

Contents lists available at [ScienceDirect](#)

Social Science Research

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# The lasting effect of intergenerational wealth transfers: Human capital, family formation, and wealth<sup>☆</sup>

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## ARTICLE INFO

### Article history:

Received 29 March 2017

Received in revised form 20 August 2017

Accepted 14 September 2017

Available online 15 September 2017

## ABSTRACT

Recent evidence indicates that inheritances and other intergenerational wealth transfers have only a limited effect on wealth inequality and the intergenerational transmission of financial well-being. In this study, we explore the role that human capital and family formation play in mediating the relationship between receiving a transfer and building wealth. We examine how educational attainment and family formation determine whether or not households are able to convert inheritances into greater assets, facilitating improved wealth accumulation. Using data from the Panel Study for Income Dynamics (PSID), we examine how these factors moderate wealth accumulation trajectories following a bequest or inter vivos gift. Results reveal that educational attainment and marriage each facilitate wealth accumulation following a transfer. Our evidence suggests that cumulative advantage processes produce divergent wealth accumulation trajectories but these are situated in important turning points in the life course.

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Intergenerational financial transfers, such as inheritances and inter vivos gifts, are often assumed to be an important mechanism generating wealth inequality and the continuity of wealth across generations, but the relationship between transfers and lifetime wealth is less clear than most research assumes. Receiving a financial transfer clearly increases wealth initially, and some evidence suggests that receiving a transfer has long-term benefits as well. Receiving a transfer may improve household saving behavior, reduce the need to carry consumer debt, and facilitate home ownership (Spilerman and Wolff, 2012) and business startup (Holtz-Eakin et al., 1994a, 1994b). Despite these potential advantages, however, there is reason to question whether intergenerational transfers are as strongly correlated with long-term wealth accumulation—and thus the reproduction of social inequalities—as these findings imply. Most bequests occur in middle- to late-life, after households have either established a clear wealth accumulation trajectory or, in the case of later-life recipients, accumulated the bulk of their wealth (Wolff, 2015). Moreover, a narrower literature focuses on what households do with inheritances and examines whether they contribute to long-run wealth accumulation. Many households respond to transfers by increasing consumption, decreasing saving, and paying off existing debt, behaviors that reduce the long-run wealth benefits the transfers might otherwise provide (Joulfaian, 2006; Nau and Tumin, 2012). Consequently, the long-run wealth effects of

<sup>☆</sup> This research is supported by a grant from the Russell Sage Foundation, Award Number: 83-16-12. Thank you for research assistance from David Eagle, Brian Aronson, and Brandon Grant.

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receiving a transfer vary dramatically across households but we know little about the factors that facilitate or impede this process.

Human capital acquisition and family formation are two traits likely to increase the likelihood that financial transfers improve long-term wealth accumulation. Human capital, for example, is one of the strongest and most enduring correlates of beneficial financial decision making (Lusardi et al., 2010). Educational attainment is strongly associated with saving, appropriate uses of debt, investing, returns to investments, and ultimately accumulation of net worth over the life course, independent of its effect on labor earnings (Cole et al., 2014). Similarly, family formation is a strong correlate of financial behavior. Marriage, for example, not only increases the financial resources available to save (Zagorsky, 2005), but it also generates shared motives and goals for accumulating assets. Similarly, family dissolution and divorce can introduce hardships that damage financial well-being (Lyons and Fisher, 2006; Wilmoth and Koso, 2002). Finally, having children also affects financial well-being, particularly in cases where early onset or non-marital childbearing interrupts educational attainment, career advancement, and early saving behavior (Hofferth et al., 2001; Painter and Shafer, 2011). Together, these patterns suggest that human capital and family formation are likely to shape the ways a household uses an intergenerational transfer and whether a transfer ultimately becomes wealth. Clearly, intergenerational stratification mechanisms affect human capital acquisition and family formation outcomes that in turn shape financial well-being (Mare, 2011). To the extent that these factors also facilitate wealth accumulation following a bequest, they constitute double mechanisms in the intergenerational nature of wealth inequality, first by facilitating early-life financial well-being and second by ensuring that families preserve wealth across generations. However, the literature on wealth transfers and accumulation has not yet explored these processes.

We fill this gap by studying how human capital and family formation shape wealth accumulation processes following an inheritance. Although prior research finds that many households experience negative net worth trajectories as time elapses following a transfer (Nau and Tumin, 2012), we propose that human capital and family formation moderate these accumulation trajectories. Greater educational attainment, marriage, and delayed fertility each improve households' ability to convert inheritances and other transfers into greater net worth. We use the Panel Study for Income Dynamics (PSID) to investigate changes in wealth ownership as time elapses following an inheritance or other transfer. This approach allows us to model how wealth accumulation trajectories following a transfer vary across other household covariates. We apply random- and fixed-effects panel models to examine how these wealth trajectories vary across and within households. In what follows, we first outline our theoretical framework and discuss prior research on wealth transfers, wealth accumulation, and wealth stratification. Next, we introduce our data and analysis and present results examining how household characteristics moderate wealth accumulation trajectories following a transfer. We conclude by discussing implications for theory and future research.

## 1. Intergenerational transfers and wealth

Direct intergenerational financial transfers through inheritances or inter vivos gifts are often thought to be an important channel through which families pass on their wealth advantages across generations. As a consequence, it is generally assumed that intergenerational transfers contribute to wealth inequality and the rigidity of the wealth distribution by providing advantages to those from wealthy backgrounds and constraining opportunities for families to change their social position. Some evidence confirms the assumption that wealth transfers facilitate intergenerational wealth transmission and financial well-being. Transfer values are highly unequal, even more so than income and wealth (Wolff, 2015). Receiving a transfer makes saving easier and reduces the need to carry consumer debt. Transfers also facilitate savings and wealth accumulation indirectly by supporting home ownership (Spilerman and Wolff, 2012) and business startup (Holtz-Eakin et al., 1994a, 1994b).

A sizable related literature considers parental motives for intergeneration transfers as well as the role of intergenerational transfers in the reproduction and maintenance of wealth inequality (Spilerman, 2000). Some evidence suggests that intergenerational transfers reflect emotional closeness between parents and children and stem from familial solidarity (Lennartsson et al., 2010). However, other evidence suggests that intergeneration transfers reflect a sense of parental duty or social norms of supporting one's offspring (Schokkaert, 2006). Along these lines, Albertini and Radl (2012) argue that intergenerational transfers reflect parents' desire to provide advantages to their heirs and prevent them from experiencing downward mobility, rather than a sense of reciprocity. Similarly, Spilerman and Wolff (2012) point out that intergenerational transfers contribute to the transmission of advantage and living standards across generations.

However, other evidence suggests that intergenerational transfers are not a substantial driver of wealth inequality. Most households receive bequests later in life, after they have already established a clear wealth accumulation trajectory and accumulated the bulk of their wealth (Wolff, 2015). Consequently, inheritances explain only a fraction of intergenerational wealth correlations as compared to other factors, like human capital acquisition, and families primarily use these alternative channels to pass advantages to subsequent generations (Pfeffer and Killewald, nd). Efforts to mitigate wealth inequality that focus exclusively on intergenerational transfers likely miss these alternative sources of intergenerational status transmission.

We enter this debate by examining heterogeneity in how households accumulate additional wealth following a transfer. Prior research indicates that many households tend to adjust their consumption and savings behaviors in ways that reduce the long-term wealth benefits that transfer might otherwise provide (Elinder et al., 2016; Joulfaian, 2006; Nau and Tumin, 2012). Receiving households tend to increase consumption, decrease saving behavior, and pay-off debts, limiting long-

term wealth accumulation. As a result, most receiving households only enjoy a temporary wealth boost following an inheritance but this initial boost declines as time elapses.

Although this evidence suggests that many households do not successfully convert transfers into long-term wealth, we know little about the factors that shape this process. Inheritances and other intergenerational transfers are remarkably common but long-run wealth effects of receiving a transfer vary dramatically and households use these transfers in many different ways. Bequests and inter vivos gifts provide a notable wealth boost at a particular moment in the life course but a household's structural position and social and financial resources can determine how transfers affect their long run financial well-being. For some households with access to greater initial resources, bequests are likely to be converted into greater wealth gains through a cumulative advantage process (DiPrete and Eirich, 2006). Among households in more financially vulnerable situations, bequests may have short term effects on consumption and savings behavior but are unlikely to be converted into long run net worth (Nau and Tumin, 2012). Consequently, households exhibit notable heterogeneity in their capacity to convert inheritances into long-run wealth. Explaining this heterogeneity remains a core challenge for wealth inequality research.

We point to two factors, human capital and family formation, that are likely to explain heterogeneity in wealth accumulation trajectories following an inheritance. Importantly, intergenerational stratification processes shape human capital and family formation outcomes which in turn affect wealth accumulation over the life course (Mare, 2011). Consequently, to the extent that human capital and family formation traits also explain whether and how families convert inheritances into greater wealth, they constitute double mechanisms in the intergenerational transmission of social status, first by allowing families to pass on advantages that facilitate initial wealth accumulation and second by ensuring that intergenerational wealth continues to accumulate following a transfer. Even recipients who receive sizable transfers may fail to use their inheritances in ways that generate greater wealth if their human capital and family formation traits do not favor wealth accumulation.

### 1.1. Human capital, financial transfers, and wealth accumulation

Human capital is one of the most important determinants of financial well-being. Education is associated with wealth accumulation both directly, by improving financial literacy and investment behavior, and indirectly through income and access to salaried occupations with defined contribution pensions (Conley, 2001; Keister, 2003). Even independent of income effects, educational attainment improves wealth accumulation by increasing participation in financial markets and investments and decreasing the likelihood of declaring bankruptcy or defaulting on a loan (Cole et al., 2014). Educational attainment also improves financial literacy and orientations that facilitate wealth accumulation by increasing risk aversion, reducing delay discounting, and improving access to financially literate peers (Halek and Eisenhauer, 2001; Harrison et al., 2002). Moreover, parental investments in education strongly account for intergenerational wealth correlations (Pfeffer and Killewald, nd) and improves intergenerational wealth mobility (Keister, 2007; Torche, 2011), particularly among households entering positions at the top of the wealth distribution (Goldin and Katz, 2009; Kaplan and Rauh, 2013).

Given the direct effect of educational attainment on wealth accumulation, we anticipate that highly educated households are also more likely to convert intergenerational transfers into accumulated assets. First, because education improves overall financial well-being and reduces the likelihood that households experience financial distress, highly educated households are better able to save and invest. Second, because educational attainment reduces delay discounting and increases risk aversion, highly educated households are less likely to quickly spend down inheritances and other transfers. Finally, education improves financial literacy which facilitates investing and enables households to convert bequests into greater wealth. Less educated households may be less familiar with saving and investment options that would otherwise help preserve and grow an asset transfer.

**H1.** *Educational attainment improves households' likelihood of converting inheritances into greater wealth.*

### 1.2. Family formation, financial transfers, and wealth accumulation

The U.S. stratification system rewards marriage. Marriage behavior is an important determinant of the direction and rate of wealth accumulation (Henretta and Campbell, 1978; Keister, 2007; Zagorsky, 2005), though this effect varies somewhat across birth cohorts (Keister and Deeb-Sossa, 2001). Marriage encourages wealth accumulation because it allows two individuals to combine their resources and work toward common goals that encourage savings behavior. Zagorsky (2005) estimates that married individuals experience net worth increases of 77 percent, as compared to single individuals, and see net worth increases of 16 percent for each year of marriage. Marriage may also support wealth inequality and the intergenerational transmission of social status because of homogamy within socioeconomic brackets and other salient social groupings (Mare, 2011).

Similarly, divorce tends to damage wealth accumulation when assets are divided, expended on divorce related legal fees, and couples must spend to maintain separate households. Wilmoth and Koso (2002) estimate that divorced individuals have 73% less wealth than the continuously married and that disadvantage increases to 83% in cases where individuals are twice divorced. Additionally, the wealth penalties associated with divorce far outstrip those associated with widowhood, suggesting that marital dissolution is particularly harmful for wealth accumulation. Lyons and Fisher (2006) find that divorce

increases the likelihood that individuals default on their debt obligations, further suggesting that divorce is associated with greater financial distress.

Given the relationship between marriage, divorce, and wealth accumulation, we expect that married households are better able to convert transfers into accumulated assets and are less likely to see net worth declines as time passes following an inheritance. Marriage introduces incentives and resources to save that also facilitate households' capacity to grow assets from intergenerational wealth transfers. Consequently, the financial benefits of marriage are likely to improve households' capacity to build long-run wealth from an intergenerational transfer. Conversely, we expect that divorce damages households' capacity to convert inheritances and other transfers into greater net worth. Divorce introduces expenses and other sources of financial distress that lead households to dissave and spend down inheritances, limiting their capacity to convert inheritances into greater wealth.

**H2.** *Married households convert inheritances into greater wealth.*

**H3.** *Divorced households are less able to convert inheritances into greater wealth as compared to those who remain married.*

The U.S. stratification system also exerts considerable penalties for early childbearing. Compared to other industrialized countries, the U.S. exhibits weak child benefits or childcare provisioning, placing the economic burden of fertility squarely on individual parents, particularly women (O'Connor et al., 1999). Consequently, fertility can be extremely costly. Additionally, the U.S. exhibits weak family leave policies. In the absence of these institutional supports, fertility reduces female labor force participation and working hours, exacerbating the economic consequences fertility (Boeckmann et al., 2015). Thus, fertility can have important consequences for female status attainment and career advancement, particularly during early career stages (Kahn et al., 2014).

Fertility also affects wealth accumulation because having children increases expenses and prevents saving. As such, remaining childless is an important predictor of wealth ownership (Plotnick, 2009; Yamokoski and Keister, 2006). Similarly, delayed fertility also increases wealth accumulation because it supports career development, educational attainment, and initial saving and investing behavior (Keister, 2005). Conversely, early onset and non-marital childbearing interrupts educational attainment, career attainment, and early saving behavior thereby undermining wealth accumulation (Hofferth et al., 2001; Painter and Shafer, 2011). Given these patterns, we expect that delayed fertility improves households' capacity to convert inheritances and other wealth transfers into greater net worth. Early onset fertility can introduce financial distress that undermines households' capacity to convert inheritances into long-run wealth. Delayed fertility can improve household financial well-being putting receiving households in a position to save and invest, converting inheritances into long-run wealth.

**H4.** *Delayed fertility improves household's capacity to convert inheritances into greater wealth*

## 2. Data and methods

The data for this study come from the Panel Study of Income Dynamics (PSID), a long running longitudinal panel survey collected on households in the United States since 1968. The PSID has collected detailed information about households' asset ownership and debts every year between 1984 and 1999 and biennially thereafter. Recent estimates indicate that the PSID wealth measures are consistent with the Survey of Consumer Finances (SCF), one of the highest quality surveys of household wealth in the U.S. (Pfeffer et al., 2016). We draw on the PSID because its longitudinal design permits us to track households as time elapses following an inheritance and fit fixed-effects panel models that estimate within household wealth accumulation trajectories and limit the potential for omitted variable bias.

We use a summary measure of household net worth which serves as the dependent variable throughout the analysis. The measure includes the sum of all financial and nonfinancial assets, including home equity, less total liabilities and is logged to correct for skewness. All dollar values are adjusted for inflation and reported in 2013 dollars. In estimating wealth accumulation trajectories, our models predict current net worth as a function of time elapsed after an inheritance or other intergenerational transfer. In 1984, the PSID asked respondents about whether members of the household had ever inherited *money or property*, the year the inheritance was received, and the value of the inheritance at that time. Five years later, in 1989, respondents were asked if anyone had received a gift or inheritance over \$10,000 in the past five years, along with the year and amount. Similar questions were asked again in 1994 and 1999 and biennially thereafter.<sup>1</sup> Respondents were asked about up to three large inheritances or gifts. We use this question series to construct household level measures for the year of the family's largest most recent transfer, the logged value and squared logged value of that transfer, the household head's age

<sup>1</sup> Unfortunately, the PSID did not ask questions about the detailed sources of these transfers. Thus we are unable to distinguish gifts and inheritances that came from parents from other sources such as grandparents, other relatives, or family friends. However, reporting evidence from the Survey of Consumer Finances (SCF) between 1989 and 2007, Wolff and Gittleman (2013) find that 84% of all wealth transfers are received in the form of inheritances. They also find that 69% of these transfers come from parents, while 19% and 21% come from grandparents and other relatives respectively.

**Table 1**  
Summary statistics.

	Random intercepts sample	Fixed-effects sample
	Mean (S.D.)	Mean (S.D.)
Net worth (ln)	15.07 (0.21)	15.07 (0.21)
Net worth (in 1,000s)	566 (1570)	582 (1605)
Ln income	11.13 (1.05)	11.15 (1.05)
Income (in 1,000s)	105 (153)	106 (156)
Homeowner (%)	79	80
Ln inheritance value	1.12 (1.37)	1.11 (1.37)
Inheritance value	1,373,206 (41,017,102)	1,438,906 (42,117,406)
Years elapsed following inheritance	1.01 (8.97)	1.41 (9.01)
Year of inheritance	1992.85 (11.94)	1992.57 (11.77)
Age at inheritance	43.25 (14.91)	43.31 (14.82)
Education (%)		
Less than high school (ref.)	9	8
High school	26	25
Some college	23	23
BA/BS	28	29
Post-graduate	15	15
Race (%)		
White (ref.)	87	88
African American	11	10
Other	2	2
Married (%)	69	70
Number of children	0.59 (1.01)	0.58 (1.00)
Self-employed (%)	15	16
Unemployed (%)	3	3
Age	53.13 (15.88)	53.60 (15.68)
Age at first marriage	25.05 (5.25)	24.06 (5.24)
First marriage status (%)		
Intact (ref.)	58	58
Widowed	10	10
Divorced	31	31
Age at first birth	26.01 (5.57)	26.05 (5.55)
	11,097 observations; 2563 households.	10,524 observations; 1990 households

Notes: The random intercepts sample includes households that contribute only one observation to the sample. The fixed-effects sample is constrained to households that contribute two or more observations to the sample. Income and net worth values reported in 2013 dollars.

when the transfer was received, and the number of years elapsed since the transfer was received.<sup>2</sup> The number of years elapsed since the transfer is the focal independent variable, allowing us to estimate net worth trajectories as time elapses following a transfer. This approach allows us to determine which factors predict households' propensity to convert inheritances into greater wealth or position them to spend down inheritances.

We also apply a series of demographic measures useful for capturing the differential effect of time elapsed since a transfer on current wealth. Education is coded as the highest degree attained at the time of the survey: less than high school (reference category), high school, some college, college degree, and post-graduate degree. We also specify a dummy variable for married households and a series of dummy variables for the present status of the household head's first marriage. The variable takes one of three values: 1) the household head is still in his or her first marriage (reference category), 2) the first marriage ended in widowhood, 3) the first marriage ended in divorce. By using both current marital status and first marriage status we are able to simultaneous test effects for marital/divorce history and current marital status. We also measure the household head's age at first marriage as well as age at the birth of their first child. We specify separate models for effects with first marriage status, age at first marriage, and age at first child because each variable constrains the sample size.<sup>3</sup>

We also introduce a number of covariates known to affect wealth accumulation. Race is measured as the self-reported race of the household head: White, African American, and other race. Unfortunately, cell sizes and peculiarities specific to the PSID race measures do not permit finer grained race variables. We also specify dummy variables for self-employed and unemployed household heads. Models also control for age and age squared. The age covariates allow us to control for the baseline

<sup>2</sup> Unfortunately, the PSID did not ask respondents to report the asset composition of a transfer. The relative asset composition of a transfer could shape recipients propensity to save, invest, or spend down inheritances. For instance, liquid assets (e.g. cash, stocks, bonds) may be more rapidly spent down as compared to illiquid assets (e.g. real estate).

<sup>3</sup> These sample size constraints are not due to "missing data" but rather due to the nature of the questions. For instance, in testing effects for age at first marriage and first marriage status (continuing, divorced, etc.) we had to constrain the sample to households who were married. Similarly, in testing the effects of early child-bearing, we had to constrain the sample to households who had children. It would be misleading to specify all models on a sample of only married parents, so we constructed sequentially constrained subsamples based on the variables. In others, in testing the effect of divorce we constrained our sample to households who had been married. In testing the effect of early childbearing, we constrained the sample to parents.



wealth accumulation rate that happens as a individuals age. We specify a dummy variable for whether households own their primary residence. Finally, models control for logged total income, in 2013 dollars, and year dummies.

Our initial sample includes all households surveyed between 1984 and 2013 who we identified as having received an inheritance or wealth transfer and for whom wealth information could be collected. This produced a sample of 11,193 observations of 2,569 households. After row-deleting observations with missing data in the covariates, we are left with a final sample of 11,097 observations and 2,563 households. The average household contribute 6.74 observations, of the total 11 waves, with the modal household contributing all 11 waves. Most of this imbalance is due to new households joining the PSID during the survey—the PSID adds new households to the sample when the children of current respondents form their own households.

Table 1 presents descriptive statistics for each of the variables used in our analysis. Because we are interested primarily in wealth trajectories following a wealth transfer, our sample is limited only to households that reported at least one inheritance or inter vivos gift in the 1984 to 2013 survey waves. This approach has the disadvantage of discarding households that did not receive a transfer but has the advantage of allowing us to focus on divergent wealth accumulation trajectories following a bequest on a focused sample of households that did receive a transfer. In our sample, the earliest transfer was received in 1968 and the last transfer was received in 2013. At the cross-section, the average age at transfer receipt was 44. The average transfer value was over \$1.2 million, in 2013 dollars, though this value is highly skewed and the median transfer value was only \$23,809.

In our analysis we estimate both random intercepts panel models as well as models with household level fixed-effects. The random intercepts model allows us to retain households that only contributed a single observation to the data series. This random-intercepts model is defined as:

$$\text{LnWealth}_{ij} = \beta_{0j} + \beta_1 \text{years.elapsed}_{ij} + \beta_2 \text{transfer.value}_{ij} + \beta_3 \text{covariates}_{ij} + \varepsilon_{ij} \quad (1)$$

where,  $\text{LnWealth}_{ij}$  denotes the logged net worth of household  $i$  in time-point  $j$ . The  $\beta$ s are the regression parameters:  $\beta_{0j}$  is the intercept for household  $j$ ,  $\beta_1$  is the slope for years elapsed following an inheritance and estimates the conditional growth of the household' wealth following an inheritance.  $\text{Years.elapsed}_{ij}$  denotes the number of years that have elapsed since household  $i$ , observed in year  $j$ , received its transfer.  $\varepsilon_{ij}$  is the error term. Because this is a random intercepts specification, the intercept can be split into the average intercept and the household level deviation:

$$\beta_{0j} = \gamma_{00} + U_{0j} \quad (2)$$

Alternatively, the fixed-effects model is more conservative and conditions out all between household unobserved time-invariant variance and identifies within household wealth trajectories as time elapses following an inheritance. However, the fixed effects panel model draws on a somewhat smaller sample because it requires that a household contribute at least two observations in order to capture within-household change. The fixed-effects specification also removes covariates that do not vary across multiple observations of a single household, such as race, age at first marriage, and age at first child as these are constant within households. This specification is similar to the above model but rather than splitting the household intercepts into average and household level deviation, this model treats household-specific intercepts as fixed unknown parameters. The fixed-effects model is defined as:

$$\text{LnWealth}_{ij} = \beta_{0j} + \alpha_j + \beta_1 \text{years.elapsed}_{ij} + \beta_2 \text{transfer.value}_{ij} + \beta_3 \text{covariates}_{ij} + \varepsilon_{ij}, \quad (3)$$

where  $\alpha_j$  is the household level fixed-effect for household  $j$ .

To estimate how educational attainment and family formation moderate wealth accumulation trajectories, we specify models with product term interactions that interact years elapsed with education, marriage, current status of first marriage, and age at the birth of the first child, respectively.

### 3. Results

First, we conducted a simple descriptive analysis comparing total household wealth in the years immediately before and after the receipt of an intergenerational transfer. For each household, we calculated the difference in inflation adjusted total wealth between the years after and before transfer receipt. We found that the median household experienced a wealth boost of \$40,036 in these years. This boost ranged from a maximum of over \$1.7 million to a net loss of \$2.3 million. The interquartile range was from a net loss of \$11,593 to a gain of \$176,942. Thus most households experienced substantial wealth gains during the time period spanning a transfer receipt but a non-trivial number of households experienced net losses, further supporting the idea that substantial variation exists in whether households are able to build wealth from inheritances.

Regression results are largely consistent with our predictions that households' human capital and family formation characteristics shape wealth accumulation trajectories as time elapses following an inheritance. Results indicate that highly educated households, married households, and those that delay child bearing experience stronger positive net worth trajectories as time elapses following an inheritance receipt. Households with lower educational attainment, who experience

**Table 2**

Results from panel model regression analysis predicting current wealth – random intercepts models.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Income (ln)	0.025*** (0.002)	0.029*** (0.002)	0.026*** (0.002)	0.025*** (0.002)	0.025*** (0.002)	0.029*** (0.002)	0.026*** (0.002)
Education (ref. Less than HS)							
High school	0.018* (0.008)	0.016 (0.009)	0.010 (0.009)	0.035*** (0.010)	0.017* (0.008)	0.016 (0.009)	0.010 (0.009)
Some college	0.034*** (0.008)	0.037*** (0.009)	0.030** (0.009)	0.049*** (0.011)	0.034*** (0.008)	0.036*** (0.009)	0.030** (0.009)
BA/BS	0.056*** (0.008)	0.059*** (0.009)	0.056*** (0.010)	0.060*** (0.011)	0.056*** (0.008)	0.059*** (0.009)	0.055*** (0.010)
Post-graduate	0.087*** (0.009)	0.088*** (0.010)	0.085*** (0.011)	0.069*** (0.012)	0.087*** (0.009)	0.089*** (0.010)	0.084*** (0.011)
Race (ref. White)							
African American	-0.036*** (0.008)	-0.045*** (0.009)	-0.034*** (0.009)	-0.036*** (0.008)	-0.036*** (0.008)	-0.045*** (0.009)	-0.034*** (0.009)
Other	0.018 (0.014)	0.024 (0.015)	0.030 (0.015)	0.018 (0.014)	0.017 (0.014)	0.022 (0.015)	0.029 (0.015)
Number of children	-0.002 (0.002)	-0.000 (0.002)	-0.002 (0.002)	-0.003 (0.002)	-0.002 (0.002)	0.000 (0.002)	-0.002 (0.002)
Married	0.021*** (0.005)	0.015** (0.006)	0.021*** (0.005)	0.020*** (0.005)	0.008 (0.006)	0.015** (0.006)	0.022*** (0.005)
Self-employed	0.056*** (0.005)	0.058*** (0.005)	0.056*** (0.005)	0.054*** (0.005)	0.056*** (0.005)	0.058*** (0.005)	0.056*** (0.005)
Unemployed	0.013 (0.008)	0.008 (0.009)	0.008 (0.009)	0.012 (0.008)	0.012 (0.008)	0.007 (0.009)	0.007 (0.009)
Age	0.002* (0.001)	0.003*** (0.001)	0.003** (0.001)	0.002* (0.001)	0.002 (0.001)	0.003** (0.001)	0.003** (0.001)
Age-sq	-0.000 (0.000)	-0.000*** (0.000)	-0.000* (0.000)	-0.000* (0.000)	-0.000 (0.000)	-0.000*** (0.000)	-0.000* (0.000)
Homeowner	0.039*** (0.005)	0.035*** (0.005)	0.035*** (0.005)	0.038*** (0.005)	0.038*** (0.005)	0.035*** (0.005)	0.034*** (0.005)
Transfer year	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)
Ln transfer value	-0.030** (0.011)	-0.049*** (0.012)	-0.040*** (0.012)	-0.031** (0.011)	-0.030** (0.011)	-0.049*** (0.012)	-0.041*** (0.012)
Ln transfer value-sq	0.002*** (0.000)	0.003*** (0.001)	0.003*** (0.001)	0.002*** (0.000)	0.002*** (0.000)	0.003*** (0.001)	0.003*** (0.001)
Age at transfer receipt	0.002*** (0.001)	0.003*** (0.001)	0.002** (0.001)	0.003*** (0.001)	0.003*** (0.001)	0.003*** (0.001)	0.002** (0.001)
Years elapsed since transfer	0.001* (0.001)	0.002** (0.001)	0.001* (0.001)	0.002* (0.001)	0.001 (0.001)	0.003*** (0.001)	-0.002 (0.001)
First marriage (ref. still married)							
Ended in widowhood		-0.010 (0.009)				-0.002 (0.012)	
Ended in divorce		-0.018** (0.006)				-0.008 (0.007)	
Age at first marriage		0.000 (0.001)					
Age at first child			0.001 (0.001)				0.000 (0.001)
Interactions							
High school * years elapsed				-0.002** (0.001)			
Some college * years elapsed				-0.002* (0.001)			
BA/BS * years elapsed				-0.000 (0.001)			
Post-graduate * years elapsed				0.002** (0.001)			
Married * years elapsed					0.001*** (0.000)		
First marriage widow * years elapsed						-0.001 (0.001)	
First marriage divorce * years elapsed						-0.001** (0.000)	
Age at first child * years elapsed							0.001*** (0.000)
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	15.030*** (0.509)	15.133*** (0.565)	15.199*** (0.584)	14.940*** (0.509)	15.042*** (0.509)	15.077*** (0.560)	15.155*** (0.584)
N	11,097	9821	9162	11,097	11,097	9907	9162

Standard errors in parentheses.

\* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ .

**Table 3**  
Results from panel model regression analysis predicting current wealth – fixed-effects models.

	(1)	(2)	(3)	(4)	(5)
Income (ln)	0.011*** (0.002)	0.013*** (0.002)	0.011*** (0.002)	0.025*** (0.002)	0.013*** (0.002)
Education (ref. Less than HS)					
High school	0.002 (0.012)	–0.001 (0.013)	0.028 (0.014)	0.019* (0.008)	–0.000 (0.013)
Some college	–0.007 (0.013)	0.000 (0.014)	0.011 (0.016)	0.036*** (0.008)	0.002 (0.014)
BA/BS	–0.022 (0.014)	–0.014 (0.015)	–0.027 (0.017)	0.060*** (0.008)	–0.013 (0.015)
Post-graduate	–0.001 (0.016)	0.005 (0.017)	–0.035 (0.019)	0.091*** (0.009)	0.006 (0.017)
Number of children	–0.002 (0.002)	–0.000 (0.002)	–0.002 (0.002)	–0.002 (0.002)	–0.000 (0.002)
Married	0.016** (0.006)	0.011 (0.007)	0.015* (0.006)	0.012* (0.006)	0.012 (0.007)
Self-employed	0.019*** (0.005)	0.020*** (0.006)	0.017** (0.005)	0.055*** (0.005)	0.020*** (0.006)
Unemployed	0.008 (0.008)	0.005 (0.010)	0.007 (0.008)	0.010 (0.008)	0.005 (0.010)
Age	0.005*** (0.001)	0.006*** (0.001)	0.005*** (0.001)	0.002 (0.001)	0.006*** (0.001)
Age-sq	–0.000*** (0.000)	–0.000*** (0.000)	–0.000*** (0.000)	–0.000 (0.000)	–0.000*** (0.000)
Homeowner	0.033*** (0.005)	0.029*** (0.006)	0.032*** (0.005)	0.040*** (0.005)	0.029*** (0.006)
Transfer year	–0.000 (0.002)	0.000 (0.002)	–0.000 (0.002)	–0.000 (0.000)	–0.000 (0.002)
Ln transfer value	–0.026 (0.014)	–0.030* (0.015)	–0.026 (0.014)	–0.029** (0.011)	–0.031* (0.015)
Ln transfer value-sq	0.002** (0.001)	0.002*** (0.001)	0.002** (0.001)	0.002*** (0.001)	0.002*** (0.001)
Age at transfer receipt	0.004* (0.002)	0.004* (0.002)	0.005* (0.002)	0.003*** (0.001)	0.004* (0.002)
Years elapsed since transfer	0.002** (0.001)	0.003** (0.001)	0.003** (0.001)	0.001 (0.001)	0.003*** (0.001)
First marriage (ref. still married)					
Ended in widowhood		0.002 (0.014)			0.008 (0.018)
Ended in divorce		–0.033** (0.012)			–0.017 (0.014)
Interactions					
High school * years elapsed			–0.002** (0.001)		
Some college * years elapsed			–0.001 (0.001)		
BA/BS * years elapsed			0.001 (0.001)		
Post-graduate * years elapsed			0.003*** (0.001)		
Married * years elapsed				0.001** (0.000)	
First marriage widow * years elapsed					–0.001 (0.001)
First marriage divorce * years elapsed					–0.001* (0.000)
Year dummies	Yes	Yes	Yes	Yes	Yes
Constant	15.092*** (3.295)	14.574*** (3.312)	15.241*** (3.283)	15.058*** (0.514)	14.773*** (3.320)
N	10,524	9497	10,524	10,524	9497

Standard errors in parentheses.

\* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ .

divorce, and experience early child bearing are less able to convert inheritances into greater wealth as time elapses and experience flatter net worth accumulation trajectories.

Table 2 presents the results from random intercept panel models and regresses households' current net worth on years elapsed following a transfer and covariates. Table 3 presents results from corresponding fixed-effects panel models. In Table 2, models 1, 2, and 3 present results from base line models that regress current net worth on covariates for the various



subsamples: model 1 is the full sample, model 2 focuses on the status of the respondents' first marriage and excludes households that were never married, model three focuses on the respondents' age at first childbearing and excludes respondents who never had children. Consistent with prior evidence, the baseline effects for income, education, marriage, status of first marriage, self-employment, and race are all associated with current net worth in the expected direction. Age at first childbearing did not reach statistical significance but is in the expected direction. We also find that households, on average, experience modest positive net worth growth as time elapses following a transfer. In the baseline model, model 1, households experience a modest 0.2% increase in total net worth each year elapsed since transfer.

Turning to the interaction effects at the bottom of Table 2, these product term interactions estimate how households' human capital and family formation variables moderate wealth accumulation following a transfer. These interactions characterize heterogeneity in whether and how households convert intergenerational transfers into greater wealth or spend down these transfers. Table 2, model 4 estimates the education \* time elapsed interaction and indicates that while less educated households (high school and some college) experience flatter net worth growth following a transfer, households with post-graduate degrees experience greater positive net worth growth.

To aid interpretation, Fig. 1 plots predicted logged net worth as a function of time elapsed following a transfer and educational attainment. Fig. 2 presents an alternative visualization and plots the marginal effect of years elapsed following a transfer by the households' educational attainment. Among those with high school and some college, the effect of years elapsed on current net worth is not significantly different from zero, suggesting that these households do not differ from the baseline propensity to accumulate net worth as time elapses following a transfer. Among households with a college degree and especially post-graduate degrees, the effect of time elapsed is significantly different from zero and positive, indicating that these households enjoy positive wealth accumulation as time elapses. Somewhat surprisingly, the model also indicates that those with less than a high school diploma also see positive wealth growth. In support of hypothesis 1, the results indicate that households with advanced degrees are best able to convert asset transfers into positive wealth growth while less educated households experience less substantial wealth growth as time elapses. We find similar results in the fixed effects model (Table 3, model 3); however, the effect for post-graduate education is stronger while the BA/BS interaction failed to reach statistical significance. These results indicate that achieving advanced degrees may be especially important for converting inheritances into accumulated assets. Clearly, human capital is an important determinant of wealth accumulation and is an important avenue for intergenerational status transmission; however, these results indicate that human capital also improves households' capacity to convert wealth transfers into greater wealth.

Next, we turn to the question of how family formation variables shape heterogeneity in wealth accumulation trajectories following an intergenerational transfer. As discussed earlier, prior research indicates that married households accumulate wealth at a faster rate than unmarried households. We also expect married households to be better positioned to convert wealth transfers into greater net worth as compared to unmarried households. Model 5, in Table 2 supports hypothesis 2. Results indicate that married households experience 0.1% greater net worth growth for each year elapsed following an inheritance receipt. The results from the corresponding fixed-effects model (Table 3, model 4) indicates a stronger association for the within household estimator, further reinforcing our interpretation that married households are better able to

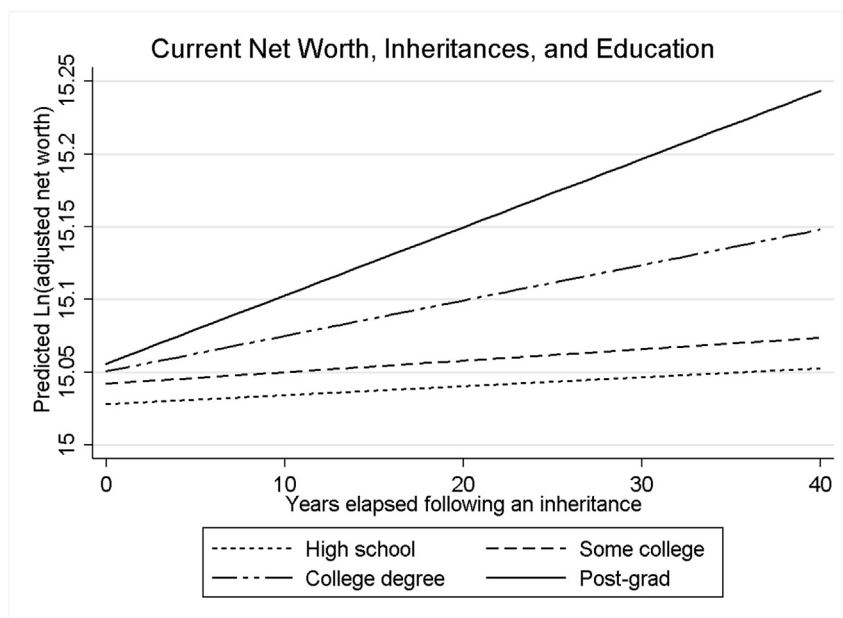
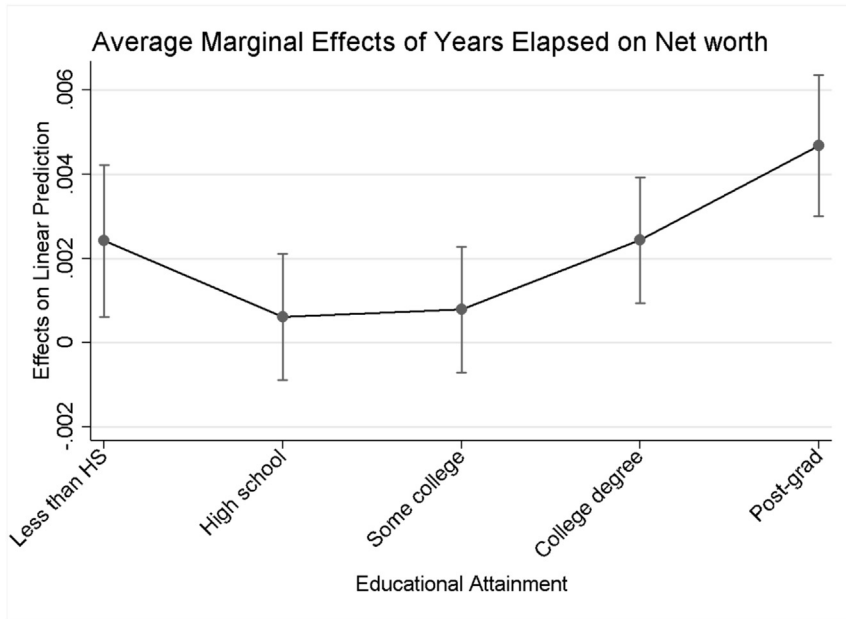


Fig. 1. Net worth accumulation following an inheritance by education.



Note: Marginal Effects of years elapsed following an inheritance on current net worth (ln) by educational attainment.

Fig. 2. Marginal effects of years elapsed following an inheritance by educational attainment.

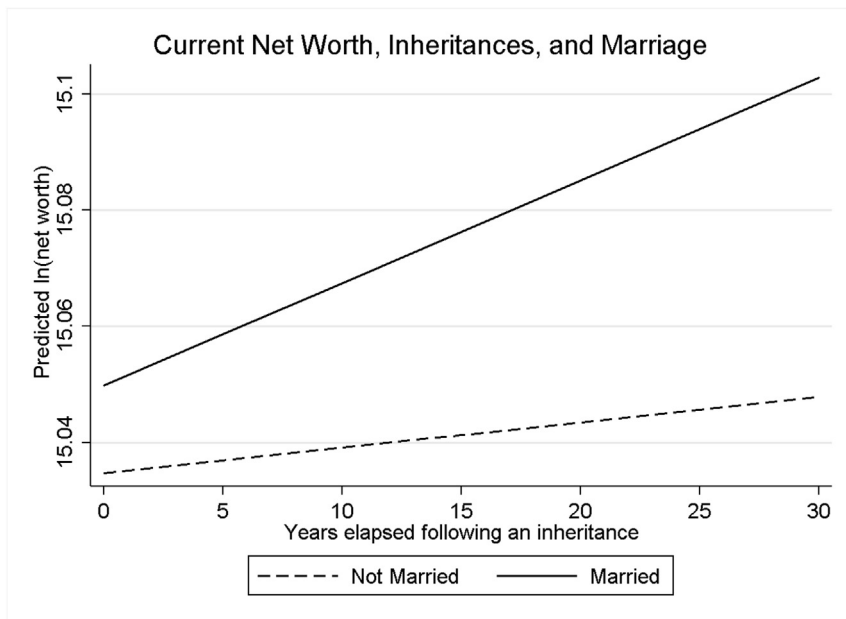


Fig. 3. Net worth accumulation following an inheritance by marriage.

accumulate greater net worth following an asset transfer. Fig. 3 clarifies this effect and demonstrates that while unmarried households experience a relatively shallow wealth accumulation trajectory, married households witness steeper positive net worth accumulation as time elapses following a transfer. Consequently, marriage reinforces the propensity for households to convert wealth transfers into greater wealth.

Next, we turn to the status of the respondent's first marriage. Prior research demonstrates that divorce harms households' capacity to build wealth by introducing financial hardships and dividing resources. Similarly, we argue that divorce diminishes households' capacity to convert transfers into greater net worth. In support of hypothesis 3, the random-intercepts



Fig. 4. Net worth accumulation following an inheritance by first marriage status.

model (Table 2; model 6) indicates that respondents whose first marriage ended in divorce experience slow wealth accumulation trajectories as compared to respondents who are still in their first marriage. Fig. 4 plots predicted net worth by time elapsed following an inheritance and the status of the respondents' first marriage and indicates that households who remained married experienced more positive net worth trajectories following a transfer. The corresponding fixed-effects model (Table 3; model 5) indicates a similar pattern. These results suggest that divorce introduces financial hardships and instability that undermines households' capacity to save and accumulate wealth from an intergenerational transfer.

Finally, we anticipate that delayed child bearing facilitates wealth accumulation following a bequest. Prior research illustrates that early childbearing can create financial hardships and limit savings. We further suggest that these mechanisms also undermine households' capacity to convert transfers into greater assets. In support of hypothesis 4, the random-intercepts model (Table 2; model 7) indicates that age at first childbearing positively moderates the relationship between years elapsed since a transfer and current net worth. Among respondents who had at least one child, those who had their first child at older ages experienced stronger positive net worth growth following a bequest as compared to those who had a child at younger ages. Fig. 5 plots the interaction and presents predicted current net worth as a function of years elapsed since a transfer and age at first childbearing, with age categories at the mean and plus/minus one standard deviation. From the figure, respondents who delayed childbearing until they were 32 experienced the steepest positive wealth accumulation trajectory indicating that these households were best able to convert inheritances into greater net worth. However, respondents who had their first child at younger ages experienced shallower net worth accumulation trajectories. Early parenthood penalizes households' capacity to generate wealth from intergenerational transfers. In alternative models we also examined whether the total number of children moderates the wealth accumulation trajectory; however, we did not find a statistically significant effect.

### 3.1. Supplementary analysis

In supplementary analysis, we examine whether inheritances have any effect on the household composition. Inheritance recipients may be more likely to marry or have children, affecting how family formation variables shape wealth accumulation trajectories following an inheritance. To address this concern, we conducted two supplementary analyses to test whether inheritances affect family formation outcomes. First, we examined whether having received an inheritance *in the past* predicts unmarried households becoming married or having children after receipt, controlling for other covariates in the main regression models. This analysis yielded null results, suggesting that inheritance receipt is not associated with becoming married or having children (or more children, using a count variable). Second, it is possible that individuals are more likely to marry or have children if they *expect* to receive an inheritance; expected transfers may increase anticipated financial security, increasing the propensity to marry or have children. To test this possibility, we used the panel data to construct a forward looking measure of whether a household received an inheritance during a future observation wave. We tested whether *future* heirs are more likely to become married or have children but found similar null results. Given these null results, we find little evidence that inheritances shape selection into family formation statuses.

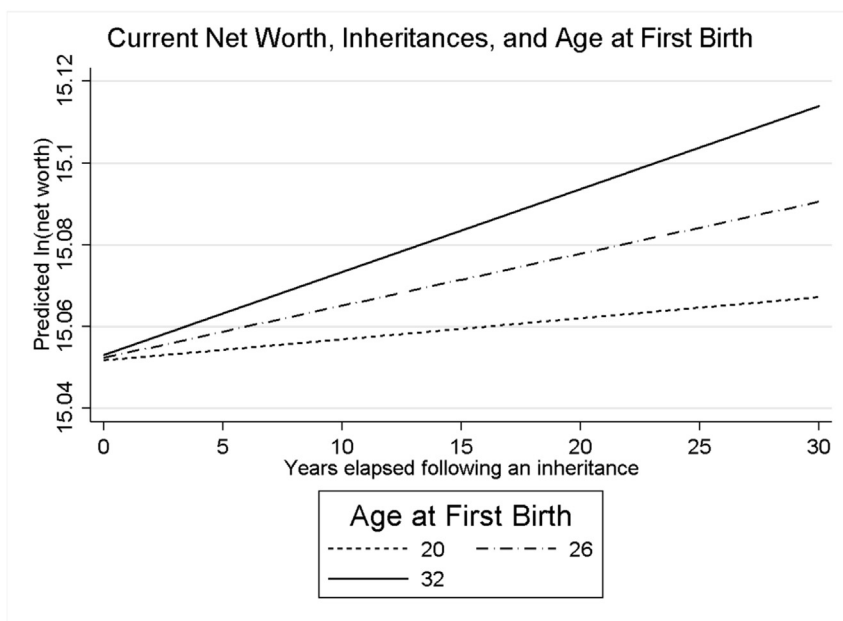


Fig. 5. Net worth accumulation following an inheritance by age at first birth.

We also conducted supplementary analysis to account for the role of liquidity constraints prior to the receipt of an intergenerational transfer. Liquidity constrained households may spend down transfers at a faster rate than households with liquid assets, leading to variation in wealth trajectories following an inheritance. To do so, we constructed an indicator of whether or not the household held greater than 2-months income in savings, checking, or other cash accounts in the most recent wave prior to receiving an inheritance, but no greater than 4 years prior.<sup>4</sup> For the majority of households (75%) this was the year immediately preceding a transfer receipt. For an additional 20%, liquidity was observed 2 years prior to a transfer. Using our indicator of liquidity constraint prior to transfer receipt (liquid savings amounting to less than 2-months income), we subdivided the sample into households who faced liquidity constraints and those that did not and reran our regression models. Results are available in the [supplementary materials](#) and are fully consistent with the main results, demonstrating that education, marriage, and child-bearing each shape wealth accumulation trajectories following an asset transfer, irrespective of whether the household faced liquidity constraints prior to receipt.

We also conducted supplementary analyses designed to assess whether inheritance sizes shape whether education and family formation variables affect wealth accumulation slopes following the inheritance. Although our main analysis incorporates inheritance size and inheritance size squared as a regressor, it is possible that our hypothesized effects vary across large and small inheritances. To examine this possibility, we subdivided our sample into large and small inheritances, splitting the sample at the mean ln inheritance value (9.8428). We reran the regression models on these subsamples. Results are available in the [supplementary materials](#) and are fairly consistent across both subsamples and with the main analysis—education, marriage, and divorce each shape wealth accumulation trajectories in theoretically consistent ways for both large and small inheritance values. However, delayed child-bearing only increased wealth accumulation trajectories among households who received larger inheritances, suggesting that delayed childbearing does little to improve households' abilities to convert small inheritances into wealth.

#### 4. Discussion and conclusion

Wealth is one of the most enduring avenues through which social and economic inequalities are maintained, and direct financial transfers are an important mechanism linking wealth across generations. Recent research suggests that inheritances and other inter vivos transfers have only a limited effect on wealth accumulation, wealth inequality, and the intergenerational rigidity of the wealth distribution (Pfeffer and Killewald, nd). Researchers conclude that most households spend down their inheritances, limiting their capacity to influence wealth in later life (Nau and Tumin, 2012). Additionally, most inheritances and other transfers occur in middle and later life, after households have already established wealth accumulation trajectories.

<sup>4</sup> In early survey waves (prior to 1981), respondents were asked to indicate whether their savings amounted to greater than 2-month income. In later waves, respondents were asked about the amount in savings. We combined these indicators to construct our measure of liquidity constraints.

Consequently, alternative channels, like education and marriage, better account for intergenerational wealth correlations (Pfeffer and Killewald, nd).

We argue that these alternative wealth accumulation pathways associated with human capital acquisition and family formation are best viewed as contextual factors that shape whether and how households are able to convert bequests and other transfers into long-run net worth trajectories. As time elapses following a transfer, some households experience positive net worth trajectories as they save and invest, converting transfers into greater wealth. Other households experience slower net worth accumulation trajectories as they dissave and spend down transfers.

Households' capacity to convert asset transfers into positive net worth trajectories depends on their existing social and economic resources. Our findings indicate that educational attainment, marriage, and delayed childbearing each foster the kinds of resources that households can use to build wealth from an inheritance or inter vivos gift. Conversely, households who experience divorce and have a child at younger ages tend to experience less advantageous net worth accumulation. These findings reinforce the notion that cumulative advantage processes drive wealth accumulation—those households best positioned to build wealth also benefit the most from intergenerational wealth transfers.

These results also suggest several intriguing avenues for future research. First, it would be useful to investigate whether inheritances or other wealth transfers shape wealth accumulation and investment strategies by affecting asset portfolios. For instance, some research notes that inheritances improve the accumulation of housing equity but it is also possible that households take more aggressive investment strategies in other assets as well. Despite the advantages of the PSID's longitudinal design for the present project, the PSID does not ask detailed questions about asset portfolios or investment strategy. Future research might draw on the Survey of Consumer Finances, which asks more detailed questions about these financial characteristics but uses a cross-sectional design. Second, it would be useful to distinguish the asset mixes of various bequests. For instance, it may be that liquid assets, such as cashing savings, are more rapidly dissipated following a bequest as compared to illiquid assets, such as real-estate. Although the PSID asks about bequests that include “money or property,” the survey does not generate a more detailed breakdown. Such an analysis could further inform research on why inheritances often produce such varied wealth accumulation trajectories.

Our findings speak to recent research on the role of inheritances and inter vivos gifts in wealth inequality and intergenerational status transmission (Pfeffer and Killewald, nd; Wolff, 2015). Although recent research suggests that inheritances play a limited role in reproducing wealth inequality (Elinder et al., 2016; Wolff, 2015), especially as compared to other channels, our evidence indicates that these channels should not be considered in isolation or merely as alternatives. Wealth accumulation trajectories are established early in the life course as a result of human capital acquisition, family formation, and other factors. Moreover, these factors are themselves shaped by family background and intergenerational status transmission mechanisms that enable some households to establish positive wealth accumulation trajectories while others experience financial hardships. These factors then reinforce how household's convert intergenerational asset transfers into greater wealth—households already in a position to build a sizable asset pool also benefit the most from an inheritance while disadvantaged households are less able to convert inheritances into long run financial well-being. Consequently, these factors constitute double mechanisms in intergenerational status transmission, first by establishing early wealth accumulation pathways and then by facilitating further wealth accumulation from intergenerational wealth. In this way, wealthy families are able to ensure that their family wealth is preserved across generations.

## Appendix A. Supplementary data

Supplementary data related to this article can be found at <https://doi.org/10.1016/j.ssresearch.2017.09.006>.

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