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Kāinga Tipu



Intergenerational and Interfamilial Transfers of Wealth and Housing


PREPARED BY

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The CHRANZ Mission is to invest in rigorous, independent and relevant housing research to support policies and practices that meet New Zealand's changing and diverse housing needs through sustainable, affordable, good quality and responsive housing opportunities.

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Report to:
Centre for Housing Research Aotearoa New Zealand

INTERGENERATIONAL AND INTERFAMILIAL TRANSFERS OF WEALTH AND HOUSING

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1 Executive summary

This report has been commissioned by the Centre for Housing Research, Aotearoa New Zealand (CHRANZ). The report brings together current information and research on intergenerational and interfamilial transfers of wealth and housing. The information from New Zealand and overseas is brought into a framework that allows a research programme to be developed.

This report is a scoping paper that focuses on private intergenerational and interfamilial transfers.

The New Zealand context

Within the New Zealand context, we have found that:

- There has not been a lot of research done in this area and more importantly there is not a lot of data available on the subject;
- The Household Savings Survey (HSS) in 2001 made a major step in correcting this situation;
- The Survey of Family, Income and Employment (SoFIE), which started in 2002 will provide some longitudinal data;
- New Zealanders tended to aspire to home ownership and this had led to us having a comparatively high proportion of our net worth tied up in household ownership; and
- We are increasingly seeing a large number of people in the older age groups who will be givers and receivers of intergenerational transfers.

Lessons from international literature

From our review of the international literature, we found the following important issues:

- Intergenerational transfers make up a large part of wealth. In two international studies Xiao and Yany (2002) found that it was up to 40.5%, while Stroombergen and Rose (1998) found it was between 30% to 60%;
- Intergenerational wealth transfers contributes to the existing and growing inequality in wealth distribution;

- In 1999 48% of Australian families were either receivers or providers of private transfers;
- Despite there being some concerns about measurement definitions in various countries, housing wealth plays an important part in the net worth in many countries;
- The property booms over the recent decades have meant that the level of wealth available for transfer has increased dramatically;
- Recipients of transferred wealth have achieved much higher home ownership;
- Generation skipping - parents of baby boomers may choose to leave a significant part of their estates to 30-year-old grandchildren just starting their families rather than their own children; and
- There are some sociological concerns about the contribution of intergenerational transfers to inequality, the reasons behind the motive to transfers and the effect of transfers on the transition from childhood to adulthood.

Working framework

We have developed a simplified model that groups the population into four age-group generations or modal households. These modal households reflect a set of stereotypes based on the generation's personal, housing, financial and ultimately net wealth position. We recognise a number of groups that fall outside of these stereotypes. These include renters, single person households, New Zealanders on their OE. It also includes the differences in practices in extended families/whanau/aiga of different ethnic groups in New Zealand.

Our model describes the characteristics of each generation and six flows, which we have identified as the main intergenerational and interfamilial flows in New Zealand. For each of these flows we provide a description of the flow and comment as to its importance from a research/policy perspective.

Conclusions and recommended research agenda

Overseas research suggests that intergenerational transfers make up a substantial part of wealth and have a significant influence on the ability of households to purchase a home.

The New Zealand context is now one of a population living longer. This has implications for the level of wealth available for transfer and the generation to which the wealth might be transferred. Our model suggests that the *mature* (45/50 – 60/70 age) generation is most affected by outward transfers. This observation is even more significant when noting such transfers potentially affect the *mature* generation's ability to save for their own retirement.

A key finding has been the need to view transfers within the context of housing tenure decisions and transition influences, as well as overall savings behaviour and wealth holdings. The link with retirement savings, health needs, student loans as well as home ownership became a common thread in discussions. Thus, we do not recommend investigating the issue of intergenerational and interfamilial transfers in isolation of these influences.

Arising from these conclusions we recommend in section 7 four housing research topic areas:

1. Developing and testing a New Zealand framework.
Beginning with our working framework, there are three avenues including quantifying the various flows, expanding the framework to include influences of public transfers, and investigating the key flows from a policy perspective to understand the key motivations and behaviours.
2. Priority data.
It will take a number of years to develop a longitudinal set from SoFIE. In the interim, a combination of SoFIE analysis, case study and existing data on housing and financial wealth stocks maybe necessary to construct better estimates of transfer flows.
3. The non-modal household.
Looking at the impact of intergenerational and interfamilial transfer behaviours of the non-modal households (e.g. renters, single persons and different ethnicities).

4. Modelling – microsimulation techniques.

Using a microsimulation model to explore the wider interaction and similarity of the various transfer behaviours, alongside decisions as to housing tenure and transition status, savings behaviour, demographics and other lifestyle choices.

2 Introduction

This report has been commissioned by the Centre for Housing Research, Aotearoa New Zealand (CHRANZ). The report brings together current information and research from both New Zealand and overseas into a framework that allows a research programme to be developed.

This report is a scoping paper that focuses on private intergenerational and interfamilial transfers.

Interest in intergenerational transfers, and in particular, the transfer of housing wealth has become more prominent in recent times. This is primarily due to the large capital gains made in the housing market over the past decade(s). This large increase in the level of wealth for homeowners will undoubtedly have an effect on the level available for transfer, particularly to the children and grandchildren of the 'baby boomers'.

The rest of the introduction section outlines the aims, objectives and research questions for this project. It also outlines what areas are not covered by this project.

Section 3 of this report looks at the New Zealand context to provide a contextual background for addressing the issues.

Section 4 provides a brief overview of the international literature to provide a contextual background for addressing the issues.

Section 5 outlines a working framework of intergenerational transfers. It defines the stereotypes of affected age groups and identifies the major flows of transfers.

Section 6 looks at each of the flows identified in section 4 and discusses their size and importance from a research and policy perspective.

Section 7 pulls together our conclusions and outlines our recommended research programme.

BERL would like to thank the participants at our work in progress seminar for their help.

2.1 Aim

The aim of the project is to prepare a report that reviews the current New Zealand situation and literature on intergenerational and interfamilial transfers of wealth and housing. The report identifies the next steps to approaching this issue and provides recommendations for further research.

2.2 Objectives

An earlier CHRANZ research project *Furthering Our Understanding of Tenure Transition*¹ identified possible changes in the “traditional housing model” as important in assessing (potential) policy interventions.

The objective of this project is to consider part of the “traditional housing model” in terms of the use of and transfer of housing investment, both intra and intergenerational.

2.3 Research questions

This project is primarily a scoping project outlining and framing the current situation and literature. Within this context CHRANZ have identified three research issues that should be included. These are:

1. Intergenerational and intra generational transfers and their impact upon housing access and income/wealth inequality.
2. Personal housing/property wealth, its link with owner occupation, and uses of this wealth in the short term (e.g. consumption, use as venture capital for business start up etc) and longer term (e.g. link to superannuation, impacts of changes in rate of owner occupation etc).
3. Identification of the next steps to approaching this issue in more detail. This would include a recommended methodology (modelling etc).

¹ Jameson B. and Nana G. (2004), *Furthering Our Understanding of Tenure Transition: The Impact of Financial Circumstances on Tenure Choices in New Zealand*, CHRANZ Research Report.

2.4 Issues not within the scope of this report

This report represents one part of the process in trying to understand the nature, size and impact of intergenerational and interfamilial transfers within New Zealand.

While this report builds on previous research, it is not designed to be an all-encompassing report that looks at these transfers from all angles. Rather, it focuses on the impact of private transfers from people who are part of the traditional home ownership model.

Within this context, some important factors have not been explored in this report. These factors may represent areas of further research to expand knowledge of the New Zealand situation. These factors include the impact of:

- public transfers and incentives inherent in the tax system;
- tenure status on transfers; and
- the distribution of wealth.

3 The New Zealand context

This section provides a brief overview of the New Zealand situation to provide a contextual background for addressing the issues. This is clearly not a comprehensive review of the New Zealand situation, but rather selected topics relevant to the current issues.

3.1 What research has been done in this area?

Within New Zealand there has not been a lot of research in this area. Nor is there a lot of data available on this subject. One of the larger pieces of work to be done in the area was the 1998 report by Infometrics titled “The Role of Inheritance”. This report focused on the flow of transfers from the older generations downwards. The report used the Household Expenditure Survey (HES) data from 1994/95 and 1995/96 to try to get some understanding of the New Zealand situation and provided a summary of some key international literature on the subject.

Until 2001, the only data on household net wealth (HNW) has been at the aggregate level in New Zealand. The Household Savings Survey (HSS) in 2001 made a major step in correcting this situation. More recently, the Survey of Family, Income and Employment (SoFIE) started in 2002 and this will provide some longitudinal data. The study will run for eight years. Data on assets and liabilities, and within that data on intergenerational transfers will be collected in years 2, 4, 6 and 8, with health data collected in other years.

It is also worth noting that since 2001 there have been significant changes in the New Zealand housing market that has affected the wealth of homeowners and ultimately the level of intergenerational transfers

3.2 Changing population structure

New Zealand’s population is ageing. People tend to live longer and there are a large number of people that are approaching retirement. Because of this, we are seeing an increasingly large number of people who will be givers and receivers of intergenerational transfers.

A high proportion of people soon to be entering these age groups will be from the ‘baby boomers’ generation who have benefited the most from the capital gains experienced by house owners.

It is likely that the characteristics of the people who will enter the older age groups in the future will be quite different to those of today. A number of the people in the older generations today come from an era where they had fulltime, life long employment and a single partner. Changes in our society have meant that those people entering these age groups in the future may have a more uneven employment history and they may have been divorced. This may lead to the establishment of merged and/or second families. These factors may mean that the type and level of wealth available for transfer may well change in the future.

3.3 Housing wealth

New Zealanders have tended to aspire to home ownership. This had led to us having a comparatively high proportion of our net worth tied up in household ownership.

If you consider that the international experience (see section 4) shows that there is a strong relationship between inheritance and housing tenure (that is, those who receive inheritance have a higher chance of owning their own home), then this will further distort the housing market, making it harder for those who do not receive an inheritance to get into their own home.

The recent and not so recent property booms have delivered large increases to those who own houses. Higher housing prices have made it harder for first home buyers to enter the market.

4 Lessons from international literature

This section, like section 3 on the New Zealand context, provides a brief overview of the international literature to provide a contextual background for addressing the issues. This is clearly not a comprehensive review of the international literature, but rather selected topics of relevance to the current study.

4.1 The traditional model

A number of the studies from overseas focus on the traditional wealth transfer model, that is, from the old generation to the family generation. They attempt to quantify the scale of these transfers. The debate centres on the proportion of savings versus transfers in the wealth composition. Most agree that intergenerational transfers make up a large part of wealth. In two international studies Xiao and Yany (2002) found that it was up to 40.5%, while Stroombergen and Rose (1998) found it was between 30% to 60%.

This does not mean that these transfers are distributed evenly across all society or that the value of each transfer is the same. "...we find substantial evidence pointing to the fact that intergenerational wealth transfers contributes to the existing and growing inequality in wealth distribution." (Xiao and Yany, 2002).

The Australian Housing and Urban Research Institute (Ahuri, 2004) found that "Studies of intergenerational transfers in Australia conclude that they are a key element in the intergenerational transmission of wealth, and that in 1999 48% of families were either receivers or providers of private transfers."

4.2 Importance of housing wealth

Despite there being some concerns about variations in measurement definitions, housing wealth plays an important part in net worth in many countries. In Australia, housing is estimated to contribute 59% of total wealth, in Britain 40%, Japan 70%, France 30%, and the US 20% (Badcock and Beer, 2000).

The property booms over the recent decades have meant that the level of wealth available for transfer has increased dramatically. As Badcock and Beer (2000) put it, "Australia's middle-aged generation will get a stupendous windfall of inherited wealth in the next decade. Bequests will turn thousands of already comfortably established 40-55 year olds into common or garden millionaires."

4.3 Recipients of transferred wealth have achieved much higher home ownership

Overseas research such as Xiao and Yany (2002) shows that recipients of transferred wealth from parents achieved much higher home ownership rates. In addition it was found that transfers helped people shorten down the time to save a deposit. The Harvard report also summarised results from other research that found that the number of households who achieved home ownership through housing inheritance was 12% in Britain, 23% in Italy and 26% in France. In Australia it was found that “5.5% of the population over 15 yrs in last the 10 years had received inter-generation financial assistance to purchase a home or land, 5.7% had received an inheritance worth at least \$10,000.” (Ahuri, 2004).

4.4 Changing age structure – generation skipping

Ahuri (2004) pointed out that “parents of baby boomers may choose to leave a significant part of their estates to 30-year-old grandchildren just starting their families rather than their own children, skipping that generation”.

Research by Ahuri and Harvard found that although the potential level of wealth available to transfer might be growing, various factors might mean that this never is passed downwards, or it may skip to the next generation. Reasons for this might include:

- Parents may find their own children are already well into their 50/60s and no longer need any assistance.
- Parents might consider that a large inheritance could affect their children’s ambition or motivation.
- They may give it to charities or other research.
- Because people are living longer, they may need to use their wealth to cover their living expenses into old age.
- Parents may use their wealth to fund their health needs and/or enhanced retirement lifestyle.

4.5 Sociological concerns

There are a number of studies concerned about the inequality of income and wealth distribution. Xiao and Yany (2002) found that "... one may also have concerns about the importance of intergenerational wealth transfer as a determinant of that inequality." The same report also summarised several studies from the 1970s that argued the intergenerational wealth transfers were the only explanation for the inequality in wealth relative to earnings.

Another sociological concern is about the redistribution of wealth within the family structure, more specifically the motivations for wealth transfers. There are two theories about the motivation for wealth transfer. The exchange model suggests that parents make transfers to the children in return for services from them, whereas the altruism model predicts that money flows from the rich to the poor. Xiao and Yany (2002) concluded that intergenerational transfers are mainly driven by exchange motives.

The last of the sociological concerns is about the transition from childhood to adulthood. Studies have assessed how much parental transfers are helpful in the success of this transition.

5 Working framework

This section contains our ‘working model’ of intergenerational transfers. It outlines our generation or modal household groupings and describes the major flows of transfers between them.

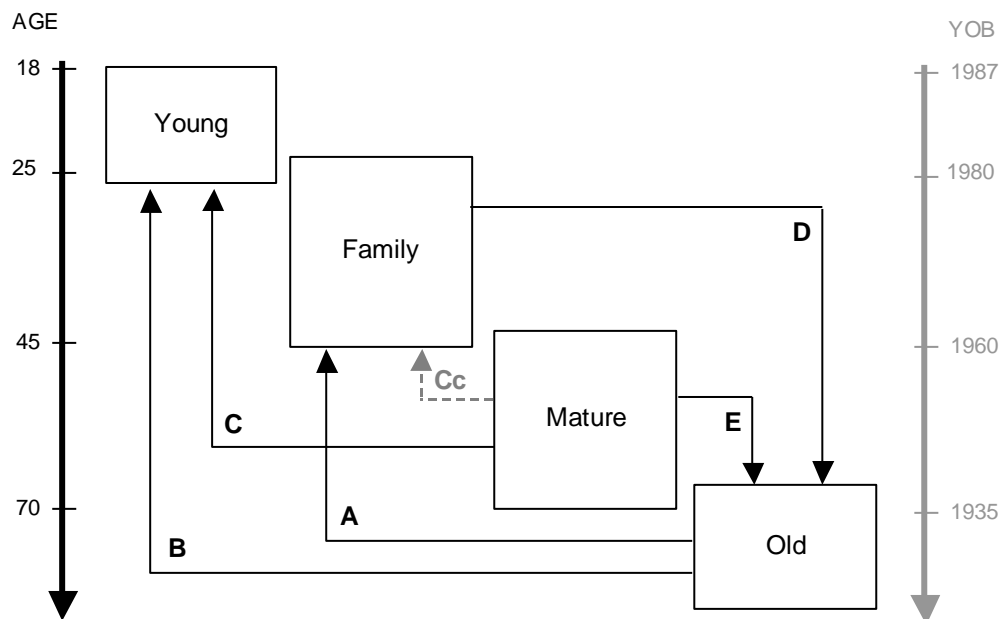
Literature and analysis in the past has focused in general on the traditional inheritance route. This paper looks at intergenerational transfers as well as inheritance and the link to the traditional/lifecycle housing model. Considering this, we outline the working framework in which to consider a research programme. Other transfers (i.e. government) are not considered in this framework.

5.1 Model introduction

We have drawn up a simplified schematic of intergenerational and interfamilial transfers. It is a ‘model’ that groups the population in four generations by age group that reflects the current situation and likely future scenario(s). The year of birth (YOB) is given for the current situation for ease of reference/comprehension.

The characteristics of each generation are described in section 5.2. Labelled flows A to E (and comments as to their importance from a research/policy perspective) are discussed in section 6.

Figure 1 Simplified schematic of inter-generational transfers



5.2 Generations/Modal households

This section looks at each of the generation/modal household groupings identified in Figure 1. It describes the general characteristics of the population within that modal household and describes the likely net asset position of the group.

These groupings represent stereotypes within the traditional housing model and as such do not cover all of the possible characteristics of the individuals within these age groups. However, it provides a valuable starting point from which a research programme can be developed.

This is a broad-brush approach to grouping the age cohorts. There is likely to be differences between the people at the start of an age group and those at the end of the age group. For example, many of those in the upper end of the 'mature' modal population have largely had fulltime, life long employment and a single partner. Many of those entering or already in the lower end of the 'mature' population have experienced an uneven employment history and/or especially divorce and the establishment of merged or second families. This has obvious implications on transfers not only in the present context but also as these and other changes affect the population into the future.

Section 5.3 outlines some of the non-modal households that do not fit within this model.

Table 5.1 Characterisation of modal households

Generation	Financial asset	Housing asset	Net asset position	Transfers from	Transfers to
Young	<0	0	<0	mature & old	
Family	?	>0	?	mature & old	old
Mature	>0	>0	>0		young, family & old
Old	<>0 ?	?	?	family & mature	family & young

The table shows for each of the four generations identified, the likely value of financial assets, housing assets and the overall net assets position. For each generation it shows whether it is likely to receive transfers, and if so from whom; and whether it is likely to make transfers, and if so to whom.

5.2.1 Young

The *young* stereotype consists of people in the 18-25/30 age group. The group is characterised by the tertiary student. Because they are studying, they are likely to have a student loan and are probably either living at home or renting.

These factors mean that a person in this group is likely to be in a negative net wealth position. They are unlikely to have any financial wealth and they are unlikely to have any net household wealth. If they own their own home, it is likely that the level of debt is close to the value of the house.

This group is likely to be a recipient of transfers from the *mature* and the *old* groupings.

5.2.2 Family

The *family* stereotype consists of people in the 25/30 – 45/50 age groups. They are characterised by households with school-age children, living in their own home but with a mortgage. They may still be paying off a student loan but may have some financial savings.

The net wealth position of the *family* is unclear/unknown. They may have some financial wealth, possibly in the form of some superannuation savings, but they could still have some student debt on the other side. They are likely to own their own home that is in a net wealth position.

The *family* is likely to receive transfers from the *old* and *mature* generations. They may also be passing transfers to the *mature* generation.

5.2.3 Mature

The *mature* stereotype consists of people in the 45/50-65/70 age groups. They are characterised by a household supporting (in some manner or means) post-school age children. They are in their own home with a mortgage predominantly paid off.

The net wealth position of the *mature* group is likely to be positive. They probably have some financial wealth, with maybe a superannuation asset or other investment/s. Household wealth will be positive with possibly a small (if any) mortgage.

This group is unlikely to be the recipient of any transfers under our model. They are likely to be passing transfers to the *young*, *family* and *old* generations.

5.2.4 Old

The *old* stereotype consists of people in the 65/70plus age groups. They are characterised by a household with no dependants, with superannuation and/or housing asset possibly 'cashed up', but perhaps insufficient and/or used up.

Their net wealth position is unclear/unknown as it depends on their personal situation. They may have financial wealth arising from superannuation and/or house cashed up but this may be used up as well. They may possibly have some household wealth but they may have sold this to fund their retirement.

The *old* generation are likely to be recipients of transfers from the *family* and *mature* generations. They are likely to pass transfers to the *family* and *young* generations.

5.3 Non-modal households

In any model, there are always going to be exceptions that do not fit. As we have simplified the model there will be a number of groups that do not fit within its boundaries. Four main groups that fall outside the model are:

- renters;
- single person households;
- New Zealanders who go on their overseas experience (OE); and
- different ethnicities.

Renters do not fit within the model because they do not follow the traditional housing model of buying their own home. Within the context of intergenerational transfers, renters may enter into the housing market if they were to receive an intergenerational transfer that might allow them to make a deposit on a house.

In New Zealand 12% of households are single households. These households fall outside of our model because they do not involve the impact of children on the transfers into and out of the household.

Every year a number of New Zealanders, particularly those in their twenties, head off on their OE. These people are not included in the model as they jump in and out of it at different points. Some may leave after they have finished their tertiary education and take with them a large student loan. They may then be able to earn sufficient overseas to pay off their student loan and even return to New Zealand with sufficient financial assets to buy a home or other investments.

The model does not capture the different characteristics of the ethnicities that make up the New Zealand population. Each of the ethnic groupings has their own characteristics that do not necessarily fit within our model. For example, the Maori and Pacific Island populations have a lower rate of home ownership than the general population and different age/population profiles as well as birth and death rates.

6 Identifying important flows

This section looks at each of the flows identified in Figure 1 in Section 5.1. In this section, we describe the key characteristics of each flow, their size and their importance from a research and/or policy perspective.

Table 6.1 Characterisation of flows

Transfer		Large ?	Important ? [#]	Comment
A	Traditional path	***	**	is considered to be <i>traditional</i> flow of inheritance - data and understanding required.
B	Generation skipping	*	*	e.g. transfer for grandchildren's tertiary education/training.
C	Funding tertiary education	**	**1/2	transfer (financial) for children's tertiary - query impact on <i>mature's</i> on-going ability to save for retirement.
Cc	Funding business set-up	*	*	similar to C, but maybe also for business set-ups(?).
D	Reverse of traditional flow	*1/2	*1/2	transfer (financial) for <i>old's</i> health and housing needs - impact on <i>family's</i> ability to repay own mortgage and so cascading effect on ability to save for retirement.
E	Funding needs for the older generation	*1/2	**	transfer (financial) for <i>old's</i> health and housing needs - impact on <i>mature's</i> ability to save for retirement given shortened time horizon.

from research and/or policy perspective

Note: The * represents the size/importance of the transfers. The higher the number of * the greater the size/importance of the flow.

Table 6.1 shows for each of the identified flows the relative size and importance of that flow.

6.1 The traditional path of inheritance

This is considered the traditional flow of inheritance from the *old* generation to the *family* generation. When people talk about transfers between families (inheritance) this is the type of transfer they are usually referring too. This flow could be made up of a combination of financial assets, housing assets and in kind support.

Anecdotal evidence suggests that this represents one of the largest flows of transfers. Because of this, there is a need for data and understanding of this flow to allow its importance to be properly determined.

6.2 Generation skipping

This flow is the transfer from *old* generation to the *young* generation. Some have referred to this as generation skipping, as the transfers from the *old* generation skip the *family* generation and pass straight to the *young*. This type of transfer might be for purposes of assisting the young generation with tertiary education or training. Transfers in this flow would predominantly be of a financial nature. Some overseas literature has concluded that this could become an increasingly large flow in the future. As our population lives longer, the *old* generation may find that their children in the *family* generation no longer need assistance and so they may skip that generation and pass it on to the *young*. We are unsure of the size and scale of these transfers in New Zealand. We are unsure of the importance of these transfers and/or policy relevance.

6.3 Transfers to fund tertiary education

This flow is the transfer from the *mature* to the *young* generation. This flow is likely to be primarily a transfer to fund education or training and it will be primarily of a financial nature. This flow is likely to have become more common in New Zealand since the existence of student loans, with parents providing financial assistance to their children to help them fund their tertiary education and/or avoid a student loan. Again, due to the lack of data, we do not know the scale and size of these transfers, but because of the impact it may have on the debt levels of the *young* generation after they leave the tertiary system and contemplate buying a house, it is important to have a grasp of the issues.

More importantly, there is a need to understand the scale and size of this flow from the perspective of the impact it may have on the *mature* generation and their on-going ability to save for retirement.

6.3.1 Funding business set-up

This flow is the transfer from the *mature* to the *family* generation. It is not clear what these transfers may be for. As the *family* generation is already likely to be in their own home these transfers may be to help the *family* generation buy into, or start up, their own businesses.

Again, the size of these flows is unknown and thus the effect on both the *family* generation and the ability of the *mature* generation to save for their retirement is unknown.

6.4 Reverse of traditional flow

This flow is the transfer from the *family* generation to the *old*, or what could be termed as kids supporting their parents. As our population grows older and we live longer there are greater financial requirements for people living in retirement. Sometimes these people do not have sufficient savings/assets to ensure they are self-sufficient and/or they suffer an illness/accident that draws on those savings at a faster rate than was anticipated. In these circumstances, there may be some transfers from the *family* generation to help the *old* generation's health and/or housing needs.

Again, the size of these transfers is unknown. Because of the potential impact of the *family's* ability to repay their own mortgage and the cascading effect on their ability to save for retirement, this is an important flow in terms of a research agenda.

6.5 Funding needs for the older generation

This flow is the transfer from the *mature* generation to the *old* generation. These flows could occur when the parents enter into the *old* age groups such as 80+ and their children may be in the late 50's early 60's. Like the reasoning for flow D, the health and housing needs of the *old* generation may require some transfers from the *mature* generation.

This is important from a research perspective as it may impact on the *mature* group's ability to save for retirement given the shortened time horizon. Some in the *mature*

generation may be looking after parents in the *old* generation up to and into retirement.

7 Conclusions and recommended research agenda

Overseas research suggests that intergenerational transfers make up a substantial part of wealth and has a significant influence on the ability of households to purchase a home. Not surprisingly, during discussions and workshops for this study many areas of research and investigation were suggested as useful and/or necessary.

The New Zealand context is of a population living longer. This has implications for the level of wealth available for transfer and the generation to which the wealth might be transferred. Our model suggests that the *mature* generation is most affected by outward transfers. This observation is even more significant when noting such transfers potentially affect their ability to save for their own retirement.

A key finding has been the need to view transfers within the context of housing tenure decisions and transition influences, as well as overall savings behaviour and wealth holdings. The link with retirement savings, health needs, student loans as well as home ownership became a common thread in discussions. Therefore investigating the issue of intergenerational and interfamilial transfers in isolation of these influences is not recommended.

In the following section, we list many of these research issues and thereafter set criteria for evaluating their priority and make recommendations as to a future research programme.

7.1 Questions for future research

A selection of research issues are listed (in no particular order).

- Data – information from SoFIE is eagerly awaited, although it is noted that usable longitudinal data will require several years to accumulate. Alternative data sources should be trawled to try to allow some quantitative research to be completed in the interim.
- Case study examples of families and their experiences and history of transfers should be undertaken to supplement the sparse data available.

- Investigation/verification of *traditional* model and framework for transfers and inheritance flows and its relevance to today and/or future. In terms of the framework presented here, key questions for investigation could be:
 - * the effect of transfers for tertiary education on the *mature* generation's ability to save for retirement.
 - * the effect of transfers to fund the (health) needs of the *old* generation on the *mature* generation's ability to save for retirement.
 - * the effect to the *old* generation from the *family* generation on their (*family*'s) ability to enter (or retain) home ownership and thereafter save for retirement.
 - * the impact of public transfers on this framework and implied behaviour.
 - * the implications of the (perceived) decline in the rate of home ownership on future transfers.
- The behaviour and flows of transfers and inheritances for those that do not accord with one of the *stereotypes* drawn in our framework.
 - * the impact on transfers of the (perceived) fall in the rate of home ownership.
 - * the characteristics for transfers (both received and provided) for those who do not make it onto the home ownership ladder.
 - * the characteristics for transfers (both received and provided) for single-person households.
 - * the characteristics for transfers (both received and provided) for the different ethnicities in New Zealand.
- Quantitative modelling of inheritance behaviours – including micro-simulation modelling of choices integrated with housing tenure transition decisions, savings behaviour, other lifestyle choices and demographic changes.
- Other countries' inheritance situations; in particular, tax treatments (e.g. capital gains tax and/or estate/death duties) and their influence on transfer decisions and behaviour.

7.2 Criteria for research priorities

Given the range of possible issues, a method of filtering potential topics is required. In selecting candidate topics for research, the following general criteria have been applied:

- the relevance of the topic in terms of the NZ Housing Strategy.
- the potential of the issue to inform and add to understanding of housing policy.
- the importance or significance of the issue as viewed by those involved with developing housing policy.
- whether the issue covers a gap identified in existing knowledge.
- the feasibility of applying research to the issue.
- the potential to draw on a range of pertinent overseas work to inform the topic.

7.3 Topic 1 : Developing and testing a NZ framework

Beginning with the working framework developed in section 5, there are three avenues:

- quantify the various flows (given existing data on the stocks) identified, and explore the likely quantum of flows in some future years (see 7.4 below).
- expand the framework to include the influences from public transfers.
- investigate the key flows ranked as more important from a policy perspective (i.e. flows C, A and E) and concentrate research effort on understanding the key motivations and behaviours underlying these flows.

7.4 Topic 2 : Priority data

As always, data is (or should be) the life-blood of research and policy analysis. The progressive release of information from SoFIE will ensure a widening and deepening knowledge of this topic. It will also, no doubt, identify further gaps in our knowledge. However, the disadvantage here is the time necessary to obtain a useful longitudinal dataset. In the interim, a judicious combination of SoFIE analysis,

survey, case study and existing data on housing and financial wealth stocks may be necessary to construct better estimates of transfer flows to thereafter inform policy analysis.

7.5 Topic 3 : The non-modal household

A framework for analysis, as the one developed in this report, necessarily focuses on the modal household. Of (at least) equal importance, however, are the influences and behaviours of the non-modal household (i.e. those households that do not fall into one of the stereotypes suggested within the framework).

The topic for research here must be related to the impact of the fall in home ownership rates. While we acknowledge that there remains concern over measurement issues here, the centrality of housing wealth to transfers received and provided means the rate of home ownership must enter into the analysis. Questions here could be:

- what proportion of existing home owners received an intergenerational or interfamilial transfer influencing their first home purchase decision?
 - * how did the transfer influence your decision (e.g. purchase first home earlier, or purchase larger first home, purchase in different location)?
 - * did the expectation of receiving a transfer in the future influence your first home purchase decision?
 - * having received such a transfer, is your behaviour and choices with respect to providing such transfers in later life likely to have changed?
- what are the characteristics for transfers (both received and provided) for those who do not make it onto the home ownership ladder?
- what are the characteristics for transfers (both received and provided) for single-person households?
- what are the characteristics of the transfers (both received and provided) for the different ethnicities within New Zealand?

7.6 Topic 4 : modelling - *microsimulation* techniques

To explore wider the interaction and simultaneity of the various transfer behaviours alongside decisions as to housing tenure and transition status, savings behaviour,

demographics and other lifestyle choices, consideration should be given to the use of microsimulation techniques to model the impact of these choices. This option was also recommended in an earlier report for CHRANZ in the context of housing tenure decisions², and could readily be extended to incorporate and investigate the impacts of the various transfers identified in this report.

As was noted in that earlier paper, despite its initial cost, once developed and maintained, appropriate micro simulation and modelling could assist policy makers with a wide range of housing questions.

² Jameson B. and Nana G. (2004), *Furthering Our Understanding of Tenure Transition: The Impact of Financial Circumstances on Tenure Choices in New Zealand*, CHRANZ Research Report.

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