CONSEIL D’ORIENTATION DES RETRAITES
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“Retirees’ wealth and wealth transmission”

**Brief**

***Prepared by the General Secretariat of the Council, under the direction of the President of the COR***

**Summary** In 2018, 13% of retirees' income comes from wealth, compared to 6% for working people. Contrary to economic theory, which suggests that households should have drawn significantly on their savings by the end of their lives, they continue to have substantial wealth in retirement. This dossier analyzes retirees’ wealth and looks at one of the reasons for wealth accumulation: transmission to the younger generations.

*I. What is the level of wealth of retirees and how has it changed relative to working people?*

- **What does economic theory say?** According to basic life-cycle theory, a household strives to smooth its level of consumption throughout its life cycle. To cope with the fall in income in retirement, a household should save during its working life and then draw on its wealth; wealth would then peak around retirement age and fall significantly at the end of the life cycle (document no 3).
- **How about reality?** In 2018, average wealth follows a hump-shaped curve along age, which seems to validate the life-cycle theory: stable at a high level between ages 55 and 80; but lower before and after. However, part of this pattern can be explained by generational effects, with wealth at a given age increasing with each generation. Moreover, the wealth of older generations continues to increase during retirement for several reasons: late inheritance, precautionary savings (long-term care), difficulties in drawing on wealth if it is not liquid, uncertainty about life expectancy and the desire to pass on to descendants (document no 3). In the end, with 267,300 euros in 2018, retirees have an average net wealth 35% higher than that of working people. The gap is smaller in terms of gross wealth (7%), as retirees are less indebted (documents no 2 and 3).
- **And in the future?** This increase in wealth during retirement could also be explained by the level of pensions, which would allow retirees not to have to dip into their savings, or even to increase them. On the other hand, in order to cope with the expected drop in their relative standard of living, future retired households may have to draw more on their savings, for those who have been able to build up savings (document no 3).
- **Who owns wealth?** Wealth is highly concentrated in France: in 2018, half of all households hold 92% of total gross wealth excluding rest (jewelry, household equipment, etc.). The top 10% of retired households own 43% of the total wealth of retirees, and this proportion is 50% for the top 10% of working people (document no 2).
- **What are the changes in 20 years?** Between 1998 and 2018, the average gross wealth excluding rest doubled in current euros, this increase having taken place almost entirely between 1998 and 2010. Wealth inequalities have increased over these 20 years with the strong appreciation of real estate assets (+141% on top of inflation) which benefited the best-endowed households (document no 3).
- **What impact did the health crisis have**? (document no 4) During the two lockdowns of 2020, all households would have restricted their consumption to basic needs and thus increased their savings - this increase in savings being more concentrated, however, among executives and high-income earners.

*II. Transmissions: how much, from whom, to whom?*

- **Who receives a donation and who makes one?** (document no. 6) In 2018, in France, 18% of households received a donation in their lifetime and 8% made one. Donations are most often made by retired households: only 15% of donor households are not yet retired. On the other hand, 20% of households were under 40 when they received the donation, 45% between 40 and 60 and 35% over 60. These transmissions are more likely to be made by wealthy households.
- **Who receives an inheritance?** (document no 7) In 2018, 37% of households have received an inheritance in their lifetime - and about 50% of retired households. Older households - those born before 1938 - have inherited slightly less often - this finding is in addition to the fact that they are households with relatively less favorable pensions and living standards on average than their younger counterparts. Inheritances received by retirees are larger than those received by working households are. Finally, as with gifts, receiving an inheritance is more often the case for wealthy households.
- **What disparities?** Inheritance taxes represent 1.4% of tax revenues in France. According to the *Direction Générale des Finances Publiques,* in 2020, more than 7 out of 10 inheritances did not give rise to any inheritance tax. Only 3% were subject to inheritance tax of more than €100,000, but accounted for more than 60% of the revenue. Moreover, while the average inheritance tax rate is 9.8% in 2019, it depends heavily on the relationship to the donor. In the direct line (children, spouses paying no estate tax), 24% of estates would be taxed. The average tax rate would be progressive from an estate of at least 100,000 euros and would reach 15% for estates over 1 million euros.

*III. Transfers: some thoughts on their taxation methods*

- **What are the changes over the long term**? (document no 8) Representing nearly 25% of GDP until the First World War, the sums transmitted by inheritance and gifts fell to 10% between the two wars, then to below 5% after the Second World War. They rose again in the 1980s and represented 12% of GDP in 2016. This transfer, which is organized in the private sphere - generally from the elderly to the young at a level of around 10% of GDP-, is to be compared to the 14% of GDP of public pension expenditure that constitutes a transfer in the other direction.
- **How do economists view inheritance?** (document no 8) There are three main families of bequest models: (1) accidental bequests linked to uncertainty about life expectancy, (2) family bequests to descendants, and finally (3) capitalist bequests, which attempt to explain the transmission of the greatest fortunes by the will to economic power or social prestige.
- **And their taxation?** (document no 8) There are arguments of efficiency and equity. Taxation of transmissions may discourage the donor from saving, but this effect remains moderate. On the beneficiary side, studies show the existence of a "Carnegie effect": beneficiaries of large inheritances are more likely to leave their jobs. Thus, estate taxation would be likely to encourage labour supply. On the other hand, estate taxes have redistributive effects that enhance equity and correct inequality of opportunity.
- **What are the issues surrounding inheritance taxation?** (document no 9) The OECD report underlines the possibility for inheritance taxes to play a more important role in reducing inequalities and providing new resources. It notes that the narrowness of the tax bases, the multiplicity of exemption thresholds and the preferential treatment of some assets lead to effective rates that are significantly lower than the statutory rates. The OECD report also makes recommendations for reforms, such as taxation that takes into account all transfers received over a lifetime, and limits exemptions and tax relief. However, population's lack of knowledge about the amounts actually paid in inheritance tax makes the debate very sensitive in France.