

Viewpoint Series

# Intergenerational Wealth



# We are The Openwork Partnership. And for us, financial advice is personal.

For us, it's not just about the numbers – the business growth, the investment performance. It's about personal stories, families, careers and generations of lives.

As one of the UK's largest and longest-established financial advice and investment networks, we've been together for nearly 50 years. More like a family than a business partnership, we listen, we have open conversations, and we believe in letting people be themselves.

And while every firm in the Partnership is distinctive – with its own ethos and identity – we share the same values and commitment to each other and to our clients.

We are proud of the difference our advisers make in helping our clients and their families look forward to a better future with confidence and optimism. If it matters to our clients, it's a matter of personal importance to us all.

# Intergenerational Wealth

Intergenerational wealth is a major driving force in the UK economy with the famed Bank of Mum and Dad estimated to be involved in half of the house purchases by under-35s<sup>1</sup>.

More than a third of British households receive an inheritance or wealth transfer in the form of a gift from their parents at some point in their life<sup>2</sup>, according to research from the Nuffield Foundation. The average pay-out is estimated to be around £115,000 so the amounts being talked about are substantial and potentially life changing.

The intergenerational wealth issue is a major focus for advisers who are helping clients and their families every day to navigate the potential pitfalls. It is a major issue for policymakers with the UK Government recently launching the Mortgage Guarantee Scheme to help increase the supply of 95% loan-to-value mortgages.

Parents clearly want to help families but doing so will have an impact on their own finances. Helping children on to the property ladder could come at the cost of their retirement plans. As well as ensuring their own financial plans stay on track, families will face possible issues with tax and gifting.

That is why The Openwork Partnership conducted its own research<sup>3</sup> with families across the UK to find out what they think about intergenerational gifting and what their plans are for the future.

The research reveals big plans for future gifting and early inheritance despite the impact of COVID-19 while also pointing to areas where clients need support.

The Viewpoint overleaf sets out the findings and should prove fascinating reading on an issue which touches millions of people and is a focus for advisers across the UK.

<sup>1</sup> <https://www.legalandgeneralgroup.com/media-centre/press-releases/bank-of-mum-and-dad-funds-one-in-two-house-purchases-amongunder-35s>

<sup>2</sup> <https://www.nuffieldfoundation.org/news/intergenerational-wealth-transfers-drive-inequality-in-britain>

<sup>3</sup> Research conducted among 1,280 adults aged 18-plus including 760 parents and grandparents using an online methodology by independent researchers Pure Profile in December 2020

# The scale of future giving

Our research found more than £293 billion is earmarked for younger generations by generous parents and grandparents.

Children can expect on average an early inheritance of nearly £9,500 each with 60% of parents and grandparents planning to give gifts for major purchases before they die. The money is intended for big spending such as paying off student debt or helping with a house deposit.

Some children and grandchildren can look forward to much bigger gifts with one in nine (11%) of parents and grandparents planning to give more than £25,000 each.

Not all children and grandchildren can bank on an early inheritance with 27% of parents and grandparents – the equivalent of 8.5 million people – not planning to give anything.

The financial impact of the COVID-19 pandemic has not damaged early inheritance plans too much with just 6% of parents and grandparents worried they may have to cancel their plans.

In fact, more than one in five (22%) of parents and grandparents say they plan to give more or give the money earlier as a result of the pandemic while 18% say they have cut the amount of the planned pay-out or will delay the gift.

**Mike Morrow, Chief Commercial Officer at The Openwork Partnership, commented:**

“The sheer size of the amount that parents and grandparents plan to give as early inheritances shows how important intergenerational wealth transfers are in the economy.”

“Average gifts per child or grandchild of nearly £9,500 are significant and £293 billion makes a major contribution to the wealth of younger generations.”

“The size of the gifts underlines the need for trusted advice on how best to use the money whether it is to pay for house deposits or pay off debt or to invest for the future. Parents and grandparents as well as children and grandchildren would benefit from an ongoing relationship with a financial adviser.”



# Property wealth is a major contributor

Nearly one in five (17%) parents and grandparents plan to use their home wealth to help children and grandchildren on to the property ladder in the next five years.

That is the equivalent of around four million people planning to use the equity in their homes to enable family to afford a house deposit. Family help is a further boost for first-time buyers who should benefit from the launch of the Government's Mortgage Guarantee Scheme in April 2021 which will increase the supply of 95% loan-to-value (LTV) loans from mortgage companies.

Parents and grandparents are most likely to downsize and move to smaller houses to raise the cash to help family.

Around 61% say they will consider downsizing while nearly a third (31%) would remortgage and 24% would consider equity release plans.

## **John Cupis, Mortgage Director at The Openwork Partnership, commented:**

“Rising house prices make it harder for first-time buyers to raise the deposit for a property purchase and the struggle is made even more challenging by the shortage of high LTV mortgages.”

“The Mortgage Guarantee Scheme is helping with the high LTV mortgages with lenders taking advantage of the offer, but family support remains very important in helping people on to the housing market.”

“It is understandable parents and grandparents want to help but they should think carefully about how they release money from their homes and take advice on the most appropriate ways to do so as well as seeking advice on any inheritance tax implications.”

## **The picture across the country**

It is not just a case of homeowners in London and the South East where property prices have increased faster than the rest of the country. Nearly one in four in the East Midlands are considering releasing cash from their homes with around one in five Londoners and people in the West Midlands likely to follow suit.

<b>Region</b>	<b>How many are releasing equity to help children and grandchildren</b>
East Midlands	24%
London	21%
West Midlands	20%
South East	16%
Wales	16%
North West	13%
Yorkshire & Humberside	11%
South West	8%
East Anglia	6%
Scotland	4%
Northern Ireland	4%
North East	0



# The COVID impact

The past year has seen a lot of gifting as the financial impact of the pandemic has meant people have had to turn to families for support. Our research shows families have given up to £11.2 billion in financial support to struggling members during the COVID-19 pandemic. The average handout has been more than £470 but around one in 12 (8%) who have received cash have been given more than £1,000.

Parents have been the main source of financial help during the pandemic with two-thirds (65%) of those who have asked for support being bailed out by their parents. But nearly one in five (19%) say they have received money from their adult children.

Around 19% of adults questioned – the equivalent of more than six million people – say they have asked family for help to cope financially during the past year with day-to-day expenses the biggest reason for seeking support.

Nearly two-fifths (36%) who have asked for cash say they needed the money for living costs while 29% took a one-off cash lump sum. Around 14% needed help paying their mortgage or rent and 19% asked for money for a major purchase.

Under-35s were the most likely to ask for money with 45% asking for help but around 18% of 35 to 55-year-olds also needed family backing to cope.

## **Mike Morrow, Chief Commercial Officer at The Openwork Partnership, commented:**

“The COVID-19 pandemic has hit millions financially as workers have been furloughed or lost their jobs and business owners have struggled to keep their companies afloat.”

“Families have played their part in helping other members out when they are struggling with more than £11 billion paid out during the pandemic with parents the main source of extra cash although it is interesting to see that adult children are also helping out when they can.”

“Financial advice is important to help people get their finances back in shape whether they have given money or had to ask for it during the crisis demonstrating how important advice is and the role it plays in what are very personal situations.”

## **Around the country**

More than one in four (26%) in London have sought financial support with people in the West and East Midlands also likely to ask for help.

<b>Region</b>	<b>How many have asked family for help</b>
London	26%
West Midlands	25%
East Midlands	24%
North West	23%
South East	21%
Wales	21%
Yorkshire & Humberside	19%
North West	18%
Scotland	16%
South West	12%
East Anglia	12%



# The tax trap – and the need for advice

Parents and grandparents are risking tax bills from helping out their family financially. Around one in five (20%) – the equivalent of 6.3 million people – say they have given gifts of £3,000 or more to family without declaring it to HMRC.

Inheritance tax rules mean gifts up to the total of £3,000 can be given away each tax year and count as an annual exemption. But gifts worth more than £3,000 can be added to the value of someone's estate if they're given up to seven years before death or mean tax bills for the people receiving the gift.

The inheritance tax risk is becoming a major issue as the growing importance of the Bank of Mum and Dad and Gran and Grandad in the housing market highlights the demand for more intergenerational gifting.

Nearly half (46%) of parents and grandparents are unaware that they could face a tax bill if they give money to children and grandchildren while nearly two out of five (38%) did not know there were any potential tax risks from helping out families financially.

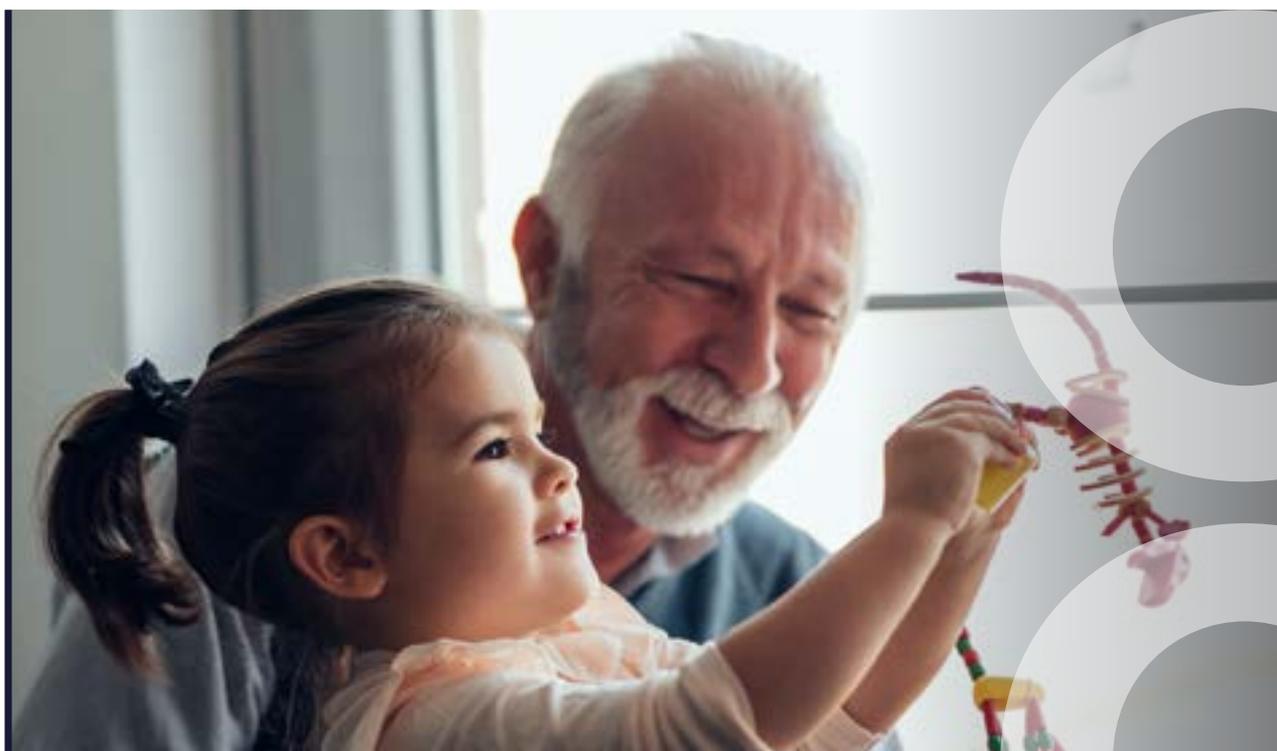
Even among those who were aware there was a possible tax implication there is confusion, with 80% saying they find the rules complicated.

## **Mike Morrow, Chief Commercial Officer at The Openwork Partnership, commented:**

“It is natural for families to want to help each other financially when they can and it's becoming increasingly important given rising property prices and the financial impact of COVID-19.”

“Unfortunately, it's not that simple providing financial help and the Bank of Mum and Dad and Gran and Grandad need to ensure they are not opening themselves up to a tax bill or even possibly landing their relatives with tax issues.”

“Professional financial advisers can help people with IHT planning and how to protect inheritances. They will provide support on how to navigate the potential pitfalls and ensure that everyone including HMRC receives what they are expecting, and nobody is left with a surprise bill.”



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