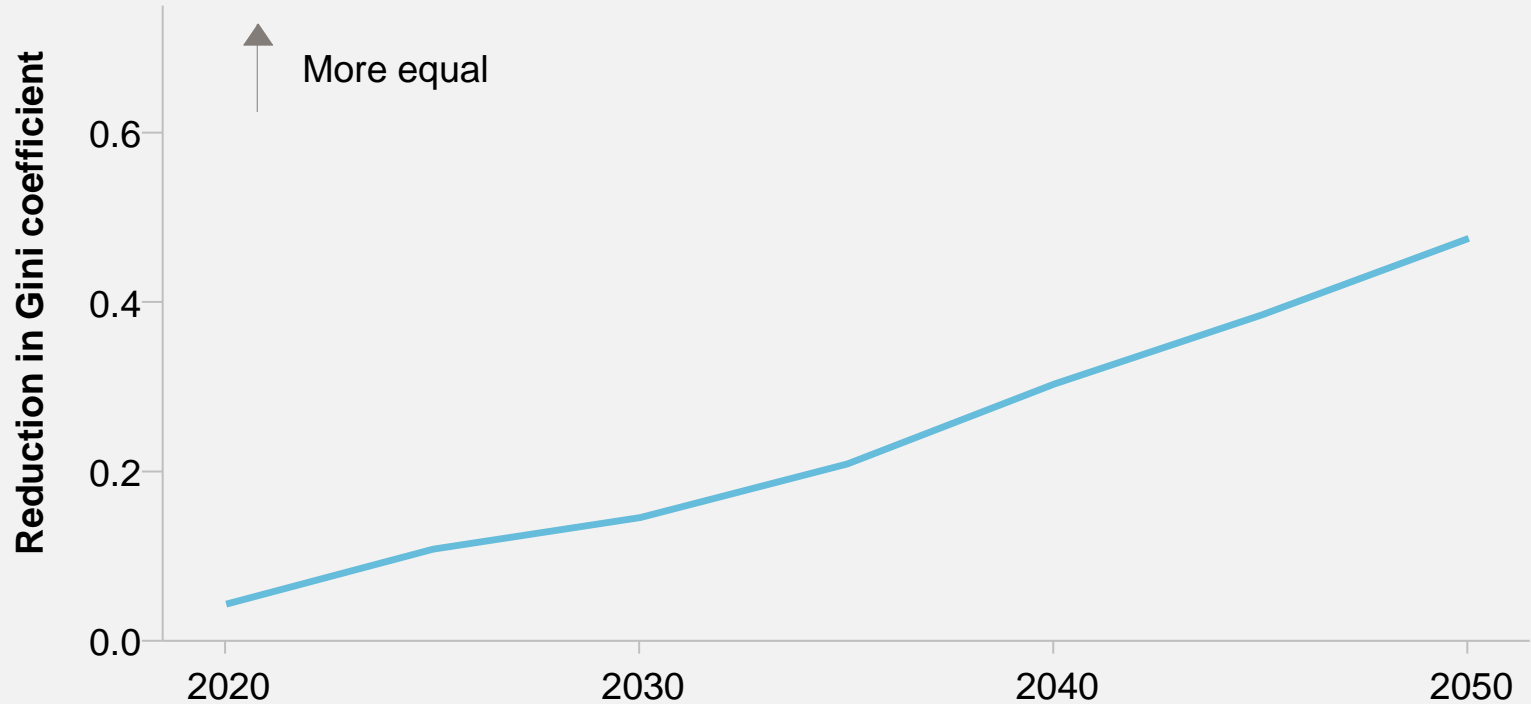
# Inheritances projected to widen absolute wealth disparity

Difference in projected wealth at 25<sup>th</sup> and 75<sup>th</sup> wealth percentiles in 2048, 30-99 year olds (2018 dollars)



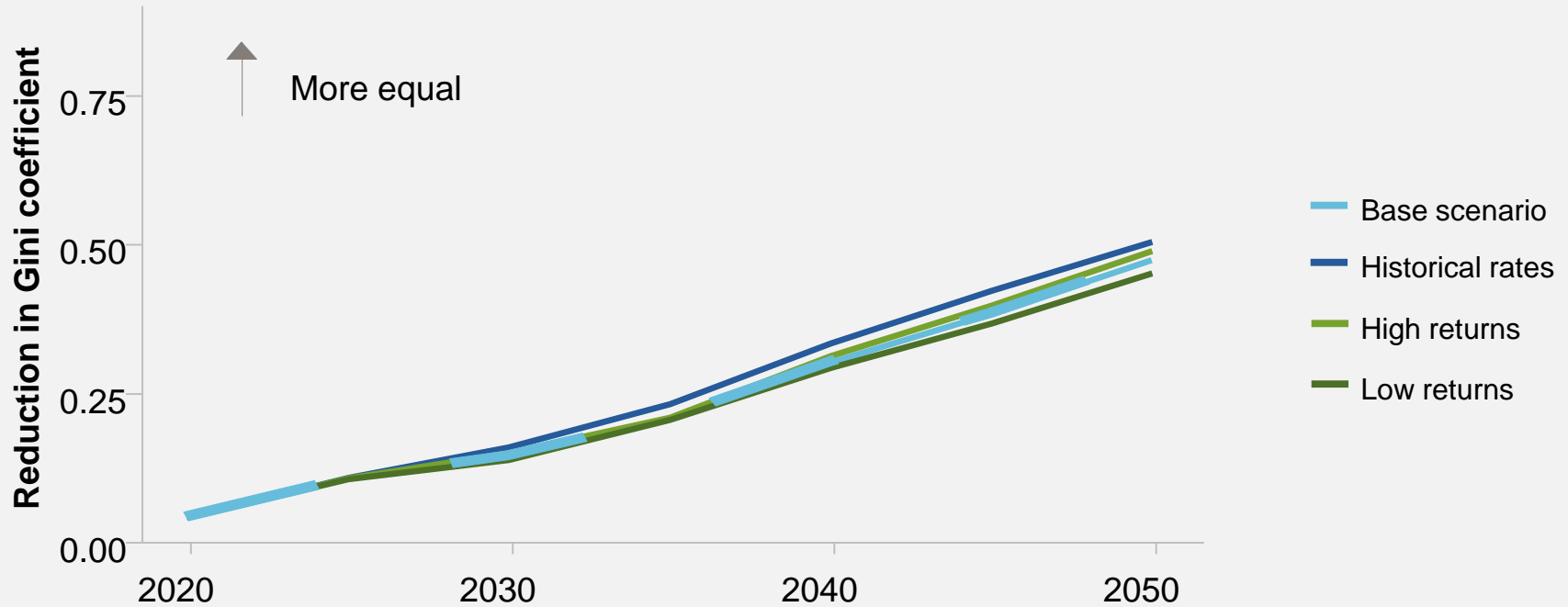
# ... but improve relative equality

Cumulative projected improvement in relative wealth equality for Generation X due to wealth transfers (reduction in Gini, 100 point scale)



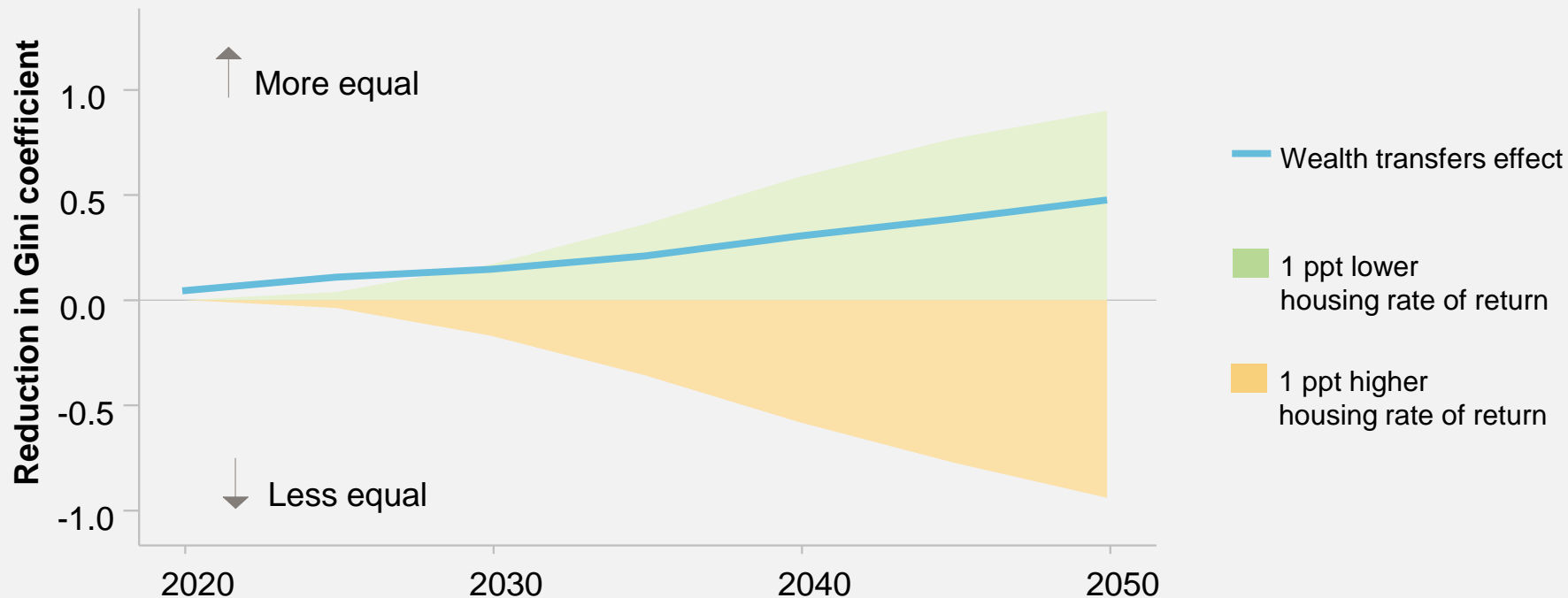
# Rate of return assumptions don't affect equalising result

Cumulative projected improvement in relative wealth equality for Generation X due to wealth transfers (reduction in Gini, 100 point scale)



# The effect of wealth transfers on equality is relatively small

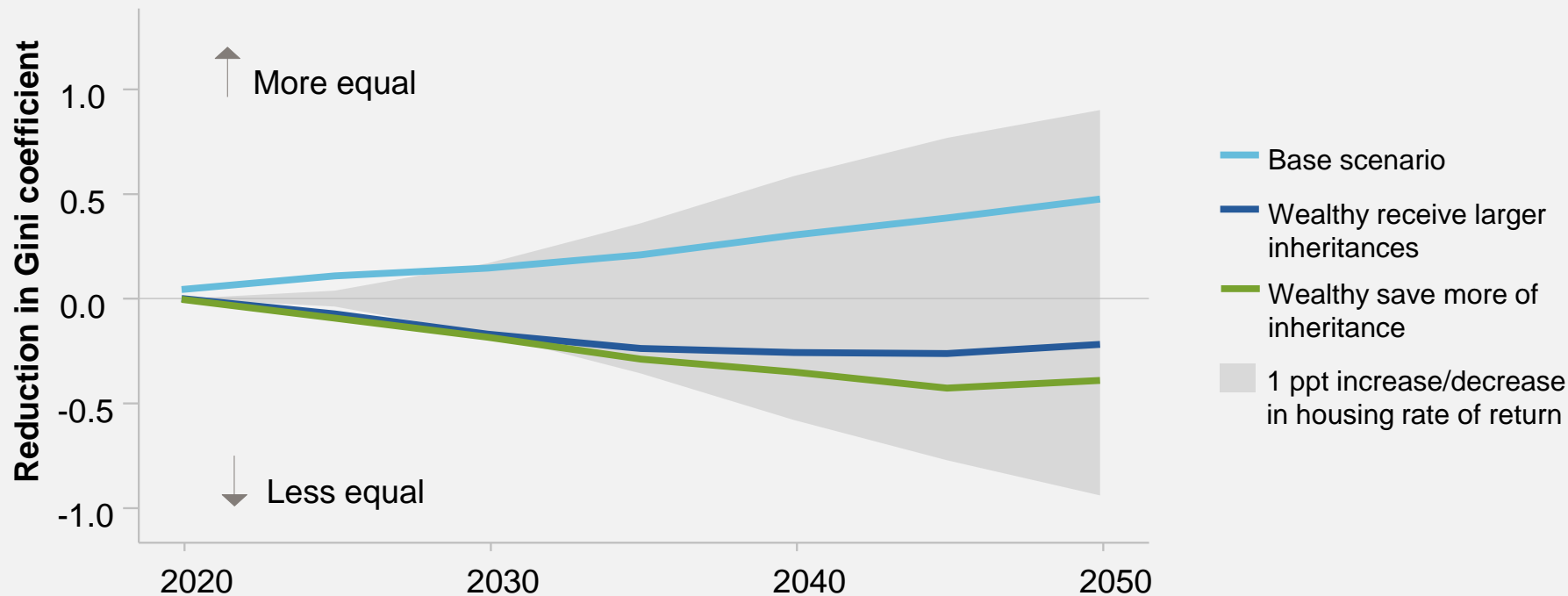
Cumulative projected improvement in relative wealth equality for Generation X  
(reduction in Gini, 100 point scale)





# Some scenarios led to a slight worsening in equality

Cumulative projected improvement in relative wealth equality for Generation X  
(reduction in Gini, 100 point scale)





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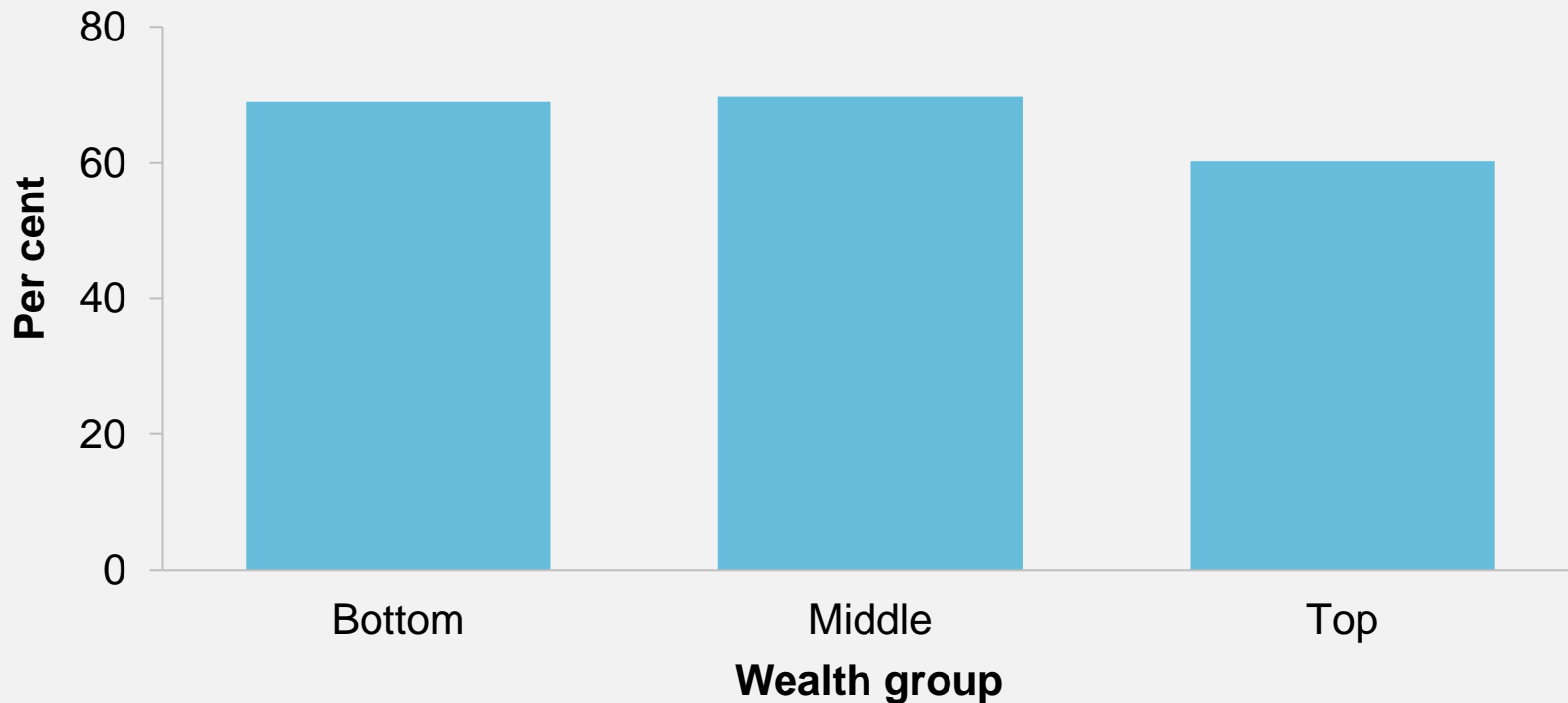
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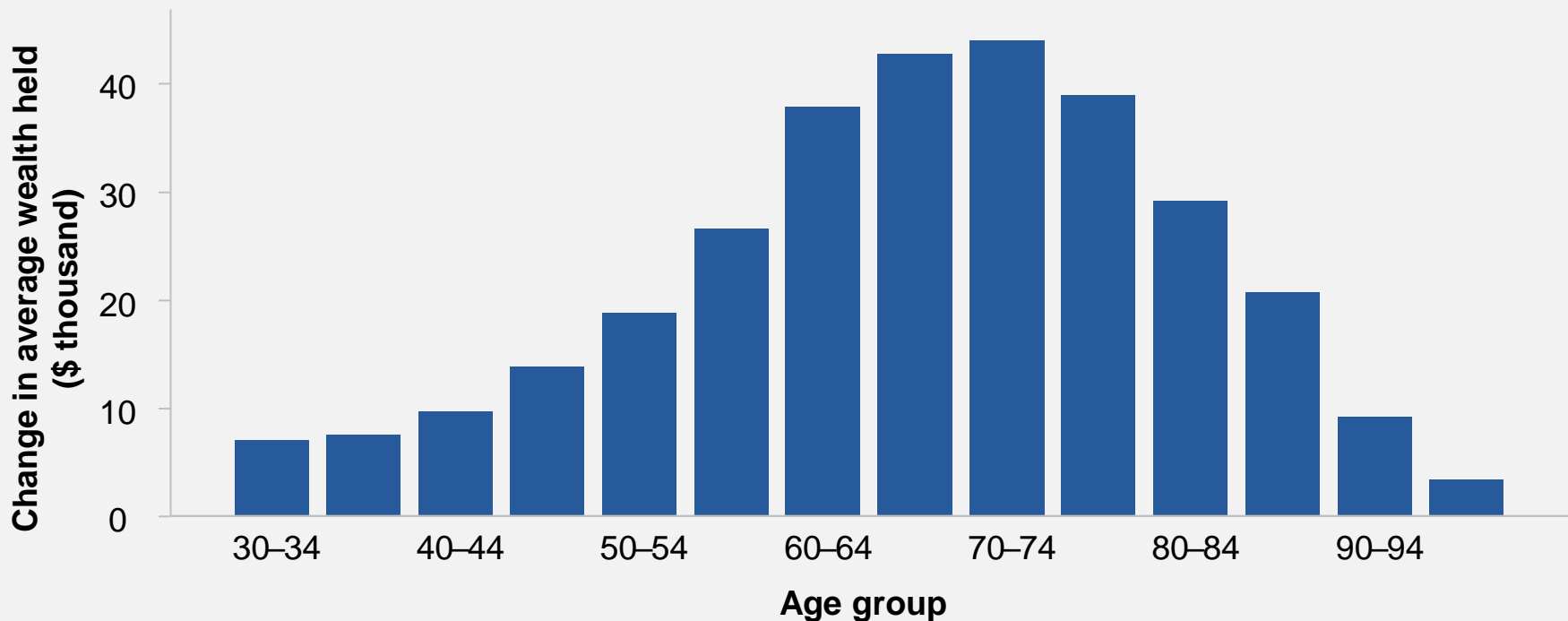
# Inheritances will be more significant in the future

Projected inheritances as a percentage of existing wealth, recipients aged 60-64, by 2048



# Inheritances tend to be received later in life

Difference in projected average wealth held in 2048 relative to a counterfactual in which no future inheritances occur (2018 dollars)



# Anticipating an inheritance could initially worsen equality

Cumulative projected improvement in relative wealth equality for Generation X  
(reduction in Gini, 100 point scale)

