

# Most Americans save only about half of their inheritances, study finds

March 15 2012

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A new national study suggests that adults who receive an inheritance save only about half of what they receive, while spending, donating or losing the rest.

The results are good news for retailers, restaurant owners and people in the service industry who will receive that windfall.

But it is bad news for those who are concerned about the low U.S. savings rate, said Jay Zagorsky, author of the study and research scientist at Ohio State University's Center for Human Resource Research.

"I came into this study thinking that people would save more of their inheritance than what I found," Zagorsky said.

"The fact that people spent about half is disappointing in some ways, but not shocking."

The study appears online in the *Journal of Family and Economic Issues* and will be published in a future print edition.

This is one of the few studies that have examined how much people save and spend of their inheritances. Most of the other research had looked at heirs of the very wealthy, while this study focused on more average Americans.

The issue of how people use their inheritances is important

economically, according to Zagorsky. Over the next 10 years, elderly Americans are expected to transfer almost \$4 trillion to their heirs.

"If these findings are correct, this means about \$2 trillion will be saved and \$2 trillion spent," Zagorsky said.

Much of the data from the study came from 7,514 people who participated in the National Longitudinal Survey of Youth 1979. The NLSY79 has interviewed the same group of young baby boomers – who were in their 20s, 30 or 40s during the time covered by this study -- 23 times since 1979. The NLSY79 is conducted by Ohio State's Center for Human Resource Research for the U.S. Bureau of Labor Statistics.

About 11 percent of the participants in the NLSY had received an inheritance. The median inheritance was \$11,340.

One might assume that an inheritance would help a person build wealth, Zagorsky said. But for a surprising number of people, that is not the case.

Overall, more than one-third of all inheritors (34.9 percent) saw a decline or no change in their wealth after getting an inheritance.

Among baby boomers who inherited less than one-thousand dollars, slightly more than 40 percent spent their entire gift. For those who received \$100,000 or more, that percentage declined to 18.7 percent.

"Nevertheless, this means that almost one in five young baby boomers who inherited a significant amount of money spent or lost all of it. That's pretty amazing," Zagorsky said.

Using the NLSY79 data, Zagorsky also did a statistical analysis that estimated how much the average baby boomer spent of their inheritance,

taking into account a variety of factors that may influence spending, such as race, gender, age, marital status, family size, employment and education.

These results suggested the average NLSY79 participant spent roughly half of his or her inheritance.

That finding should serve as a sobering reminder to anyone who is expecting to receive an inheritance in the near future.

"Maybe if you know in advance that most people spend half of their inheritances, you can prepare in advance and restrain yourself from spending that much," Zagorsky said.

"You may enjoy spending your inheritance in the short term, but you would probably save yourself a lot of stress in the future if you saved more for college costs for your children and for your own retirement."

These results also have important policy implications, he said. The current U.S. estate tax rate and exemption law will expire at the end of this year.

When Congress revisits the estate tax laws it should consider policies that boost savings of inherited wealth, Zagorsky said.

For example, the tax law could be changed to allow people to put inherited wealth into long-term savings accounts, such as Individual Retirement Accounts (IRAs). Currently, yearly contributions to IRAs must come from earned income and are capped at relatively low amounts.

"Congress should find ways to encourage people to save more of their inherited money," he said.

**More information:** Zagorsky JL (2012). Do people save or spend their inheritances? Understanding what happens to inherited wealth. Journal of Family and Economic Issues; [DOI 10.1007/s10834-012-9299-y](https://doi.org/10.1007/s10834-012-9299-y)

Provided by Ohio State University

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