

Wills, Wealth, and Race

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Retirement security depends on household assets and other resources.

- Major resources include:
 - Social Security;
 - employer-sponsored plans;
 - home equity; and
 - an ability to work longer, allowing for a later retirement.
- A less studied potential retirement asset is inheritances.
- Inheritances help households weather shocks, invest in human and financial capital, and buy homes.

Inheritances make up a large share of national wealth.

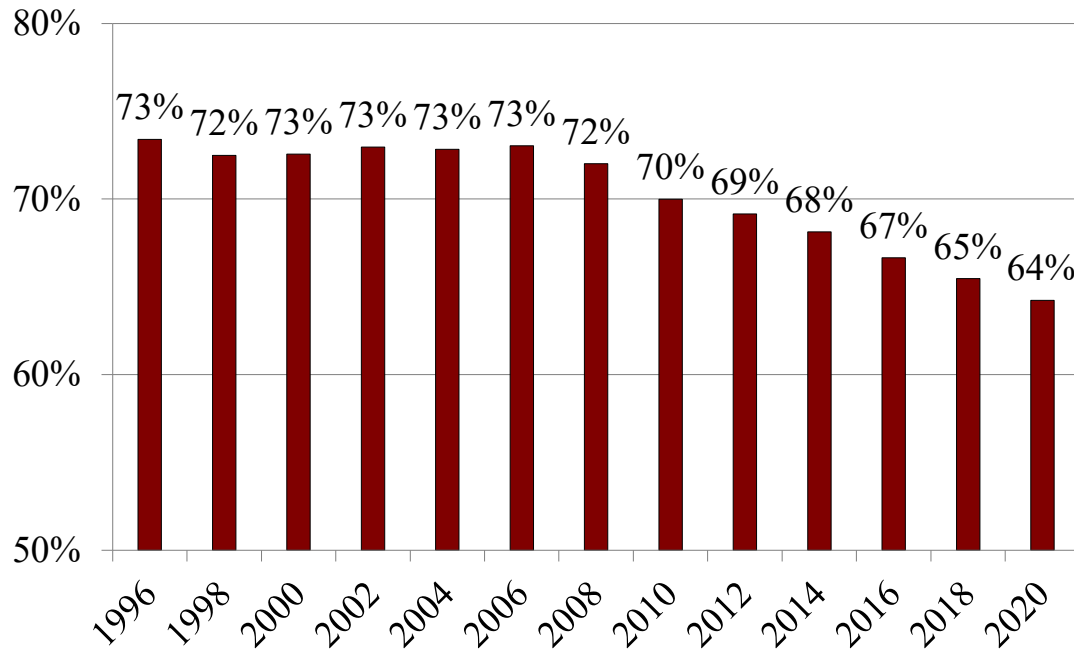
- Between 20 and 80 percent of the capital stock is attributable to inheritances (Kotlikoff and Summers 1981; Modigliani 1988).
- Furthermore, inheritances tend to reinforce dynastic inequality (Becker and Tomes 1979, 1986).
- Consequently, inheritances may also play a role in racial wealth inequality (Ashman and Neumuller 2020; Aliprantis et al. 2022).

This paper sets the stage for a series of analyses on wills and race.

- The important policy questions are:
 - Do wills help to preserve dynastic wealth?
 - Can individuals be incentivized to adopt wills?
 - Can incentivizing wills help narrow racial disparities?
- This paper estimates:
 - Who inherits, has a will, and plans to leave a bequest.
 - Whether will-holding predicts meeting bequest expectations.
- Concurrent work estimates causal mechanisms using an online experiment.

The share of households with wills is declining.

Percentage of Households Ages 70+ in which the Head has a Will, by HRS Wave



Source: Authors' calculations from the University of Michigan. *Health and Retirement Study*, 1996-2020.

Why would wills matter?

- Without a will, state laws dictate default distributions of estates, which are appropriate in many cases.
- However, almost a quarter of households are ill-served by these defaults (Bea and Taylor Poppe 2020), e.g. when:
 - household members are not legally recognized;
 - co-residents are not the closest living relatives; or
 - the default heirs are minors.
- These conditions are more common among Black and Hispanic households.

Dying without a will is a particular problem when assets are hard to divide.

- Defaults divide ownership of each element of the estate among the heirs.
- If the bulk of the estate is a house, value is lost in this division.
- With divided ownership, payment of property taxes and home maintenance are of little value to non-resident heirs, leading to depreciation of the assets.

Perhaps, people do not have wills because bequests are incidental?

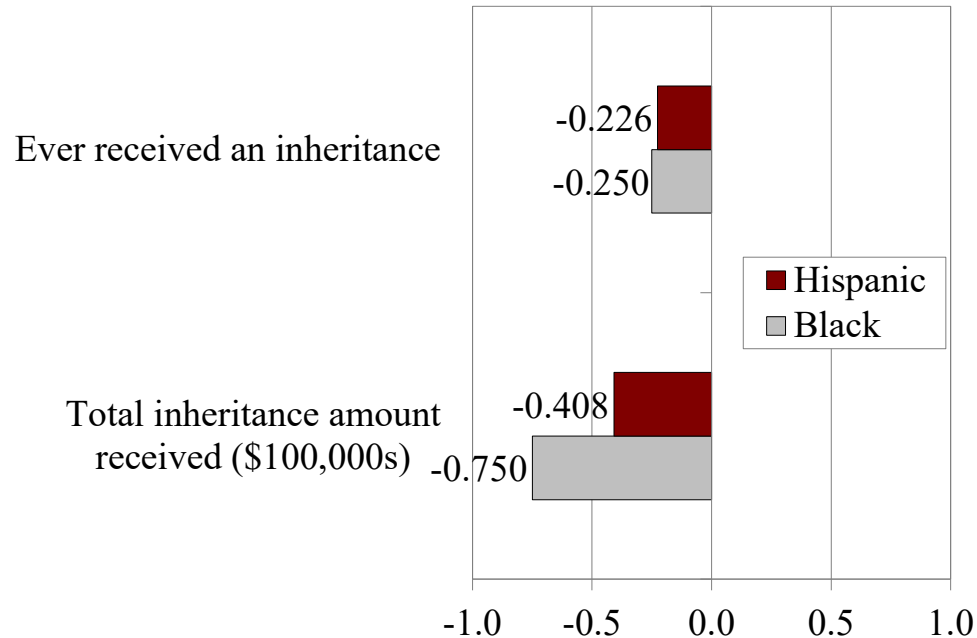
- Some bequests are surely incidental (Yaari 1965), but not all.
- The share of intentional bequests is likely 20-40 percent of all bequests (Gale and Scholz 1994; Kopczuk and Lupton 2007).
- Nevertheless, estate planning is often delayed for rational and irrational reasons (Kopczuk 2007).
- Thus, many individuals do not have a valid will.

Who inherits, and who bequeaths?

- To answer these questions, we use the 1992-2018 *Health and Retirement Study* (HRS).
- The HRS samples Americans over age 50 and follows up with them every two years – until they die, and then with proxies until settlement of the estate.
- For this first set of questions, we consider individuals in their final HRS observation.
 - Either the wave prior to death or the final available wave (2018).

Black and Hispanic respondents are less likely to receive an inheritance and get less when they do.

Relationship of Various Characteristics to Receiving an Inheritance and the Amount Received by the Last Wave Observed, 1992-2018



Note: Solid bars are statistically significant at least at $p < 0.05$.

Source: Authors' calculations from the University of Michigan. *Health and Retirement Study*, 1992-2018.

Having a will and intending to leave a bequest also varies by race.

- The HRS asks if respondents have a valid will.
- It also asks questions of the form: “What are the chances that you will leave an inheritance totaling \$X or more?”
 - X can be \$10,000, \$100,000, or \$500,000.
 - The response is in probabilities.

Black and Hispanic respondents are less likely to have a will, and mostly expect to leave smaller bequests.

Relationship of Various Characteristics to Having a Will and Expectations of Leaving Bequests at the Last Wave Observed, 1992-2018

	Respondent has a will	Probability to leave bequest \$10k+	Probability to leave bequest \$100k+	Probability to leave bequest \$500k+
Black	-0.192	-0.053	-0.034	0.032
Hispanic	-0.185	-0.074	-0.022	0.035
Homeowner	0.135	0.246	0.199	0.054
Non-housing wealth (\$100,000s)	0.026	0.020	0.035	0.040
Ever received an inheritance	0.053	0.073	0.070	0.031
Has children	0.029	0.033	0.038	0.022

Note: All results are statistically significant at least at $p < 0.01$.

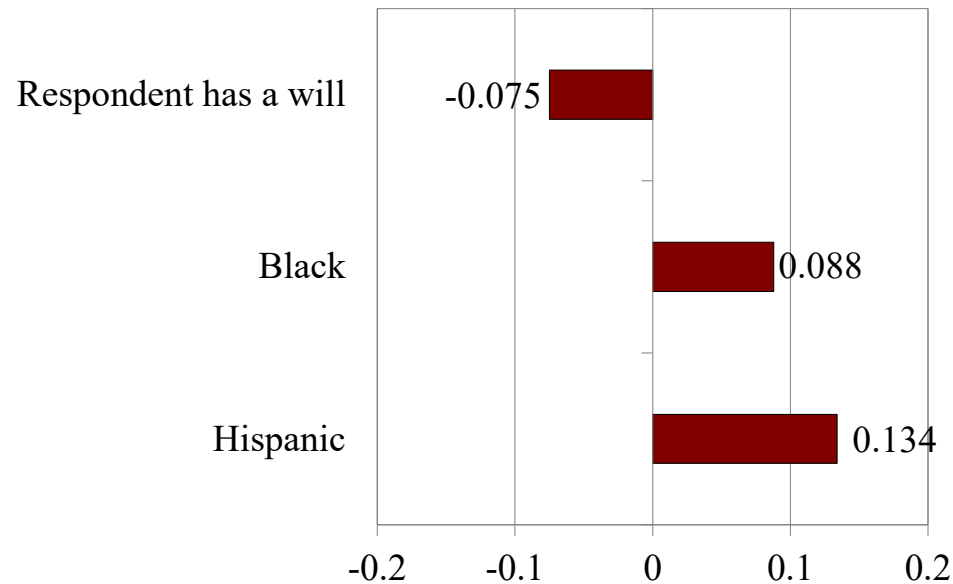
Source: Authors' calculations from the University of Michigan. *Health and Retirement Study*, 1992-2018.

Do wills help achieve bequest expectations?

- To answer this question, we examine individuals who have died.
- We look retrospectively at the bequests they expected to leave in their final wave alive, and see whether they met their own expectations.
- We then estimate whether having a will in the wave before death is associated with failing to leave the expected bequest.

Wills (and White race) are associated with lower chance of failure.

Relationship of Various Characteristics to Failing to Leave a \$100,000+ Bequest, 1992-2018



Note: Solid bars are statistically significant at least at $p < 0.01$.

Source: Authors' calculations from the University of Michigan. *Health and Retirement Study*, 1992-2018.

Conclusion

- Retirement security is significantly enhanced by inheritances.
- While descriptive, the results show that:
 1. Black and Hispanic individuals are less likely to have received an inheritance;
 2. They are less likely to expect to have a will or to bequeath.
 3. Having a will is associated with less chance of failing to leave the bequest one expects to leave.
- In concurrent work, we test whether hypothetically offering incentives to write a will increases will adoption and whether it also increases expected bequests.

Thank you!



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