Joint Center for Housing Studies

Harvard University

Intergenerational Wealth Transfer and Its Impact on Housing

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Abstract

This paper examines intergenerational wealth transfer and its impact on housing. It synthesizes previous studies and findings through three perspectives: the sociological concerns, economists' concerns, and the housing industry's concerns. Substantial evidence is found that intergenerational wealth transfer contributes to the existing and growing inequality in wealth distribution.

A new demography-based approach is developed to estimate the size of bequests vs. life-cycle savings. As life-cycle savings may only contribute about 34.5 percent to the total wealth, bequests and inter vivos transfers appear to be the dominant components of accumulated wealth, and the size of bequests alone could potentially be as high as 40.5 percent of the total wealth.

While all recipients of transferred wealth from parents have achieved much higher homeownership rates regardless of their age, income, and race/ethnicity, whites are twice as likely to receive wealth transfer than minorities, and low-income people are less likely to receive wealth transfer. Children of renter parents lagged behind those of homeowners in homeownership even after they became adults between 25 and 42 years old.

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I. Introduction

Housing is an important component of household wealth and wealth is much more unevenly distributed than earnings. While the lack of wealth constrains many households from owning their homes, wealth accumulated within a family often helps its younger members achieve homeownership sooner. House inheritance directly transfers homes from one member to another, often intergenerational and from older to younger. In addition, gifts from parents to children also help the younger generation purchase a home sooner. Wealth transfers may therefore contribute to the continuing inequality in wealth distribution.

Between 1989 and 1998, the top one percent of the wealthiest households increased their share of entire household net wealth from 30 to 34 percent, while the bottom half of all households continued to hold the same share, three percent (Di 2001). In other words, the net gain by the top one percent of households is larger than the total sum of wealth of the bottom half. Considering such concentration of wealth and a growing inequality in wealth, it is no wonder that Kurz (1984) suggested that the richest households were engaging in major intergenerational transfers. Such transfers exacerbate wealth differences and raise a larger concern. Over time, as homes become more expensive relative to the income increase of those low-income households, will lack of access to intergenerational wealth transfer thwart their homeownership opportunities?

Also, as we understand more clearly the tight and multifold relationships between housing and wealth (Di 2001), we are more interested in household wealth as both a resource and a restraint in its impact on housing, in addition to or even regardless of household income. Therefore, it is important to know the size and degree of intergenerational wealth transfer and how much it affects housing.

Indeed, intergenerational wealth transfer has long been a research interest in different academic fields such as sociology, demography, and economics. This paper has a three-fold purpose. First, it attempts to synthesize as much as possible all the findings of previous research. Second, it provides additional evidence in the ongoing debate over the extent and importance of wealth transfer. Third, it links intergenerational wealth to

housing. Using housing as a thread to combine the above three points, we structure our paper in an attempt to answer three main questions:

1) Why should we care about intergenerational wealth transfer?
2) How big is intergenerational wealth transfer?
3) How does intergenerational wealth transfer affect housing?

II. Intergenerational Wealth Transfer: Why Do We Care?

In this section, we synthesize major concerns about intergenerational wealth transfer from three perspectives: sociological concerns, economists' concerns, and housing industries' concerns. Each of these concerns is discussed separately below.

Sociological Concerns

Social justice has always been one of society's major concerns. Volumes of studies on income and wealth distribution have well reflected such a concern. In addition to the study of existing inequality in the distribution of wealth and income within the current generation, one may also have concerns about the importance of intergenerational wealth transfer as a determinant of that inequality. Parents with higher income and better education may transmit more wealth and learning or earning skills to their children (Tomes 1988).

Several early studies in the 1970s argued that intergenerational wealth transfer is the only explanation for the substantial inequality in wealth relative to earnings (Atkinson 1971, Oulton 1976). Using the Asset and Health Dynamics Survey of Oldest Old, McGarry and Schoeni (1995) concluded that the parents of transfer recipients are better off both in income and wealth than those of non-recipients. A recent study using the 1968-88 waves of the Panel Study of Income Dynamics (PSID) confirmed the positive effect of parental income on the probability and the amount of money transfers from the parents to the child (Altonji et. al. 2000). Some evidence from abroad also confirms such an argument. Guiso and Jappelli (1996) found that in Italy "the distribution of wealth and

income is affected by intergenerational transfers and the rich are more likely to receive bequests"(p. 28).

As Henretta (1984) suggested, parents can transfer advantage to their children through two mechanisms: material aid and socialization. Material aid includes bequests made at parents' death and inter vivos transfers made during the parents' lives. Socialization includes parents' assistance with children's social networks and their influence on the children's attitudes, preferences, aspirations, and expectations.

A closer look at the ways through which parents transfer advantage to their children reveals two major components of such a transfer: housing and education. In the United States and many other Western countries, achievement of homeownership is a major source of wealth accumulation and a symbol for socioeconomic attainment. A young household with material aid from parents in such forms as direct housing inheritance or a loan or gift for a down payment can often achieve homeownership earlier than peers who have not received wealth transfers. Parental tenure status may also influence children's attitudes and expectations about living standards, which can affect their housing tenure choice as well.

As Henretta (1984) pointed out, "parental aid in home purchase is an interesting sociological topic since it is a mechanism that promotes the continuation of inequality from generation to generation" (p. 131). A recent study confirmed the effect of parental tenure status on the tenure status of children (Boehm and Schlottmann 1999). Similarly, with respect to education, parental material aid can take the form of paying for children's early private schooling and later for post-secondary education. Socialization, on the other hand, helps in molding children's expectations and aspirations about education, which may well affect attainment. As different levels of education usually result in different levels of earnings, the inequality continues from one generation to another.

Another sociological concern in intergenerational transfer is about social justice or redistribution of wealth within the family structure. Some researchers focused on the line of descent to study gender inequality in inheritance. Others cared about whether the less prosperous children received more help from their parents. Delphy and Leonard (1986) maintained that domestic property would pass disproportionately to the next generation of men due to the power of patriarchy. Mullins (1996), however, using the

1990 Brisbane household data in Britain, found that domestic property went roughly equally to the next generations of men and women. Menchik (1985) found that in most cases of his study, bequeathed wealth is shared equally among children. However, McGarry and Schoeni (1994, 1995), by using the Health and Retirement Survey and the Asset and Health Dynamics Survey respectively, found consistently that parents are more likely to transfer larger amounts to their less well off children.

In these studies, the motivation for wealth transfer is also a concern because it could have implications for government redistribution programs on economic welfare and behavior (Cox 1987). There are two theories in regard of the motivation for wealth transfer. The Altruism Model predicts that money transfers flow from rich to poor, whereas the Exchange Model suggests that the parent makes transfers to the children in return for services from them. Cox (1987) found a positive relationship between the recipients' income and the amount of transfer they received. Therefore, he concluded that inter vivos transfers are mainly driven by exchange motives. However, McGarry and Schoeni (1994, 1995), and Altonji et al. (2000) found little evidence of services for financial compensation.

The last, but not the least, concern about intergenerational wealth transfer from a sociological perspective is reflected in numerous studies on the living arrangements of young adults (DaVanzo and Goldscheider 1990, Avery et al. 1992, Whittington and Peters 1996, Goldscheider and Goldscheider 1999). The transition from childhood to young adulthood has been examined to assess parental roles and how much parent income and wealth are helpful in the success of such a transition. In these studies, inter vivos wealth transfer is used as a basic assumption, if not explicitly examined. They expected that some parents would continue to help their adult children financially even though they live in separate households. Other parents might also continue providing support by allowing their adult children to live at home. In this regard, parental wealth transfer or financial support affects not only the wealthy households but the poor as well.

Economists' Concerns

Economists' concern with intergenerational wealth transfer mainly involves saving and consumption behaviors. The key questions that stimulate economists to study

intergenerational wealth transfer are the following: What is the chief explanation for savings—for retirement or for leaving bequests? Or is it mainly precautionary savings, much of which may be bequeathed because of imperfections in annuity markets (Kotlikoff 1988)?

Modigliani and Brumberg's study (1954) established the well-known Life-Cycle Theory. According to this theory, people save primarily for retirement, and a rational consumer would forecast and consume all his earnings and not leave an intentional bequest. For half a century, many economists have tried to prove or disprove this theory and yielded many interesting findings, although their conclusions were often wildly different from each other.

Kotlikoff and Summers (1981) expressed the life-cycle theory mathematically as: Wealth = Life-cycle Savings + Wealth Transfers, and Life-cycle Savings = Earnings – Consumption. Namely, a society's total wealth is composed of life-cycle savings and wealth transfers, where life-cycle savings are the sum of household earnings net of the sum of household consumption and transfer wealth equals the sum of accumulated net transfers that all households received.

Saving behaviors, however, may respond to a stimulus that results contradictorily in the component change in these equations and in Modigliani's theory. Take housing price for example. Skinner (1989) pointed out that the rise in housing prices during the 1970s and 1980s could have an impact on saving behaviors either way. "If consumers have followed life-cycle patterns of consumption, the increased house values would be predicted to reduce saving rates in theoretical models with rational expectations and perfect foresight. Yet, the saving effects could also be moderated in the presence of a bequest motive; individuals concerned about their children facing higher housing prices would leave larger bequests rather than spending their windfall gains" (pp. 23-24).

Using the 1984 PSID data, Weil (1994) studied the effect of expected bequests and bequest receipt on the consumption behavior of young households. He estimated that consumption is about five percent higher for households that anticipate a bequest; consumption is ten percent higher for households that have already received a bequest. Therefore, there is a positive effect of bequests on the consumption of the young.

Engelhardt & Mayer (1995), using survey data collected in 1988, 1990, and 1993 in 18 major U.S. cities, found that the saving rate of transfer recipients is lower than that of non-recipients by as much as six percentage points, equaling a 39 to 49 percent reduction in the household saving rate. Engelhardt (1995), using the 1984 and 1989 PSID data, also found that for every dollar of inheritance received, saving is reduced by 50 cents. These studies suggest that household consumption and saving behaviors are both responsive to bequests.

The studies of the share of transfer wealth in total wealth or the relevant proportion of the two components in Modigliani's equation generated public interest and attention because it could have important implications for government policies. The two sources of wealth may be expected to respond to very different stimuli, and the knowledge of the relative contributions has importance in the policy debate about such issues as inheritance taxation.

Housing Industry's Concerns

The housing industry has a three-fold concern over intergenerational wealth transfer. The first is its general concern about the impact on the housing market. The transferred wealth can give assistance to those seeking to enter the housing market. Generally, it will shorten the time needed to save for down payments and thereby increase the demand for first homes. Wealth transfer may also allow the children of households who are already owners to increase their consumption of housing and thereby increase the demand for trade-up housing (Hamnett et al. 1989).

The second concern is specifically about housing inheritance. Since for most households the accumulation of wealth is in the form of housing equity and most households, especially the wealthy ones, are owners, direct housing inheritance is a major component of wealth transfer. The impact of housing inheritance on housing markets largely depends on how recipients handle it. In France, inherited housing was typically held as housing wealth by the recipient, in contrast with Great Britain where recipients more frequently converted inherited houses into financial wealth (Lafarrere 2000). Retention of the inherited properties contributes to an expansion of the rental sector and

second homes. Housing inheritance could also affect house prices either positively or negatively.

The third concern is even more specific, varying according to the type of interest group such as bankers, lenders, and homebuilders, respectively. For mortgage lenders, since few recipients will rush to pay down all mortgage debts, wealth transfers may not affect their business. On the other hand, however, as more households are able to pay a down payment and become first-time homebuyers due to transferred wealth, mortgage lenders may experience favorable impacts. As for mortgage insurers, if the impact on the first-time buyer is small relative to the size of the market, there should be no significant change in the need for mortgage insurance. But all else being equal, it should reduce demand because it is likely to decrease loan-to-value rates.

Two studies using U.S. data explored the impact of transfer on first-time home purchase. Engelhardt and Mayer (1994) found that one in five first-time buyers receives a financial transfer from a friend or relative (including parents) to help fund the down payment. According to Gale and Scholz (1994), compared with those who did not receive a transfer, the households receiving transfer wealth of $3,000 or more during 1983 to 1985 were 2.6 times more likely to purchase their first homes during that period.

The Canada Mortgage & Housing Corporation (CMHC 1996) conducted research to estimate the impact of inheritances and inter vivos gifts on various housing and mortgage markets in Canada. Based on data collected during the early 1990s, the study projected the size of such wealth transfer for the 1997-2006 period to be $12.7 billion (in 1996 dollars) per year, of which $10.9 billion (86%) is expected to be in the form of inheritances and $1.8 billion (14%) in the form of monetary gifts. Over one-third (35%) of households receiving inheritances and almost half (49%) of those receiving monetary gifts were projected to use them either to purchase property, make renovations, or pay down mortgage debts. In terms of dollar amount, it was projected that about $2.7 billion was to be spent primarily for housing purposes each year. However, this estimate does not include those who directly inherited houses and did not liquidate their inherited housing wealth.

The study forecasted the impact of this monetary flow and concluded that it would be very small relative to the large size of various housing industries and markets.

But that conclusion could be misleading in the sense that the research only estimated liquidated wealth transfer, while direct housing inheritances may have a stronger impact. Nevertheless, it is interesting to notice the distribution of the monetary flow. The largest impact of this annual monetary flow was forecasted to be on the renovation sector, accounting for about eight percent. In other words, $1,442 million (in 1996 dollars) per year was expected to flow into the renovation market. Meanwhile, about $329 million per year was expected to flow into vacation and investment properties, and $614 million was going to enhance first-time purchasing, accounting for about two percent of the market value of first-time housing. It has to be pointed out again, however, that this comparison between the direct flow of funds into the market and that of the market size could also be misleading. Through mortgage leverage, its real impact on the first-buyer market could be five to ten times larger and therefore increase the first-home market by ten to twenty percent, depending on how much the recipients behave differently from non-recipient buyers in terms of housing value and down payment structure.

III. How Big Is Intergenerational Wealth Transfer?

The Gridlock in the Debate among Economists

Ever since the establishment of the Life-Cycle-Savings Theory nearly half a century ago, economists have long debated on the proportion of savings vs. transfers in the wealth composition. Each component can be estimated through different methodologies. Some researchers directly estimated transfer wealth. For example, Modigliani (1988) cited some survey studies that estimate the share of transfer wealth to be less than 20 percent of total wealth. Although acknowledging that these "studies could suffer from serious recall biases," he insisted that "the bequest process plays an important, but quantitatively modest, role in the process of accumulation of national wealth" (p. 23).

Other researchers directly calculate the share of life-cycle savings. White (1978) concluded that the life-cycle model could at best account for 60 percent of aggregate

savings[1], and Darby (1979) found that at most 29 percent of U.S. private net worth can be attributed to life-cycle assets.

Kotlikoff and Summers (1986) used both conclusions and estimated that the share of life-cycle wealth was about 22 percent of total U.S. household wealth in 1974, and that the share of transfer wealth that they could measure directly reached to a range of 46 to 63 percent. If assessing transfer wealth as a residual in total wealth that was not measured as life-cycle savings, Kotlikoff and Summers suggested a nearly 80 percent share of transfer wealth. This conclusion is the exact opposite of Modigliani's estimate that 20 percent of total wealth is transfer wealth.

Modigliani (1988) disagreed with some of the definitions used by Kotlikoff and Summers, who treated all parental spending (either cash gifts or paying tuition) on children above age 18 as intergenerational wealth transfer, and only the support of children under 18 was considered consumption by parents. Using their definitions, Kotlikoff and Summers even suggested in their 1986 paper that if they "adjust[ed] for durables by simply excluding the stock of durables from total wealth," they could arrive at "a negative value of life-cycle wealth" (1986, p. 15).

Modigliani (1988) also pointed out a mathematical error in Kotlikoff and Summers' calculations (1986). After reconciling the definitions of Kotlikoff and Summers, he reduced their estimate of nearly 80 percent transfer wealth back to merely 20 percent. Kotlikoff (1988) subsequently responded that Modigliani only considered bequests at death, not including "transfers in the form of explicit gifts, college tuition, and implicit gifts such as interest-free loans, the transfers of businesses to children through partnership agreements, and so on" (p. 47).

The debate clearly fell into a gridlock between the 80:20 and 20:80 division of life-cycle-savings vs. transfer wealth by that time. More recently, Gale and Scholz (1994) criticized the methodologies of both sides. Using the micro data of the 1983-86 Panel Survey of Consumer Finances, they concluded that the share of wealth transfer was about 51 percent. Figure 1 shows the various estimates made by different economists.

[1] According to Kotlikoff (1988), White (1978) concluded that the life cycle model can account for about a quarter of aggregate saving, which is different from our reading of White's paper.

Figure 1: Estimate of Transferred Wealth vs. Life-Cycle Savings as Share of Total Wealth

Nature of Wealth (W)	Study	Share in Total Wealth
Transferred wealth (TW)	Morgan et al. (1962)**	<10%
	Projector & Weiss (1964)**	16%*
	Barlow et al. (1966)**	one-seventh or <20%
	Menchik & David (1983)**	18.5%
	Kotlikoff (1988)	46-63% (directly calculated), Nearly 80% (as a residual)
	Modigliani (1988), Reconciliation of Kotlikoff and Summers method	17-20%
	Gale & Scholz (1994)	51%
Life-Cycle Savings (LC)	White (1978)	At most 60%
	Darby (1979)	At most 29%
	Kotlikoff and Summers (1986)	21.9% (Could be negative if taking out durables)

* Percentage of respondents answering that inherited assets were a "substantial portion" of total assets.
** Cited in Modigliani (1988)

Evidence from abroad shared this uncertainty among economists on the size of transfer wealth. For example, the Royal Commission on the Distribution of Income and Wealth (cited in Modigliani 1988) estimated that in Britain, inherited wealth was 20.3 percent of total wealth, a share that rises to 24.7 percent when gifts ("all forms of transmitted wealth") are included. Guiso and Jappelli (1996) used data on 8,188 households from Bank of Italy's Survey of Household and Wealth in 1991 and concluded that gifts and bequests represent between 25 and 36 percent of total net worth in Italy. Laferrere (2000) used survey data on 9,530 French households and estimated that between one-quarter and one-half of household wealth in France is inherited.

Along with this uncertainty are the differences found in the further distinction between bequests and gifts. The most recent finding in the United States is by Gale and Scholz (1994). They concluded that inter vivos transfers are the sources of at least 20 percent of aggregate wealth. Bequests account for an additional 31 percent of net worth. That leaves less than half of the total wealth being the result of life-cycle savings. As Figure 2 shows, there is a wide range of differences among economists in their estimates of share of bequests and inter vivos gifts in total transfer wealth.

Figure 2: Share of Bequests vs. Inter Vivos in Transferred Wealth

Study	Bequest	Inter Vivos
Kurz, 1984	13% of transferred wealth	87% of transferred wealth*
Cox & Raines, 1985	A quarter of transferred wealth	Three quarters of transferred wealth
RCDIW (cited in Modigliani 1988) British data	82% of transferred wealth (20.3 percent of total wealth)	18% of transferred wealth (4.4 percent of total wealth)
MacDonald, 1990 (cited in Schoeni 1993)	19.2 percent of transferred wealth	
Schoeni, 1993	Sample mean: $312	Sample mean: $398 (28 percent larger than bequests)
Gale & Scholz, 1994	61% of transferred wealth (31 percent of total wealth)	39% of transferred wealth (At least 20 percent of total wealth)
Guiso & Jappelli, 1996 (Italian data)	Around 5/6 of transferred wealth (20-30 percent of total wealth)	Around 1/6 of transferred wealth (4-6 percent of total wealth)
CMHC, 1996 (Canadian data)	86% of transferred wealth	14% of transferred wealth

* Including within family unit transfer

In addition to the complexity of bequests vs. inter vivos gifts, another fine distinction has to be made in our consideration of total wealth transfer. Not all transfers are intergenerational, and substantial transfer occurs between spouses. Even within intergenerational transfer, not all transfers are from parents to children. Some transfers are from grandparents and others, and some transfers go from the young to the elderly.

Data presented by David and Menchik (1982) suggest that parents to children transfers account for about 60 percent of the total transfers.

Our Estimates Based on Demographic Analysis

During the debate over the size of wealth transfers, some economists acknowledged the importance of demographic structure to these estimates. Ando and Kennickell (1987) pointed out that the macro savings behavior of households is driven by the rate of growth of the population and technological progress because these affect the rate of growth of aggregate income.

Some demographic tools have been used in the economic studies. For example, many estimate wealth by age cohorts. Demographic structure change, however, has rarely been taken into consideration in economists' calculations. In the following section, we have developed a new method to estimate the share of bequests and savings in total wealth, using the SCF data and the Consumer Expenditure (CE) Survey.

Figure 3 profiles household net wealth in 1989 and 1998, broken down by the birth year of the head of household. The total household net wealth in the United States in 1998 was $28,957 billion, shared by 102.5 million households. In 1989, there were only 93 million households sharing a total net wealth of $17,586 billion in current dollars and $22,393 billion in 1998 dollars. A decrease of 2,005,476 households in the 1930s birth cohort and 9,489,783 in the previous cohort(s) indicates that these households did not make it through the 1989-1998 period. We only consider the cohorts born in the 1930s and earlier because the loss due to death among householders born after the 1930s is not great and can be offset by immigrants.

Figure 3: Household Net Wealth (in 1998 dollars) by Birth Cohort of Household Head

1989			
Birth Year of Household Head	Number of Households	Aggregated Net Wealth (in Millions)	Net Wealth per Household
After 1960	455,385	6,505	14,284
1960s	14,449,275	751,439	52,005
1950s	20,717,383	2,415,679	116,602
1940s	17,363,969	4,630,228	266,657
1930s	**13,561,861**	4,805,994	354,376
1920s	**12,850,794**	5,462,635	425,082
Before 1920	**13,621,435**	4,320,549	317,187
Total	93,020,102	22,393,018	240,733

1998			
Birth Year of Household Head	Number of Households	Aggregated Net Wealth (in Millions)	Net Wealth per Household
After 1970	251,809	6,232	24,750
1970s	12,289,948	338,592	27,550
1960s	20,767,534	2,466,410	118,763
1950s	22,810,971	5,775,120	253,173
1940s	17,889,749	7,831,490	437,764
1930s	**11,556,385**	6,206,690	537,079
Before 1930	**16,982,446**	6,332,930	372,910
Total	102,548,842	28,957,500	282,378

Number of Aging Households Who Did Not Make It	
Birth Year of Household Head	
1930s	**2,005,476**
Before 1930	**9,489,783**

Note: The 1989 wealth was converted to 1998 dollar using the SCF released methodology (See Kennickell et al. 2000). Source: 1989 and 1998 SCF.

Most of these aging households likely transferred some part of their wealth to others, mostly to their children, either before or after death, unless they had consumed all of their wealth. It is true that some elderly people liquidate their housing wealth towards the end of their lives. Sheiner and Weil (1993, cited in Jones 1996) reported that at extinction only 42 percent of households own their homes. But such liquidation does not necessarily mean those elderly people have consumed all of their former housing wealth before death.

Contrary to the predictions of the Life-Cycle-Savings Theory and popular perception that the elderly dissave significantly, researchers using micro data have only found slight change in the saving rate in response to aging. For example, Ando and Kennickell (1987) found that "older families do not dissave much after their retirement" (p. 211) and Robb et al. (1992) found that "the common presumption in simulation models of upward-sloping consumption–age profiles accompanied by dissaving in retirement could not be supported in Canadian data" (p. 669). Wachtel (1984), Kennickell (1990), and Bosworth et al. (1991) also had similar findings.

Only the studies using aggregate data on saving (Heller 1989; Masson and Tryon 1990) have shown that the presence of a larger elderly population leads to a lower saving rate. Weil (1994) reconciled the conflict between findings using the aggregate data and those using the micro data by claiming that it was the receipt of bequests or expectation of bequests that has caused the lower rate of saving by the young. In other words, instead of proving the dissaving of the elderly, findings using aggregated data have actually strengthened those based on micro data and reinforced the importance of bequests.

Based on these findings, it is reasonable for us to estimate the maximum size of such bequests during the 1989-1998 period by multiplying the average net wealth per household by the number of the households that did not make it through the period. We may use either the 1989 or 1998 group mean value of their net wealth. The first estimate would be more accurate if most of the bequests occurred early rather than late in the nine-year period. The second estimate reflects more accurately the other way around. The estimates of the share of bequests are shown in Figure 4. While this is a reasonable approach, it overstates total transfers at death because expenditures could be high in the final years of life. On the other hand, the approach takes no account of transfers when the giver is in late middle and early old age. Thus, the estimates here may be a good approximation of aggregate wealth transfers over the period.

Figure 4: Estimate of Bequests that Occurred During 1989 and 1998 (in Millions of Dollars)

Number of Households Who Did Not Make It		Estimated Wealth Holding Based on the 1989 Mean	Estimated Wealth Holding Based on the 1998 Mean
Born 1930s	2,005,476	710,692	1,077,099
Born Before 1930	9,489,783	3,521,986	3,538,838
Sum of Bequests		4,232,678	4,615,937
Bequests as % of Total Wealth		14.6%	15.9%

Source: 1989 and 1998 SCF.

Both estimates, therefore, only represent the size of the bequests transferred during the nine-year period between 1989 and 1998, but not all of the bequests, which have occurred in all the existing households in the years prior to 1989. As long as a household already existed during those earlier periods, it should have its fair chance of receiving some bequests. To estimate that, we use a "blow up" and discount method similar to the method used by economists used and described in Modigliani's paper (1988).

Since we know that the age of the household head in the 1998 SCF data is roughly in the range of 18 to 90, we can estimate the size of total bequests as the sum of the bequests received during the previous years back to 1926 when the oldest household head in the 1998 sample was 18 years old, the youngest age to be in the sample. We can divide 1926-1998 into eight nine-year periods and assign each period a household reduction factor as Figure 5 shows. In other words, we assume only certain fractions of the current households existed in each of the previous nine-year period to be possibly receiving any bequests. Figure 5 shows the size of bequests based on this natural reduction factor.

Figure 5: Estimated Accumulated Bequests (in Millions of Dollars) Based on Household Reduction Factor

Period	Factor of a Reduced Stock of Households	Estimated Bequest Based On Household Reduction Factor
1989-1998	1.000	4,232,678
1980-1988	0.875	3,703,593
1971-1979	0.750	3,174,509
1962-1970	0.625	2,645,424
1953-1961	0.500	2,116,339
1944-1952	0.375	1,587,254
1935-1943	0.250	1,058,170
1926-1934	0.125	529,085
Accumulative Total	4.500	$19,047,051
1989-98 Bequests		4,232,678
Total Bequests		19,047,051
Total Wealth		28,957,500
Share of Bequests		65.8%

Source: 1989 and 1998 SCF.

While the principal assumption is that the size of the bequests had to be proportionally smaller during those earlier periods, there could be various ways to discount the size of those early bequests. As both the number of households and size of wealth have been growing overtime, we can use either or both factors. We may also estimate based on the actual household growth instead of the crude reduction factor used in Figure 5. As Figure 6 shows, the number of households in 1988 was 90.5 million, about 0.87 of that in 1998. To reflect this trend, we annualize the estimated bequest during the 1989-1998 period and discount it by 0.87 for the year 1988. Accordingly, we discount the size of bequests in each of the previous years. Figure 6 shows that the estimated share of bequests in total wealth based on actual household growth is either 66.9 or 72.9 percent of total wealth, depending on whether the 1989 or 1998 mean is used. The third column is each year's number of households as a share of 1998's 103.5 million households. The size of the bequests for 1988 and earlier years in the fifth and sixth columns is derived from annualizing the amount of bequests during the period of 1989-98 and discounting by the household growth trend in the third column.

Figure 6: Estimated Accumulative Bequest (in Millions of Dollars) Based on Household Growth

Year	Number of Households (1,000)	Share as 1998 Number of Households*	Year(s)	Size of Bequest Based on 1989 Mean Value	Size of Bequest Based on 1998 Mean Value
1998	103,534	1	Period (1989-1998)	4,232,678	4,615,937
1988	90,517	0.87	1988	411,169	448,398
1987	89,145	0.86	1987	404,936	441,602
1986	87,887	0.85	1986	399,222	435,371
1985	86,346	0.83	1985	392,222	427,737
1984	84,565	0.82	1984	384,132	418,914
1983	83,731	0.81	1983	380,344	414,783
1982	81,020	0.78	1982	368,029	401,353
1981	79,638	0.77	1981	361,751	394,507
1980	78,146	0.75	1980	354,974	387,116
1979	77,932	0.75	1979	354,002	386,056
1978	76,548	0.74	1978	347,715	379,200
1977	74,784	0.72	1977	339,702	370,461
1976	73,415	0.71	1976	333,484	363,680
1975	71,925	0.69	1975	326,715	356,299
1974	70,558	0.68	1974	320,506	349,527
1973	68,849	0.66	1973	312,743	341,061
1972	66,945	0.64	1972	304,094	331,629
1971	65,081	0.63	1971	295,627	322,395
1970	63,640	0.61	1970	289,081	315,257
1969	62,261	0.60	1969	282,817	308,426
1968	60,952	0.59	1968	276,871	301,941
1967	59,476	0.57	1967	270,166	294,629
1966	58,486	0.56	1966	265,669	289,725
1965	57,501	0.56	1965	261,195	284,846
1964	55,996	0.54	1964	254,359	277,390
1963	55,189	0.53	1963	250,693	273,393
1962	54,652	0.53	1962	248,254	270,733
1961	53,464	0.52	1961	242,857	264,847
1960	52,799	0.51	1960	239,837	261,553
1959	51,435	0.50	1959	233,641	254,796
1958	50,474	0.49	1958	229,275	250,036
1957	49,673	0.48	1957	225,637	246,068
1956	48,902	0.47	1956	222,135	242,248
1955	47,874	0.46	1955	217,465	237,156
1954	46,962	0.45	1954	213,322	232,638
1953	46,385	0.45	1953	210,701	229,780
1952	45,538	0.44	1952	206,854	225,584
1951	44,673	0.43	1951	202,925	221,299
1950	43,554	0.42	1950	197,842	215,756
1949	42,182	0.41	1949	191,609	208,959
1948	40,532	0.39	1948	184,114	200,786
1947	39,107	0.38	1947	177,641	193,726

1946	38,370	0.37	1946	174,294	190,076
1945	37,503	0.36	1945	170,355	185,781
1944	37,115	0.36	1944	168,593	183,859
1943	36,833	0.36	1943	167,312	182,462
1942	36,445	0.35	1942	165,549	180,540
1941	35,929	0.35	1941	163,206	177,983
1940	35,153	0.34	1940	159,681	174,140
1939	34,409	0.33	1939	156,301	170,454
1938	33,683	0.33	1938	153,003	166,857
1937	33,088	0.32	1937	150,300	163,910
1936	32,454	0.31	1936	147,421	160,769
1935	31,892	0.31	1935	144,868	157,985
1934	31,306	0.30	1934	142,206	155,082
1933	30,802	0.30	1933	139,916	152,586
1932	30,439	0.29	1932	138,268	150,787
1931	30,272	0.29	1931	137,509	149,960
1930	29,997	0.29	1930	136,260	148,598
1929	29,582	0.29	1929	134,375	146,542
1928	29,124	0.28	1928	132,295	144,273
1927	28,632	0.28	1927	130,059	141,836
1926	28,101	0.27	1926	127,647	139,205
Total Bequests				19,358,422	21,111,282
Total Wealth				28,957,500	28,957,500
Share of Bequests				66.9%	72.9%

* Only two decimal places are displayed while the complete number is used in the calculation.
Source: SCF, HVS, Historical Statistics of the United States.

If we use the wealth growth rate between 1989 and 1998 instead, the estimated share of bequests based on the 1989 mean value of deceased households' net wealth is just about 56 percent of the total wealth, as shown in Figure 7. Such an estimate is not accurate but conservative, for the 1990s had a record high growth rate of wealth.

Figure 7: Estimated Accumulative Bequests Based on Wealth Growth (in Millions of Dollars)

1998 Net Wealth	28,957,500
1989 Net Wealth	22,393,018
Inversed Growth Ratio	0.77

Period	Size of Bequests Relative to that in 1989-98 Period*
1989-1998	1.00
1980-1988	0.77
1971-1979	0.60
1962-1970	0.46
1953-1961	0.36
1944-1952	0.28
1935-1943	0.21
1926-1934	0.17
Accumulative Total	3.85
1989-98 bequests	4,232,678
Total bequests	16,283,607
Total wealth	28,957,500
Share of bequests	56.2%

* Based on the inversed growth ratio of 0.77
Source: 1989 and 1998 SCF.

The wealth growth factor and the household growth factor may co-exist and have a compound effect. Figure 8 shows our new estimates based on both factors, and the potential size of bequests is estimated at 40.5 percent of the total wealth.

Figure 8: Estimated Accumulative Bequests (in Millions of Dollars) Based on Compound Factors

Period	Estimated Size of Bequests Based on Wealth Growth Factor	Factor of a Reduced Stock of Households	Estimated Size of Bequests Based on the Compound Factors
1989-1998	4,232,678	1.00	4,232,678
1980-1988	3,273,157	0.88	2,864,012
1971-1979	2,531,153	0.75	1,898,365
1962-1970	1,957,356	0.63	1,223,348
1953-1961	1,513,636	0.50	756,818
1944-1952	1,170,504	0.38	438,939
1935-1943	905,158	0.25	226,290
1926-1934	699,965	0.13	87,496
Total			11,727,945
1989-98 Bequests			4,232,678
Total Bequests			11,727,945
Total Wealth			28,957,500
Share of Bequests			40.5%

Sources: 1989 and 1998 SCF.

Applying the same "blow up" and discount methodology, we also estimate the size of savings, using the Consumer Expenditure (CE) Survey. Figure 9 shows how we estimate the annual aggregated household savings, and Figure 10 shows how we estimate the life-cycle savings based on compound factors. Since the aggregated saving in 1998 was $652,417 million and in 1989 was $440,588 million, the inversed growth rate of saving was calculated as 0.68. Therefore, we estimate the size of life-cycle savings to be in the range of 34.5 to 44 percent of the total wealth, as shown in Figure 10. As we subtract the conservatively estimated size of bequests (40.5 percent) and the estimated size of savings (34.5 to 44 percent), the size of inter vivos transfer should be in the range of 15 to 25 percent. Since some of the bequests may go to institutions such as churches and foundations, the actual share of bequests could be smaller and that of inter vivos transfer could be larger. No matter how that division between bequests and inter vivos transfers may change and regardless of whether or not people are more charitable before or after death, the sum of bequests and inter vivos, which is the entire transferred wealth, should occupy a majority share in the total wealth.

Figure 9: Aggregated Household Savings (In 1998 dollars)

Year	Number of Households (in Millions)	Average Income	Average Expenditure	Average Savings	Aggregated Savings (in Millions)
1997	106	40,548	35,361	5,187	547,575
1996	104	39,492	35,111	4,381	456,548
1995	103	39,486	34,508	4,978	513,316
1994	102	39,794	34,900	4,894	500,257
1993	100	39,332	34,621	4,711	471,295
1992	100	39,331	34,675	4,656	465,736
1991	98	40,572	35,441	5,131	502,373
1990	97	39,770	35,395	4,375	424,229
1989	96	41,155	36,557	4,598	440,588
Accumulative Savings through the Period					4,321,916

Source: Consumer Expenditure (CE) Survey

Figure 10: Estimated Aggregated Household Savings (In Millions of 1998 dollars)

1998 Aggregated Savings	$652,417
1989 Aggregated Savings	$440,588
Inversed Growth Ratio	0.68*

Period	Estimated Savings Based on The Inversed Growth Ratio of Aggregate Savings	Factor of a Reduced Stock of Households	Estimated Savings Based on Compound Factors
1989-1998	4,321,916	1.000	4,321,916
1980-1988	2,918,664	0.875	2,553,831
1971-1979	1,971,023	0.750	1,478,267
1962-1970	1,331,065	0.625	831,916
1953-1961	898,891	0.500	449,446
1944-1952	607,036	0.375	227,639
1935-1943	409,942	0.250	102,485
1926-1934	276,840	0.125	34,605
Sum	12,735,379		10,000,105
1989-98 Savings	4,321,916		4,321,916
Total Savings	12,735,379		10,000,105
Total Wealth	28,957,500		28,957,500
Share of Savings	44.0%		34.5%

* Only two decimal places are displayed, while the whole number is used for calculation.
Sources: Consumer Expenditure (CE) Survey and SCF.

IV. How Intergenerational Wealth Transfer Affects Housing

Previous Findings

How many owners own their homes through inheritance? Previous studies provided a few statistics on some European countries, although we have not found any that provides a U. S. estimate. In Britain, nine or twelve percent of households received housing inheritance (Hamnet et al. 1989, Forrest and Murie 1995). In France, about 26 percent of homeowners owned their homes through inheritance (Laferrere 1995), and housing inheritance on average accounted for more than 40 percent of the total value of bequests (Laferrere 2000). Several earlier studies cited in Tosi (1995) found that in France, 28 percent of owners had family assistance in their home purchase, and thirteen percent of the working class achieved homeownership through inheritance or donation. In Italy, 23 percent of homeowners received their house through inheritances, gifts, or dowry and a substantial number of families owned their homes with the help of direct or indirect wealth transfers.

Although there are several ways in which intergenerational wealth transfer affects housing, perhaps the most common is through the channel where parents help their children with a down payment. As we all know, and it has been proved by research, down payment requirements significantly impact tenure choice (Slemrod 1982). According to Engelhardt and Mayer's study (1994), one in five first-time buyers in the United States receives a financial transfer from a friend or relative to help fund the down payment. Although it was not specified, the majority of that transfer is presumably coming from parents. This is consistent with the findings stated earlier from the Canadian estimate of wealth transfers to first-time buyers. Another study by Engelhardt and Mayer (1995) found that 22 percent of people received transfers specifically targeted toward home purchases. The fact that gifts are helpful in achieving homeownership has been confirmed through a study by Haurin et al. (1995), who found that the percentage of households receiving gifts or inheritances in the year of first homeownership is significantly greater than that among renters and existing owners.

If a transfer is received, the amount of the gift tends to be large. Engelhardt and Mayer (1994) estimated that the average transfer comprised more than half of the down

payment. They later discovered that for each dollar of transfer received, households increase the amount of down payment by about 85 cents, which allowed them to achieve a higher down payment threshold. Indeed, they found that 26 cents of the 85 cents were due to the increase in housing consumption (Engelhardt and Mayer 1995). The study by Haurin et al. (1996) confirmed that the cumulative amount of gifts received by the household was an important component of the down payment. Of those households that received a gift and purchased a house in the years between 1988 and 1990, the average value of the gift equaled sixteen percent of the purchase price of the house and the size of the gift was $5,244 on average.

Such gifts, as well as wealth transfer in general, not only help the children with the down payment in homeownership or buying larger houses, the financial assistance also help the children become homeowners sooner. In the United States, first-time homebuyers usually took two to three years to save for the down payment (Engelhardt 1994). According to Engelhardt and Mayer (1995), households that receive transfers reduce the time required to save for the down payment by 22 percent. Similarly, Guiso & Jappelli (1996) estimated that in Italy, inter vivos transfers shorten the saving time by one to two years and allow households to purchase considerably larger homes.

Engelhardt and Mayer's study (1995) asserted that transfers also have a strong positive effect on the value of the house purchased. Their study confirmed an earlier study by Henretta (1984) that homeownership by parents increases the probability of a child's homeownership and that parents' household income is positively associated with the home value of the children. Similarly, a study by Haurin et al. (1994) claimed that increasing wealth by ten percent raises the probability of homeownership by 2.7 percent. A ten percent increase in parents' highest grade completed, a proxy for their likely current income, raises the probability of ownership by 2.6 percent.

Parents' support for children on housing does not stop at helping pay down payments. Haurin et al. (1996) found that more owners continue to receive gifts/inheritances than do renters, suggesting a pattern of continuing parental support for a few years after the first homeownership. This raises another question or concern: the disparity or inequality between owners and renters.

Some British data show the compounding effect of housing inheritance on housing wealth distribution. Between 1989 and 1991, seventeen percent of homeowners had inherited, compared with three percent of tenants. The proportion of all households inheriting property was twelve percent (Forrest and Murie 1995). An earlier study similarly asserted that owners were six times more likely to inherit than tenants (Hamnett et al. 1989). In other words, the process of housing inheritance contributes to the existing inequalities between owners and renters, even though homeownership is now more widely distributed than ever.

Hamnett et al. (1991) claimed that in about three decades a substantial majority of individuals in Britain will stand to inherit house property at some stage of their lives, and a considerable number of households will inherit twice. On the other hand, there will be a significant minority of households, between ten and thirty percent, who are unlikely to inherit house property from parents or from anyone else. According to Hamnett et al. (1989), therefore, in Britain "the wealthier third of households [stood] to inherit house property at some stage in their lives" and about two decades from today "perhaps three-quarters of households [will] stand to inherit" (p. 46).

The inequality in wealth transfer also has a color line and racial difference. Gale and Scholz (1994) found that only six percent of transfer recipients were minorities, while 20 percent of non-recipients were minorities. Rosenzweig and Wolpin's study (1993) used the National Longitudinal Surveys to analyze transfers of money from parents to young adult children living apart from parents. They found that about 33 percent of whites and sixteen percent of blacks ever received a private monetary transfer. Whites are apparently twice as likely as blacks to receive a transfer. Given they receive a transfer, the amount whites receive is twice as large as blacks, $3,144 vs. $1,581 in 1985 dollars. A study by MacDonald (1990, cited in Schoeni 1993) also showed that, among recipients, whites receive $3,500 more than Mexican-Americans, and Mexican-Americans receive $700 more than blacks.

Jayakody (1998), using the PSID data, found that African Americans with all types of family composition received far less parental help. According to this study, African Americans only received about one third of the amount that whites did on average, although it found the likelihood of African Americans receiving help from other

relatives was about the same as that of the whites (see Figure 11 for our tabulation of Jayakody's data).

Figure 11: Disparities Between Black and White Families in Receiving Wealth Transfers in 1988, by Family Type

	Share of Receivers of Parental Help	Mean (All Households)	Mean (Receivers)
White			
Married couple with child(ren)	23.4%	$522	$2,243
Female head with child(ren)	27.6%	$429	$1,552
Married couple, no children	19.3%	$625	$3,248
Single men and women, no children	34.2%	$551	$1,625
Black			
Married couple with child(ren)	11.8%	$71	$604
Female head with child(ren)	20.2%	$112	$562
Married couple, no children	10.5%	$121	$1,157
Single men and women, no children	21.6%	$113	$525

	Share of Receivers From Other Relatives
White	
Married couple with child(ren)	4.5%
Female head with child(ren)	11.9%
Married couple, no children	3.5%
Single men and women, no children	7.7%
Black	
Married couple with child(ren)	4.6%
Female head with child(ren)	10.4%
Married couple, no children	2.4%
Single men and women, no children	5.3%

Source: Tabulation based on Jayakody's (1998) study using the 1988 PSID data.

Studies also show that higher parental income not only correlates with higher probability of wealth transfers but also helps young adults live independently and reduces the probability of doubling-up with parents. For example, Rosenzweig and Wolpin (1992, cited in Schoeni 1993) found that a rise in parental income by $5,000 increased the probability that an independent-living adult child would receive a monetary transfer by 2.2 percent and decreased the probability of co-residence by 2.5 percent. In that sense, parental income ultimately affects children's housing either through explicit wealth

transfer to help with homeownership at the upper end or by implicit financial support through co-residence at the lower end of the income stratification.

Children of better-off parents have an advantage, noted by Cox and Rank (1990, cited in Schoeni 1993) who found that parent's income positively influenced the amount of money received by adult children even when controlling for adult children's income. A more recent study (Altonji et al. 1997) found that inter vivos transfers from parents are fairly insensitive to the income change of parents or children. Parents only increase their transfers by a few cents for each extra dollar of current or permanent income they have, and they reduce such transfers by only a few cents for each extra dollar of income their child has. Such insensitivity may prove from yet another angle the persistent and universal existence of inter vivos transfers.

Similar to parental income, the housing tenure of parents also matters. Boehm and Schlottmann (1999) found that having parents that are homeowners increases the likelihood of children's homeownership by 24.4 percentage points. This represents an almost 60 percent increase in the probability that a child will own his or her home within ten years after leaving parents' homes. In addition, they found that children of homeowners are more likely to achieve higher levels of education and therefore permanent income (Boehm and Schlottmann 1999), and that is particularly significant for lower income households (Boehm and Schlottmann 2001). They also concluded that these results led to substantially higher levels of accumulated housing and non-housing wealth for children of homeowners (Boehm and Schlottmann 2001).

Our Own Analysis

We use the 1998 SCF data to estimate the relationship between wealth transfer and homeownership and find that households that have ever received such transfers of wealth have notably higher homeownership rates across all ages, incomes, and racial groups. A simple multivariable logistic model proves that all types of gifts have significant impact on homeownership after controlling for age, income, and race. Gifts from parents have the greatest impact, and gifts from grandparents only help minority and low-income families (see Table 12).

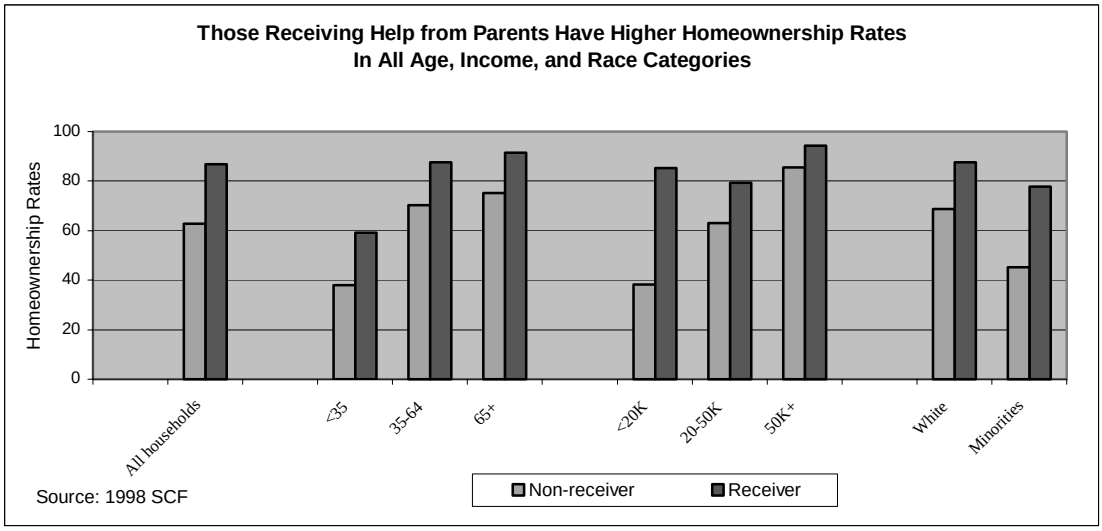
Figure 12: Impact of Wealth Transfer on Homeownership

	From parent		From Grandparent		From anyone	
Ownership Rate	Non-receiver	Receiver	Non-receiver	Receiver	Non-receiver	Receiver
All Households	62.9	86.8	66.2	67.5	62.2	83.2
<35	37.9	59.2	38.3	50.2	37.3	53.1
35-64	70.3	87.5	72.6	76.5	69.8	85.5
65+	75.3	91.4	79.2	86.2	74.3	90.6
<20K	38.3	85.4	43.1	61.4	36.8	81.0
20-50K	63.0	79.2	65.5	58.6	62.7	75.8
50K+	85.6	94.3	87.4	79.8	85.8	91.6
White	68.7	87.6	72.1	66.3	68.4	83.7
Minorities	45.1	77.9	46.2	76.6	44.0	78.2

Source: 1998 SCF

Most of the wealth transferred is from parents to children. Households that receive such gifts from parents have a homeownership rate that is twenty-four percentage points higher than households that have not received such gifts, and this uplifting trend holds true across age, income, and race groups, as Figure 13 displays.

Figure 13



The impact of such parental wealth transfer in boosting homeownership is greatest among low-income, minority and younger households. It increases the homeownership of the groups by 47.1, 32.8 and 21.3 percentage points, respectively. This dramatic boost in homeownership is not surprising since these groups are the most constrained in achieving homeownership on their own. For such groups, parental assistance makes a real difference.

However, not everyone has the good fortune to inherit or be given outright gifts. Minority groups and low-income households are particularly disadvantaged in this respect (see Figure 14).

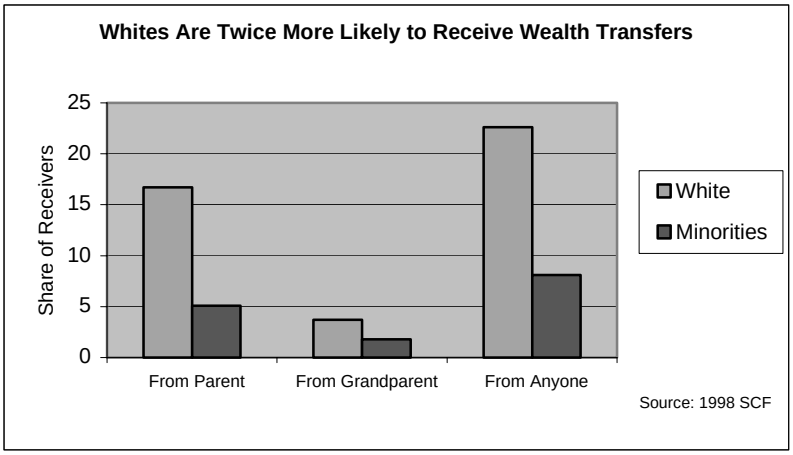
Figure 14: Minorities and Lower-Income Households Are Less Likely to Receive Parental Wealth Transfer

		Share of Receivers of Parental Gift
By Income	<$20K	10.8
	$20-49.9K	13.9
	$50K+	17.3
By Age	<35	4.7
	35-64	14.0
	65+	24.9
By Race	White	16.7
	Minorities	5.1
	Total	14.1

Source: 1998 SCF

In fact, minorities are less likely to receive monetary gifts from anyone, not just from parents. The share of receivers of gifts or wealth transfers among minority households is only about one third to less than one half of that among the whites (see Figure 15).

Figure 15



Housing inheritance seems less common in the United States than in some European countries. Our analysis of the 1995 American Housing Survey (AHS) shows that 1.53 million, or 2.4 percent, of homeowners obtained their current homes entirely through inheritance or gift. That is, they did not purchase their houses. One of the reasons that such a small percentage of American owners reported owning their current homes through inheritance or gift is that the United States is legendarily a society with high mobility where people often move; homeowners could sell their inherited house and buy another one in another location. As long as the children moved, their first gift house from parents is no longer accounted for in the statistics reported above. Also, this estimate does not include those homeowners who liquidated the housing wealth they have received from parents through inheritance or gift. In addition, the United States is a nation of immigrants, and first-generation immigrants usually do not have opportunities for housing inheritance yet. The same is true for parental assistance with gifts.

On the other hand, housing inheritance has a greater impact on second homes.[2] Based on the 1995 AHS, we find that one million out of nine million households who owned second homes cited inheritance as one of the reasons for their having such properties. Even for primary residence, as homeownership rate stands historically high at

[2] Statistics in the United States on second homes often seem to be inconsistent due to definition differences. For clarification, see "Second Homes: What, How Many, Where, and Who" (Di et al. 2001).

67.4 percent (Joint Center for Housing Studies of Harvard University 2001), housing inheritance has become and will be more important in the future.

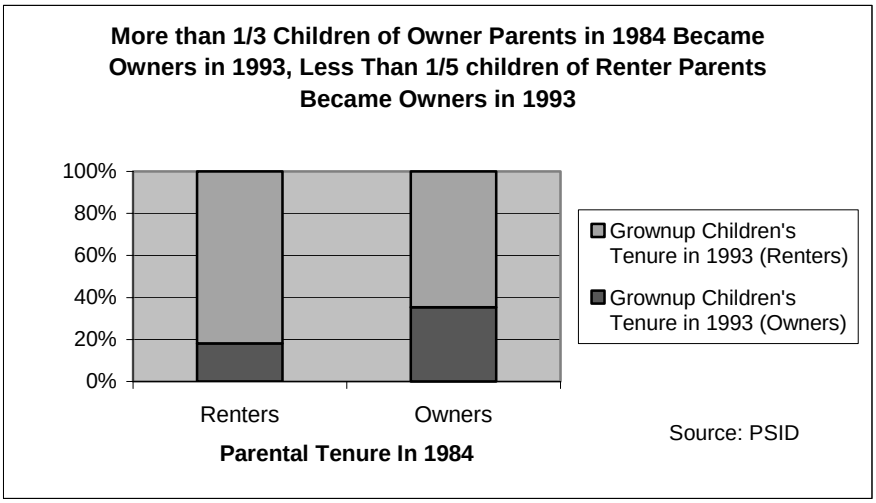
Putting It in the Context of a Larger Concern

Finally, we would like to put the issue of intergenerational wealth transfer into a context that is based on parental social-economic status and its impact on children's economic future. Since homeownership represents the American Dream, housing tenure may, just as many people believe, approximately represent social status. The correlation between parental and children's tenure status may help answer the following questions: How much social mobility does the American society have for individuals? Is it true that ours is such that anyone can make it on his or her own? Or, are some of us born with disadvantages so that as a group we will never be able to catch up? We explore the PSID data and find a strong effect of parental tenure status on children's tenure choice over nine- and twenty-five-year spans.

Using the PSID data, we trace 337 individuals who were 15-17 years old in 1984, who were living with parents and were interviewed again nine years later in 1993 as household heads or spouses or cohabiters with household heads.[3] Because of their young age, only thirty percent of them achieved homeownership by 1993. But among those whose parents owned their units in 1984, thirty-five percent of the young adults have become homeowners or spouses of and cohabiters with homeowners by 1993, while only 18 percent of those who lived in rental units with their parents in 1984 became homeowners or spouses of and cohabiters with homeowners in 1993. In other words, parental status in homeownership is a fairly good predictor of children's achievement in homeownership at young adulthood between the ages of 24 to 26 years old (see Figure 16).

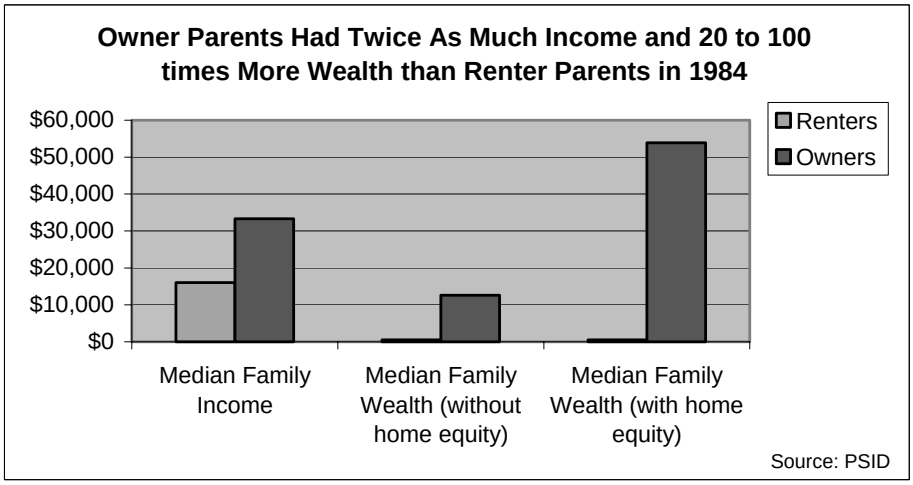
[3] The PSID data had the first supplement section on wealth in 1984, and 1993 is the latest year that the finalized PSID data are available.

Figure 16



Associated with parental tenure status are the apparent differences in household income and net household wealth of the parental households. While the owner parents had a median total family income of more than $33,000 in 1983, the parents in rental units only had $16,000 median income. The median household net wealth of renter parents was only about $520 in 1984, whereas that of owner parents was $12,600, which rose to $53,900 if housing equity was included (see Figure 17).

Figure 17



The difference between owner and renter parents and their impact on children's tenure status is statistically significant, although parental income and wealth are not significant. Even after controlling for the income, education level, race/ethnicity, family type, and other characteristics of the young adults in 1993, their parental tenure choice in 1984 is still a significant factor in predicting their tenure choice in 1993. Figure 18 presents our logistic regression results, where the dependent variable is the young adults' tenure status in 1993 (owner=1, renter=0).

Figure 18: Parents' Tenure Significantly Influences Children's Tenure, Controlling for Children's Income, Education, Race/ethnicity, Family Type, and Geographic Differences

Variables	Parameter Estimate	P-value
Intercept	-1.3546	0.0546
Parental tenure in 1984 (1=owner, 0=renter)	0.7152	0.0467
Parental income in 1984 (in $5,000)*	-0.0509	0.2078
Parental wealth in 1984 (in $5,000)*	-0.0015	0.6406
Own family income in 1993 (in $5,000)	0.1279	0.0045
Gender (1=male, 0=female)	-0.5402	0.0729
Less than high school	-0.2758	0.5161
Some college	0.0996	0.7866
College degree and up	-0.7617	0.1235
Married without child	-0.1718	0.6545
Other family type	-1.3512	0.0056
Single	-0.9981	0.0205
Black	-0.9347	0.0110
Latino	-0.4884	0.5984
Northeast	1.1894	0.0258
South	1.5176	0.0034
West	-0.0236	0.9704
Urban	-0.3871	0.2979

*We recognize that there may be co-linearity between parental income and parental wealth. Therefore, we also calculated them separately in the model. The results are consistent: neither of them is significant, but parental tenure is still significant.

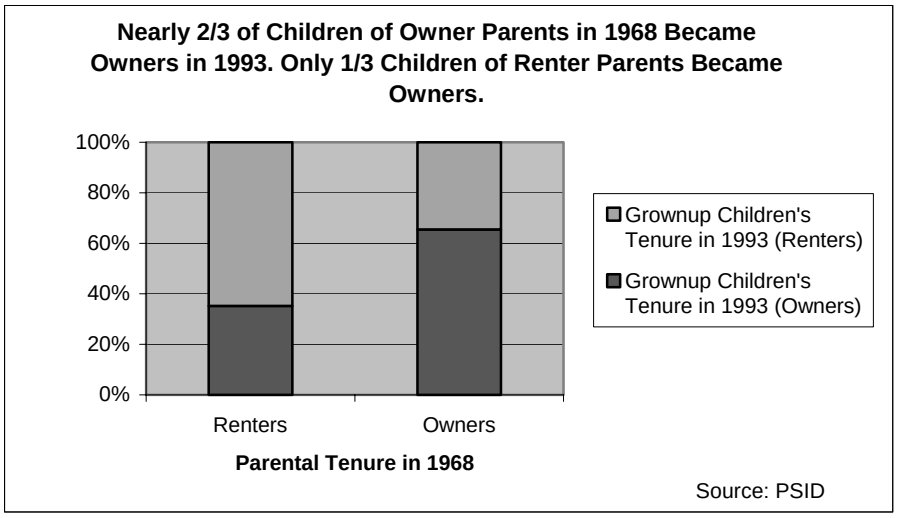
Data source: PSID.

Nine years is still a relatively short period of time. How did parental influence persist over time in children's housing tenure in a longer period of time? Using the PSID data, we trace 3,191 individuals who were under 18 years old and living with their parents in 1968 and were interviewed again in 1993 as household heads or spouses of or

cohabiters with household heads. Again, there existed an obvious difference in parental family median income: $5,000 for renter parents and $9,000 for owner parents in the 1968 PSID data, while parental household's wealth is not available in the same data.

In 1993, these 3,191 individuals were all more than 25 years old and some were as old as 42 years. Overall, around 51 percent of them became homeowners or spouses of or cohabiters with homeowners, but only 35 percent of those from renter parents in 1968 lived in owner units in 1993, while 66 percent of those from owner parents became owners in 1993 (see Figure 19). Thus, the impact of parental tenure on children's tenure status continued over at least a 25-year period of time.

Figure 19



V. Conclusions

Intergenerational wealth transfer is a topic that interests academics and researchers in various fields. Sociological concerns are centered on social justice in terms of wealth distribution, patterns of wealth transfer in terms of individuals' gender, age and income within the family structure, motivations for transferring wealth, and components of transferred wealth. Housing and education are the two major components of intergenerational wealth transfer. While wealthier parents pay for the education of their

adult children who live in their independent homes, poorer parents may also support their adult children financially by letting them live at parental homes.

In their research about intergenerational wealth transfer, economists are mainly concerned about consumers' saving behavior and its relationship to wealth accumulation. How much wealth is accumulated in all households in a society at a given time? How much of that is the savings belonging to the current household members, and how much is from bequests or inter vivos gifts?

The housing industry has its own concerns about intergenerational wealth transfer for its business interest. Both direct housing inheritance and wealth transfer in general impact the housing market and affect marketing strategies of different businesses within the industry.

Through our research, we find substantial evidence pointing to the fact that intergenerational wealth transfer contributes to the existing and growing inequality in wealth distribution. We also create a new approach to estimate the size of bequests vs. life-cycle savings. In our own analysis, we prove that bequests and inter vivos transfers are the dominant components of accumulated wealth, and the size of bequests alone could potentially be as high as 40.5 percent of total wealth. Meanwhile, the life-cycle savings only contribute about 34.5 percent (and no more than 45 percent) to the total wealth.

We also find evidence that intergenerational wealth transfer impacts housing and homeownership. Previous studies reached the following conclusions: a) transferred wealth helped recipients shorten saving time for down payments; b) owner parents, who usually have higher income and larger wealth than renters do, helped their children achieve homeownership and become homeowners earlier; c) a substantial number of households achieved homeownership through housing inheritance: 12 percent in Britain, 23 percent in Italy, and 26 percent in France; d) blacks were less likely to receive wealth transfers than whites and the amount of transferred wealth they received was on average less than that received by whites; and e) adult children who received transferred wealth from parents, and usually wealthier parents, were more likely to live in their independent homes rather than doubling up with their parents.

Our own analysis shows that all recipients of transferred wealth from parents have achieved much higher homeownership rates, regardless of recipients' age, income, and

race/ethnicity. Their homeownership rates raised nine to 47 percentage points, and 24 percentage points in general. However, whites were twice as likely to receive wealth transfers than minorities, and low-income people were less likely to receive wealth transfer.

Our follow-up of children growing up in owner and renter households, using the PSID data, reveals that children of owner parents not only achieved homeownership earlier but also had a higher homeownership rate when they were followed up twenty-five years after the initial interview with them at their parents' homes. Twenty-five years is not a short period of time, and some of these children were already 42 years old. Those who came from renter parents may not have enough time to catch up in the race for homeownership during the remainder of their lives.

As tenure status often represents social status, and owners usually have much higher income and larger wealth holdings, the impact of parental housing tenure on children's tenure status raises concerns about social mobility and justice in general. Despite anecdotal individual stories of successful minorities, new immigrants, and self-made men and women, the society as a whole needs stronger statistics to prove that the "American Dream" is reachable for every striving individual.

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