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Transmitting family wealth: The importance of bequests

Short abstract

This paper investigates the extent of actual and anticipated bequests and their impact on wealth, savings and well-being of givers and recipients. While the bequest motive is a key factor for understanding why people save, the empirical evidence is very mixed. The intention to bequeath might explain why the German elderly do not dissave which is in conflict to the standard theory of savings, the life-cycle hypothesis. The SAVE micro data show that the bequest motive is less important than other savings motives in Germany. Nevertheless, multivariate regressions reveal that households with a bequest motive save more than others. Surprisingly, this holds for the beneficiaries as well. Households who already received or expect an inheritance save more than others. We conclude that bequests positively influence the wealth accumulation and that they link together the different generations of a family in a non-negligible part of the population.

Long abstract

Intergenerational transfers are an important link between different generations of a family. This paper investigates the extent of actual and anticipated bequests and their impact on wealth, savings and the well-being of givers and recipients. While the bequest motive is a key factor for understanding why people save, the empirical evidence is very mixed (e.g. Hurd 1987, Blinder et al. 1990). The intention to bequeath might explain why the elderly in Germany do not dissave which is in conflict to the economic standard theory of savings, the life-cycle hypothesis (Börsch-Supan et al. 2002). This contribution extends the analysis of Jürges (1999) by using current data and particularly by considering additionally the impact of actual and expected inheritances on the savings behaviour of the (potential) heirs.

The empirical analysis is based on a new micro data set called SAVE which is a population-representative sample. Beside the usual socio-demographic characteristic the SAVE data provide comprehensive information about the savings behaviour of German households like savings motives and a broad range of psychological variables and risk attitudes.

We find that the bequest motive in Germany is less important than others, like for instance saving for old-age provision or precautionary savings. Nevertheless, about 20 percent of the respondents indicate the bequest motive as an important reason to save. First results show that the bequest motive is more important for homeowners, self-employed and in the Western part of Germany. Surprisingly, high educated households are more reluctant to save for bequests than lower educated ones. While the savings motive is more relevant for parents than childless people this does not hold exclusively. There exist a number of childless households saving for bequests. The common procedure to test for the existence of a bequest motive by comparing saving patterns of parents and childless people is therefore vulnerable. Furthermore, a multi-variate analysis confirms that the indicated bequest intention corresponds to actual behaviour because households with a bequest motive save more than others.

On the other side, we find that households who are better educated, have higher income and wealth are more likely to receive an inheritance. Surprisingly, the receipt or expectance of an inheritance already does not crowd out own savings because these households save more than their comparable counterparts. One explanation might be the common taste within a family to keep the family's wealth together. Therefore, the argument of a "bequest illusion" which often serves as an explanation for the reluctance of taking up private old age provision is not supported.

We conclude that bequests positively influence the wealth accumulation of givers and can therefore partly explain that the elderly don't dissave in retirement, the German "savings puzzle". Furthermore, inheritances don't seem to crowd-out own life-cycle savings of the heirs. However, bequests are only an operative savings motive for a part of the population.