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Labour Supply after Inheritances and the Role of Expectations*

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Abstract

This paper examines the effect of inheritances on labour supply, distinguishing between unanticipated and anticipated inheritances. We use household and individual level micro-data for Germany to investigate the effect of inheritances on a number of labour market outcomes. Women are less likely to work full-time after an inheritance and their desired and actual hours of work decrease by 1–2 per week, on average. The magnitude of the effect is found to be larger and more precisely estimated for households without children and liquidity constrained households. Other margins such as time use outside the labour market and satisfaction are also found to be affected by inheritance receipt.

JEL Classification: D31, J22

Keywords: inheritance, wealth, labour supply, Germany

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1 Introduction

In many OECD countries, inheritances make up a larger share of national income today than they did during the last century because the rate of return on private wealth has generally exceeded national income growth over the last few decades. This means that wealth is capitalised at a faster rate than national income so that old wealth is more important than new wealth in the 21st century (Piketty, 2014). In this context, it becomes important to understand how the transmission of wealth across generations affects the labour market behaviour of heirs because inheritances can be considered as substitutes for labour in income generation. This is crucial for policy makers who are interested in increasing the supply of labour or in reducing wealth or income inequality.

If leisure is a normal good, we can expect that inheritances reduce lifetime labour supply as households can consume the windfall and any capital income accruing to it over their lifetime. However, labour supply responses to wealth shocks depend on whether they were anticipated or not. In the case of an unanticipated inheritance, labour supply may change after the inheritance as the individual reacts to the windfall. Employed windfall recipients whose utility increases with leisure and consumption will reduce hours of work after receiving the inheritance and supplement their consumption from labour earnings with consumption from the windfall. However if an individual receives an inheritance that is completely anticipated, as is quite plausible in countries such as Germany where parents are forbidden by law from disinherit their children, this inheritance will not affect labour supply and consumption after it has been received as it will already have been taken into account in the optimal choice of labour supply from the beginning of the life-cycle. Rather, heirs will use the inheritance to repay any loans that they took out in order to smooth their consumption prior to the inheritance. With imperfect or partial anticipation of windfalls, we may expect labour supply to change both before (in anticipation) and after (to adjust for the imperfect anticipation) the windfall.

This paper contributes to the literature by evaluating the effect of inheritances on the labour supply behaviour of the working age population, distinguishing between anticipated and unanticipated inheritances. We focus on Germany, a country that is characterized by a strongly ageing society, a high level of wealth inequality as well as

a sharply increasing aggregate value of assets, implying a growing importance of future inheritances. Hence, the behavioural effects of inheritances will become more and more relevant as a determinant of employment structure. We use survey micro-data which provides detailed information on the expectation of future windfalls and consider employment margins, actual and desired hours of work, time use and satisfaction measures. The data on windfall expectations, desired labour supply, time use and life satisfaction is quite unique and usually unavailable in larger administrative datasets typically used in the related literature. Indeed, there is little evidence to date about how time is reallocated from labour or how life satisfaction changes following an inheritance. A further novelty of this paper to the literature is an examination of potential mechanisms behind labour supply responses to inheritances, such as the presence of children, liquidity constraints and the flexibility of employment.

We find that both actual and desired hours of work by women decrease by about 1–2 per week in response to an inheritance and this effect is larger and more precisely estimated for unanticipated inheritances. An examination of the extensive margin of labour supply indicates that this is largely driven by reductions in full-time work. We find no robust evidence that the effect is sensitive to the size of the inheritance but we do find larger effects in households with children, liquidity constrained households and East German households. We find little consistent evidence that employment or hours worked by males change after an inheritance, except for the case of males without children.

Previous literature has shown that gains in household wealth affect labour supply decisions in various ways, both at the extensive margin, through early retirement (Krueger and Pischke, 1992; Brown et al., 2010; Bloemen, 2011) and participation (Holtz-Eakin et al., 1993; Bloemen and Stanca, 2001) and at the intensive margin through hours worked (Joulfaian and Wilhelm, 1994; Henley, 2004; Bo et al., 2016) and labour income (Elinder et al., 2012; Bo et al., 2016; Cesarini et al., 2017; Picchio et al., 2018). Alternatively, a financial windfall can serve to finance the start-up or the extension of a business and, hence, increase the likelihood of becoming or staying self-employed (Holtz-Eakin et al., 1994a,b; Lindh and Ohlsson, 1996; Blanchflower and Oswald, 1998; Hurst and Lusardi, 2004). Bo et al. (2016) study the effect of inheritances on labour supply in Norway, finding differential effects by age, marital and family status of recipients. The

effect of inheritances on the labour supply of both spouses, controlling for inheritance expectation, has recently been studied for older couples in the US in a contribution by Blau and Goodstein (2016) who find that inheritances reduce the labour supply of the heir with little impact on the labour supply of their spouse. Brown et al. (2010) isolates the effects of both unexpected and expected inheritances on retirement probabilities in the US, finding that unexpected inheritances induce retirement more often than expected inheritances. This paper complements this literature by isolating the effect of expected and unexpected inheritances on the labour supply of the working age population. This is a group which also deserves attention as inheritances do not occur exclusively among older generations. This paper then further investigates reasons for heterogeneous responses among heirs and looks at other margins of response such as time use and satisfaction.

The paper is organized as follows: Section 2 describes the data and section 3 the methodology. Our results are presented in section 4. Section 5 concludes.

2 Data

We use micro-data from the German Socio-Economic Panel Study (SOEP) which is a long-ranging micro data panel (1984–2016) which provides detailed information on the labour market histories of individuals, information relating to past inheritance receipt at the household level, individual expectations about future inheritances (in 2001), information on household inheritance receipt (from 2001 onwards) and a rich set of individual and household characteristics.

2.1 Inheritances

In 2001, the following question was posted about the expectation of a windfall: “*What do you think, are you going to inherit something or receive a gift of substantial value (again) in the future?*” Individuals could respond “*Yes, that is certain*”, “*Yes, probably*”, “*No*” or “*Don’t know*”. Among those who expect a windfall, a further question is posed about the amount expected. From wave 2001 onwards, respondents are asked whether they received a windfall, like an inheritance, gift or lottery, in the year prior to the survey year. We

can distinguish between the nature of the windfall that each household receives. We can, thus, match recipients of a financial windfall after 2001 with their expectation of such a receipt in 2001. However, this measure of inheritance expectation is far from perfect as expecting an inheritance may be quite distinct from correctly anticipating the timing and/or amount of the inheritance. Also, expectations may change in the period after the question was posed (in 2001) but, as no follow up questions were asked in later waves of the data, we do not have this information. We show in the next section that important information is contained in this expectation measure. However, our results should also be interpreted in light of the flaws inherent to this measure.

We consider that an individual who receives an inheritance which they state that they do not expect receives a shock to their wealth. Knowing the expectation status of such windfalls allows us to identify how individuals react to (somewhat) anticipated and unanticipated inheritances.

Gifts and lottery receipts present a more complicated situation. We know if an individual is expecting a gift in 2001. However, unlike lottery receipts and, to a large extent, inheritances, individuals may ask for gifts. So, even if an individual expects no gift in 2001, a change in personal circumstances later on (redundancy, moving home, childbirth, divorce, etc.) may lead them to ask for a gift. In this case, the direction of causality between the wealth shock and labour market behaviour is ambiguous.

Lottery receipts, by their very nature, are unanticipated and their amount can be highly variable. They present a potentially interesting example of how unanticipated wealth shocks affect labour market behaviour (see Lindh and Ohlsson, 1996; Imbens et al., 2001; Cesarini et al., 2017; Picchio et al., 2018). In our sample, however, the incidence of lottery receipts is very low and the average amount won also tends to be low.

For these reasons and because inheritances also represent the vast majority of windfalls, both in incidence and amount, in what follows we concentrate on the effect of inheritances on labour market and other behaviour. Inheritances are also more interesting from a policy perspective as they are widely received and any systematic labour market behaviour which results from their receipt should be of interest to policy makers.

Inheritances are frequently linked to the death of a close family member which may

incur a labour supply response of its own.¹ In Figure B.1, we show that, among heirs, the event of an inheritance is closely related to the death of a parent (in law).² For this reason, we will also control for the incidence of a parent’s death in our model specification.

2.2 Sample and summary statistics

Using household level inheritance information, we look at the labour market behaviour of individuals in response to inheritances, distinguishing between those who expected a windfall and those who did not. We use the panel of individuals observed in the German SOEP waves 2001–2016. We retain the heads of household and their spouses aged 18–59 in 2001 (not older than 65 in subsequent years) who experience no more than one household windfall within this period. We discard households where multiple generations are present as an inheritance may not, in these cases, affect household level net assets.

We graph some of the important outcomes for the entire population described in the selection above in Figures C.1 to C.4 in the Supplementary Appendix. Figure C.1 shows how the expectation of windfalls differs by age and gender. Men are more likely to expect a windfall than women for all age categories. There is an age pattern in the expectation of a windfall with younger men more likely to expect a windfall (roughly 23%) than older men (16%). Among women, it is the middle-aged category that is more likely to expect a windfall (20%) than the younger (16%) or older (13%) cohorts. Figure C.2 shows that the annual probability of receiving an inheritance increases with age. The probability is around 0.5% for individuals not older than 34 and it is highest for the cohort above age 55 at around 1.1%. The right hand panel of Figure C.2 shows that people are, on average, able to assess the likelihood of a windfall. The annual probability of receiving an inheritance is more than twice as high for individuals who expect a windfall than for those who do not. Figure C.3 shows that the cumulative probability of receiving an inheritance in the years after 2001 increases significantly more for those who expect a windfall in

¹Brown et al. (2010) looks at the effect of parental death and inheritance on labour supply separately and concludes that it is the increase in wealth associated with the receipt of an inheritance, and not the loss of a parent which triggers the labour market response.

²The GSOEP data do not allow us to match the provenance of inheritances directly to a specific person. The questionnaires contain a biography questionnaire on parents, from where we retrieve the information on deaths within the parents’ generation and match it to the data on inheritance receipt.

2001 than for those who do not. For example, the proportion of individuals experiencing an inheritance between 2001 and 2016 without expecting one is around 11%, while this proportion is close to 30% for those who expected a windfall. Figure C.4 shows the level of inheritance received by expectation. The average value of an expected inheritance is higher than the average value of an unexpected inheritance.

Let us consider the nature of expectations at the individual versus the household level. Respondents are asked individually whether or not they expect some form of windfall in 2001. However, information relating to inheritances received is collected at the household level and, more generally, wealth is usually attributed to households rather than to individuals, particularly when the household is composed of a married couple. We therefore check how consistent the expectation variable is across members of a couple. If one member of a couple is systematically more or less likely to expect some sort of windfall in the future, it may change the anticipated household level labour supply response to the windfall.

Figure B.2 shows the consistency of expectations within couples. The first bar in each of the left and right panels of the graph shows the proportion of men and women who do not expect a windfall and whose partner does not expect a windfall. Almost 80% of men and women fall into this category. The second bar shows the proportion of men and women who expect a windfall and whose partner also expects a windfall. Around 4% of men and women fall into this category meaning that more than 80% of couples agree on their expectation of a windfall. The last two bars in each of the left and right panels shows the proportion of men and women who disagree on the expectation of a windfall and these amount to around 18% of couples. The consistency of expectations within couples is high.

More detailed summary statistics relating to the estimation sample of heirs only are shown in Tables A.1 to A.3. Panel A of Table A.1 shows that the sample of individuals observed in 2001 and who inherit by 2016 is 419 men and 471 women. About 35% of male heirs anticipate their inheritance (with certainty and or some probability) while the figure for women is not slightly lower but not statistically different at 32%. Narrowing the definition of expectation to responses stating that a windfall is expected with certainty (rather than certainly or probably), the share decreases to 13%–14% of heirs. Of these

heirs who expect their inheritance, around half expect that it will be over 50,000 DM (or EUR 25,600 in 2001).

Panel B of Table A.1 reports statistics relating to the average value of inheritances at the time of receipt.³ The mean inheritance is valued at around EUR 53,000–58,000. However, the distribution is quite skewed with the median inheritance valued at EUR 16,000–18,000. This is similar for men and for women. When comparing the value of inheritances to annual household net income in the year of the windfall, some gender differences emerge. For male heirs, the inheritance represents, on average, about 122% of household net income. For women, the ratio is 138% but these figures are not statistically different from one another. For the male sample, the inheritance exceeds household net income in 25% of the cases, for women this share is 31% and this difference is statistically significant at the 10% level. This means that the amount of the inheritance may be relatively more important for women than for men.

Panel A of Table A.2 shows summary statistics for heirs for the whole period under investigation, 2001–2016. We have over 5,000 person-year observations for men and over 5,500 person-year observations for women. Each year, about 7% of individuals experience a windfall in the form of an inheritance. Panel B of Table A.2 describes the employment profile of heirs. The employment rates over the 16 year period are 84% for men and 72% for women. Most men work full-time (72%) while just 29% of women work full-time. There is a negligible proportion of men working part-time (3%) while the figure for women is substantial at 38%.⁴ As expected, men work significantly more hours per week (37) than women (22). Excluding non-workers, these figures rise to 44 hours per week for men and 31 hours per week for women. Among workers, men also desire to work more hours per week (39) than women (29). All of these gender differences in work are statistically significant at the 1% level.

In Table A.3, we summarize other characteristics and background variables. For example, we show that the sample of heirs we study comes disproportionately from the

³All monetary information is expressed in real terms (in 2016 euros) using the consumer price index to adjust for inflation over the period.

⁴The definition of being in full-time and part-time employment is based on a survey question in the GSOEP where respondents self-report their current employment status. We define marginal or irregular employment as part-time employment.

higher end of the income distribution. Between 31% and 35% of heirs rank in the top quintile (upper 20%) of the household net income distribution, while only 8% to 12% of heirs are in the bottom quintile. This difference is statistically significant at the 1% level

3 Empirical Approach

Inheritance recipients may differ from non-recipients in their observable and unobservable characteristics, e.g., preferences for work, risk etc. We deal with this issue in two ways. Firstly, we limit our analysis to those who receive an inheritance so that we are always comparing heirs to other heirs. Secondly, we exploit the longitudinal nature of our data to estimate models with individual fixed effects. For individual i observed in time period t who receives an inheritance W_i in period t_i^W , we define a post-inheritance indicator $postinher_{it} = \mathbf{1}(t \geq t_i^W)$, which is equal to zero in pre-inheritance years and equal to one afterwards. The first regression model is:

$$y_{it} = \beta_0 + \beta_1 postinher_{it} + \beta_2 [postinher_{it} \times expect_i^{2001}] + X'_{it}\gamma + \alpha_i + \mu_t + \mu_s + \varepsilon_{it} \quad (1)$$

where y_{it} is the outcome variable of interest (employment, full-time employment, part-time employment, self employment, actual or desired hours of work, time use, satisfaction) and $expect_i^{2001}$ is a binary variable indicating whether, in year 2001, individual i expected a windfall with certainty or not. This is interacted with the post-inheritance indicator $postinher_{it}$. Hence, we compare the labour market behaviour of individuals pre- and post-inheritance and differentiate between those who expected a windfall and those who did not, giving the model a difference-in-differences interpretation. Individual and household level controls are contained in X_{it} . We control for age, age squared, years of education, marital status (married or not), household type (indicators for single, single parent, couple without children, couple with children) and whether the individual's parents (and, in the case of couples, parents-in-law) are dead. We also include individual fixed effects (α_i) which control for factors which are assumed to be constant over time but which may be

correlated with the dependent and independent variables. Year fixed effects to capture time effects such as the macroeconomic environment (μ_t) and state fixed effects (μ_s) are also included. The idiosyncratic error ε_{it} is assumed to be uncorrelated with the explanatory variables.

Taking the example of y_{it} = hours of work, the coefficients of interest have the following interpretation. Coefficient β_1 measures the effect of an inheritance on individual labour supply, while β_2 measures the *additional* effect of the inheritance if it was expected.

In a second step, we go beyond a simple binary comparison of pre- and post-inheritance periods and shed some light on the dynamics of labour market outcomes in an event study framework by employing the regression model

$$y_{it} = \beta_0 + \sum_{d=-4}^4 \beta_1^d \mathbf{1}(\Delta_{it}^W = d) + \sum_{d=-4}^4 \beta_2^d [\mathbf{1}(\Delta_{it}^W = d) \times \text{expect}_i^{2001}] + X_{it}'\gamma + \alpha_i + \mu_t + \mu_s + \varepsilon_{it} \quad (2)$$

where $\Delta_{it}^W \equiv t - t_i^W$ is the time gap between period t and the period of individual i 's inheritance receipt. We look at time gaps between four or more years before and after inheritance. This allows us to test whether there are anticipation effects before the inheritance and how persistent the labour market effects of the inheritance are. The interpretation of the coefficients β_1^d and β_2^d are the same as before, but apply to each time gap $d \in [-4, 4]$ separately.

4 Results

We present two sets of results. The first set, illustrated in Figures 1 and 2 show the event study style analysis, as in equation (2). This model complements the difference-in-difference results, as in equation (1), displayed in Tables A.4 to A.5 which report changes in labour market behaviour, averaged over the post-inheritance time periods. The results of these models are presented separately for men and women. While the difference-in-difference results give an overview of average employment status after the inheritance compared to before, the event study focuses on the effect of the inheritance

in each separate year (before and) after the inheritance, compared only to the year before the inheritance.

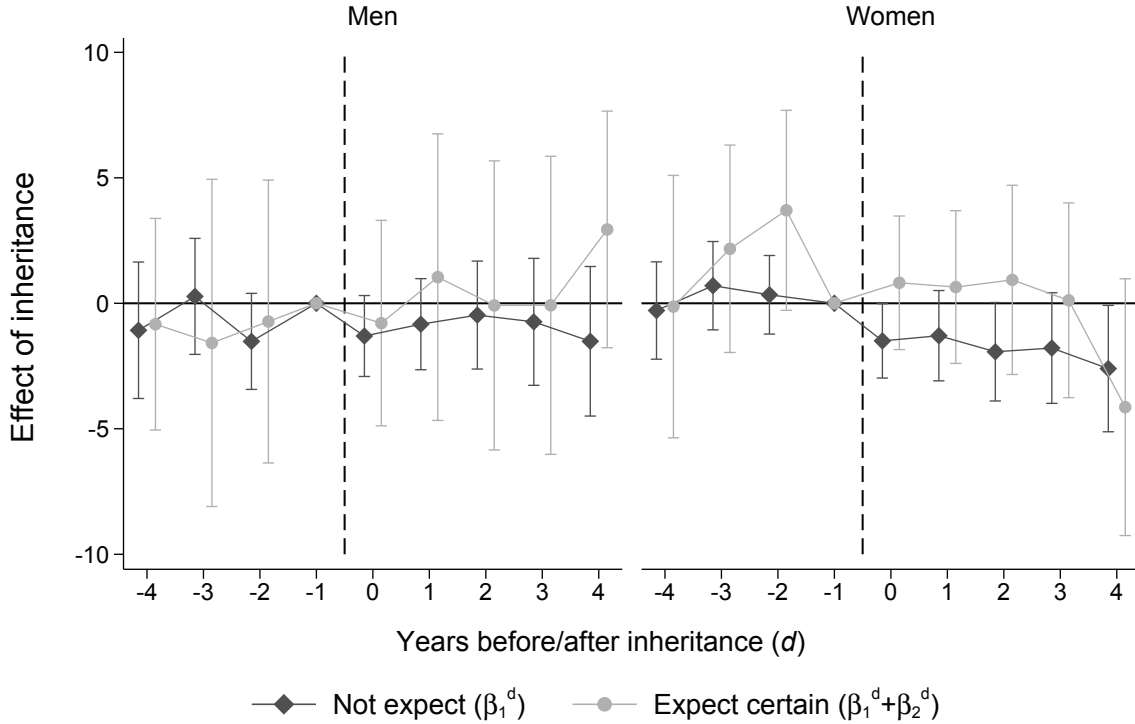
4.1 Effect of expected and unexpected inheritances on hours worked

In this section, we investigate whether or not hours of work change in response to an inheritance. We use two measures of hours of work. The first corresponds to actual hours of work and includes zeros for those who do not work. The second is desired hours of work, which is an outcome not usually available in administrative datasets. The question of how many hours an individual would like to work is asked only to those who are working. It may include zeros (as actual hours of work does). Restricting the sample to workers, who report both actual and desired hours of work, we find that average desired hours are lower than average actual hours and this difference is relatively larger for men than for women (Table A.2). The effect of inheritances on actual and desired hours of work may be different. If inheritances provoke a decrease in the desired hours of work of workers, this may not always translate into a decrease in the actual hours of work because of demand side constraints or because the “new” desired hours of work may still be higher than actual hours of work. Additionally, the measure of desired hours of work misses cases of any non-workers whose desired hours of work increase following an inheritance. However, previous literature on the topic indicates that this is an unlikely direction of change as inheritances tend to decrease labour supply.

Figure 1 shows the results from equation (2) which estimates the effect of inheritances on the labour supply of heirs for expected (gray line) and unexpected inheritances (black line) in an event-study framework. Point estimates of β_1^d and β_2^d from equation (2), surrounded by 95% confidence intervals, are indicated by the black and gray diamonds. Beginning with the actual hours worked by the individual, the right hand panel of Figure 1 shows that hours of work by female heirs decrease after an unexpected inheritance. The labour supply change occurs in the year of inheritance receipt and persists for at least four years.

Panel B of Table A.4 confirms this result. In column (1), a simple version of equation

Figure 1: Event study estimation: Effect of inheritance on actual hours of work



Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

(1) is estimated in which we define two time periods, *pre* and *post* where the *post* period includes the year 0 in which the inheritance occurs. In column (2), this dummy variable is interacted with a dummy variable which takes the value of one if the individual was expecting an inheritance in 2001 with certainty so that, for example, the coefficient on *Post inheritance* gives the effect of an inheritance on the employment probability of a recipient who was not expecting it, averaged over the years after the inheritance. Adding the coefficients on *Post inheritance* and *Post inheritance* \times *Expect certain* gives the same effect for those who were expecting an inheritance. We add a further interaction in column (3) to control for “probably” expecting an inheritance and in column (4) to control for the spouse’s expectation about inheritances, for couple households only.

Results indicate that women decrease their hours of work by around 1–2 per week after an inheritance. This result is statistically significant at the 10% level in all but

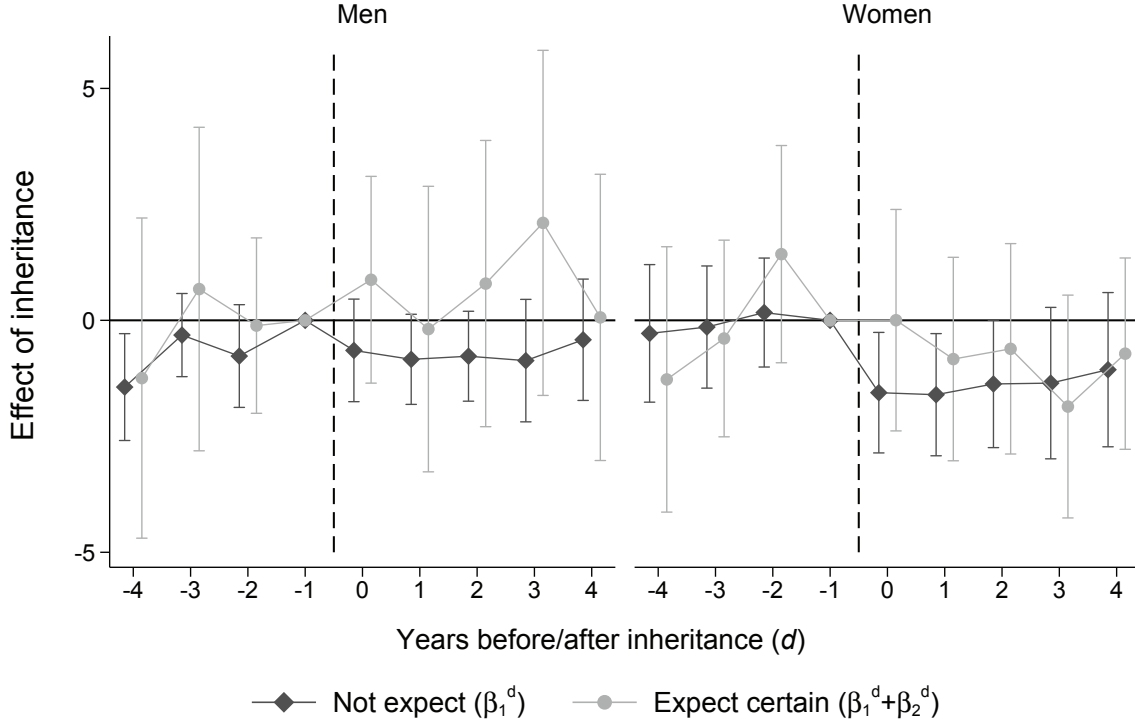
column (4). The coefficient on *Post inheritance*×*Expect certain* in column (2) is positive but not statistically significant. Likewise the coefficients on *Post inheritance*×*Expect certain* and *Post inheritance*×*Expect probably* in column (3) are positive but not statistically significant. This indicates that the reduction in women’s labour supply applies to unexpected and expected inheritances. The imperfect nature of our expectation variable is also likely to play a role in this result as indicating expectation of an inheritance in 2001 does not guarantee certainty about the timing or amount of the inheritance. Column (4) interacts the post inheritance dummy with individual and spousal expectations and suggests no discernible role for spousal expectations in the labour supply of women following an inheritance. This is in line with previous findings that households do not behave in line with a collective model upon receiving a wealth shock (Cesarini et al., 2017; Blau and Goodstein, 2016).

Turning to men, the left hand panel of Figure 1 indicates that men’s hours of work are unchanged after the receipt of an inheritance, whether the inheritance was expected or unexpected. Panel A of Table A.4 confirms this result for men. In all but one specification in Table A.4, we find no evidence that men’s hours of work are affected by inheritances, whether they are anticipated or unanticipated.

We turn next to desired hours of work. We find no change in the desired hours of work of men due to an anticipated or unanticipated inheritance in the left hand panel of Figure 2. This is confirmed in Table A.5 for expected and unexpected inheritances.

Results for women, displayed in Panel B of Table A.5, confirm that women would like to decrease their hours of work by around 1.3 to 1.7 per week in response to an inheritance. Column (3) shows a positive and statistically significant coefficient on the interaction between the post-inheritance dummy and *Expect probably* indicating that this effect is strongest for unexpected inheritances. The right hand panel of Figure 2 shows the timing of this effect. In the year of an unanticipated inheritance, the desired hours of work by women decrease immediately by around 2 per week and this effect is statistically significant. This effect persists for at least three years. In line with the difference-in-difference results, the effect of unanticipated inheritances is larger than that of anticipated inheritance.

Figure 2: Event study estimation: Effect of inheritance on desired hours of work



Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

Table A.6 investigates the role of the size of the inheritance. In these specifications, the post-inheritance dummy is interacted with alternative measures such as the ratio of the inheritance to annual gross household income, a dummy variable for an inheritance greater than EUR 25,000 and a dummy variable for an inheritance greater than EUR 50,000. We find no extra effect of receiving an inheritance that is large in absolute terms on labour supply. However, receiving an inheritance which is larger than gross household income reduces the actual but not the desired labour supply response of women. Potential explanations for this are the fact that low gross household income may make a labour supply response impossible, even after the receipt of a relatively large inheritance. Alternatively, very large inheritances may come in the form of illiquid assets (e.g. houses) rather than liquid assets (e.g. savings) which are harder to immediately draw down. Figure C.7 in the Supplementary Appendix, which shows the change in owner-occupier

housing status post-inheritance, provides suggestive evidence that this latter explanation may be relevant. Columns (1) to (3) in Table A.6 confirm that there is no labour supply response of men, even to large inheritances.

To summarise, our results shows that male hours of work can be expected to stay constant after an inheritance whether expected or unexpected, even if the inheritance is large relative to net household income. These results are unsurprising given that men have typically been found to have very inelastic labour supply (Keane, 2011; Bargain et al., 2014). For women, both actual and desired hours of work are seen to decrease by about 1–2 per week in response to an inheritance. We find no robust evidence that the absolute size of the inheritance influences this result, which may be due to the presence of few very large, or life-changing inheritances in our dataset. However, we do find that inheritances which are large compared to gross household income temper the actual hours response of women, but not the desired hours response. This may indicate that large inheritances are composed of illiquid assets which take time to convert to a liquid asset which can be consumed in place of labour income. Finally, event study analysis shows that the reduction in hours of work of female heirs is larger and more precisely estimated for unanticipated inheritances and persists for at least three years.

4.2 Alternative time-frames

In this section, we perform a robustness check which considers a different estimation sample in order to reduce the noisiness of our expectation variable.

The time period covered by our empirical analysis is 2001–2016, where the expectation of receiving an inheritance is recorded in 2001. It may be difficult to anticipate inheritances which are over a decade away from being realised so, to check the sensitivity of our results to the time elapsed since 2001, we restrict the sample to those observed between 2001–2006. In this sample, inheritances are received no more than five years after we observe the recipients expectation. In this sample, we lose some power due to the smaller sample size. However, results in Figures C.5 and C.6 of the Supplementary Appendix show that our main conclusions are unchanged. Actual and desired hours of work are constant for men following an inheritance but decrease by around 2 per week

for women who receive an unexpected inheritance. We are, therefore, satisfied that individuals do a reasonably good job of anticipating inheritances, even those which will not be realised for many years.

4.3 Effect of inheritances on employment

In this section, we attempt to identify the source of the reduction in hours worked among female heirs by looking at the extensive margin of labour supply. We do this by separately modelling the probability of working, of working full-time, of working part-time and of being self-employed after an inheritance.

Table A.7 shows results for these four extensive margin options in a difference-in-differences framework. Columns (1)–(4) show results for men while columns (5)–(8) show results for women. In each case, an interaction with *Expect certain* is included in the model.

We do not find robust effects of inheritances on the employment rate of heirs, on their probability of working part-time or on their probability of being self-employed. We do, however, find that women are less likely to work full-time after receiving an inheritance. The magnitude of this effect is such that the probability of a woman working full-time decreases by 5 percentage points (ppt) after she receives an inheritance. In absolute terms, this figure is around one-fifth the magnitude of the coefficient of marriage on full-time work and one-third the magnitude of the coefficient of an extra year of education on full-time work (see Table C.2 in the Supplementary Appendix). Just 29% of women in the panel are working full-time, meaning that a 5 ppt decrease in this figure (with no accompanying change to part-time or self-employment) is equivalent to an average decrease of two hours per week among all women. This is directly in line with results from the previous section, which indicate a 1–2 hour decrease in the (actual or desired) hours of work of female heirs.

4.4 Heterogeneity analysis

In this section, we investigate to what extent the effect of inheritances on labour supply is heterogeneous across the population. This will shed light on potential mechanisms behind the adjustments observed. Specifically, we check how inheritances affect labour supply differently for men and women who are in liquidity constrained households, who have flexible hours of work, who have children in the household and who are located in East Germany.

Liquidity constraints may dictate how individuals or households respond to inheritances. An individual who expects a large inheritance but has no access to credit through lack of collateral will not be able to adjust their labour market behaviour to reflect the new wealth until they actually receive it. Flexible working arrangements may permit an easier adjustment of working hours after an inheritance. Households with children may adjust their labour supply in response to an inheritance differently to households without children. Typically, women with children in the household are less attached to the labour market at both the extensive and intensive margins, which means that less downward adjustment of their labour supply can be expected post-inheritance. East German households are also investigated separately as, for historical reasons, the labour market attachment of women in former East Germany is substantially higher than the Western part of the country so that the labour supply response to an inheritance may differ between the two regions.

The differences in labour market behavior between the household subgroups are shown in Table A.2. The assignment to subgroups is based on the individual's status in the year before the inheritance occurs. Households with children are defined as those with children of any age living in them and liquidity constrained households are in the bottom 40% of the household financial wealth distribution in the year before the inheritance.⁵ Individuals are classed as having flexible working arrangements if they report being able to set their own hours.

As expected, compared to the overall sample, women with children in the household work fewer hours (28 vs. 31 hours conditional on being employed), are less likely to work

⁵Wealth information was collected in 2002, 2007 and 2012.

full-time (23% vs. 29%) and more likely to work part-time (44% vs. 38%). For both men and women, flexible working arrangements are strongly positively correlated with working hours. Women in East Germany are traditionally more attached to the labour market. While the employment rate does not differ at the extensive margin, East German women work more hours (36 vs. 31 conditional on working) and are more likely to work full-time (34% vs. 29%). All of these differences are statistically significant at the 1% level.

Regression results are displayed in Table A.8 for actual hours of work and desired hours of work for men and women separately. Results for the extensive margin (employment, full-time, part-time and self-employment) are also displayed in Table C.1 in the Supplementary Appendix. Looking first at actual hours of work in Panel A of Table A.8, the coefficient on the interaction between the post-inheritance dummy and liquidity constraints is negative for both men and women, indicating a larger decrease in hours of work for liquidity constrained households than for those without liquidity constraints. However, this effect is not statistically significant for either men or women. A similar negative but statistically insignificant coefficient is observed on the interaction between the post-inheritance dummy and flexible working arrangements. The coefficient on the interaction between children and the post-inheritance dummy is positive for both men and women and statistically significant for men indicating that most of the labour supply adjustment occurs in households with no children.⁶ The coefficient on the interaction between East Germany and the post-inheritance dummy is positive and statistically significant for men and negative and statistically significant for women. One interpretation of this result is that windfalls allow East German households to become more traditional in the division of market and domestic work.⁷

Similar patterns are observed for desired hours of work in Panel B of Table A.8.

⁶Restricting the sample to individuals who are employed in the year before the inheritance occurs reveals very similar results (not shown here), which indicates that this pattern is not exclusively driven by individuals who are out of employment.

⁷East German women spend about one hour less per day on domestic work and East German men about half an hour more compared to the overall samples (see Table A.2), implying that the division of domestic tasks is less traditional than in the rest of the country. Post inheritance, men increase and women decrease labour supply, i.e., they become more traditional. This is also reflected in the result (not shown here) that women in East Germany significantly increase domestic work by about 0.9 hours per day after an inheritance while the interaction coefficient for men is negative but not statistically significant.

Liquidity constraints amplify the decrease in desired hours of work for women and this effect is statistically significant. The presence of children dampens any labour supply effect of inheritances and this effect is statistically significant for both men and women. Lastly, East German women are found to desire to reduce their labour supply more than West German women in response to an inheritance.

Moving to the extensive margin of labour supply, we note that inheritances have a negative effect on the employment probabilities of men and women who do not have children living in the household. The magnitude of this effect is a decrease in the employment rate of men without children of around 5 ppt and women without children of around 6 ppt. This effect is completely reversed by the presence of children in the household. The same pattern is observable in the model of full-time work. In households without children, full-time work probabilities decrease by around 6 ppt for men and 8 ppt for women after an inheritance, with no effect for men and women in households with children. Looking at part-time work, we find no robust effect of inheritances on part-time work for households with or without children. However, we note that women who live in households which are not liquidity constrained are 6 ppt more likely to work part-time after an inheritance. Lastly, we find no effect of inheritances on the probability of becoming self-employed after an inheritance, even when differentiating between households with and without children, households with and without liquidity constraints, individuals with and without flexible jobs and East and West German households.

4.5 Other outcomes

In this section, we investigate how inheritances affect satisfaction with work or income and time-use outside of work. While wealth shocks have been strongly linked to changes in labour supply, there is little evidence on how the labour time is reallocated to other activities such as leisure and home production.⁸ Thanks to the survey information collected in the GSOEP, we can examine the effect of inheritances on time spent on domestic chores (housework, child-minding, etc), education and leisure. We also investigate how inher-

⁸Lee et al. (2012) show that exogenous declines in market work lead to increased time spent on leisure in Japan and Korea while Aguiar et al. (2013) show that market work changes during the Great Recession translated into more leisure time and more home production in the U.S.

itances change satisfaction with work and with income since previous literature on the topic indicates that wealth and having access to a cash buffer can increase life satisfaction (D'Ambrosio et al., 2009; Berlin and Kaunitz, 2015).

Panel C of Table A.2 shows the corresponding summary statistics. First, we look at time use, in particular domestic work, leisure and education. What stands out is that women in the sample perform twice the amount of domestic work than men (6.3 vs. 3.2 hours per day) and this difference is more pronounced when comparing men and women with children (7.3 vs. 3.2 hours per day). These differences are statistically significant at the 1% level. Education and leisure activities are fairly similar across all subgroups at 0.2–0.3 hours and 1.6–1.8 hours per day. There are no large differences in work satisfaction by gender or by subgroup but satisfaction with income is lower for women, for the liquidity constrained, for East Germans and higher for those with flexible working arrangements. These differences are statistically significant at the 1% level.

Results, displayed in Figures C.8 to C.12 of the Supplementary Appendix show that, after receiving an inheritance, both men and women increase the time that they spend on domestic activity by up to half an hour per week. The effect is persistent in the years that follow the inheritance but is only statistically significant for men. We also find that female heirs increase the time that they spend on education, by up to one hour per week, in the years following an unexpected inheritance. No such effect is present for men. Leisure time is unchanged for both male and female heirs.

Satisfaction with work decreases for men post-inheritance but remains constant for women. On the other hand, satisfaction with income is constant for men post-inheritance but increases for women. These patterns reflect the joint impact of inheritance receipt and labour supply adjustment to inheritance receipt. As women are more likely to adjust their labour supply in the wake of an inheritance, our results suggest that this decision may be associated with higher work and income satisfaction.

5 Conclusion

This paper adds to the literature on the effect of non-wage income, in general, and inheritances, in particular, on the labour market behaviour of working age individuals. We find that inheritances lead to a reduction in the probability of a female heir working full-time by around 5 ppt. At the intensive margin, we find robust evidence that inheritances lead to a decrease in the desired and actual hours of work of women of around 1–2 per week. There is little evidence of inheritances affecting the hours of work of men, unless they are living in childless households. Examining the timeline of these changes using a flexible event-study model shows that the labour supply reaction is driven by unanticipated inheritances and that these effects persist at least in the medium-term.

Our results vary by household type. We observe larger labour supply responses to inheritances for both men and women without children, which is in line with findings of how both inheritances and lottery wins affect the labour supply of different types of household (Bo et al., 2016; Cesarini et al., 2017; Picchio et al., 2018). Liquidity constrained women are also more responsive, indicating that inheritances may be an important substitute for borrowing. East German women, who have historically had higher attachment to the labour market, adjust their labour supply more than West German women in response to an inheritance. Looking at time use, we also find gender differences in how this changes after an inheritance. Men spend more time on domestic work while women spend more time in education. Satisfaction with work decreases for men post-inheritance while satisfaction with income increases for women. These changes reflect the combined effect of inheritances and their impact on labour supply and other margins but may indicate that the decision by women to adjust their labour supply after an inheritance leads to increased satisfaction with work and income.

The results of this paper are relevant in informing the policy debate on the design of inheritance taxes. German inheritance taxation law currently exempts most inheritances from taxation. For example, the inheritance of owner-occupied housing between family members is largely exempt. In addition, heirs are only liable when the value of the inheritance exceeds the relevant personal allowance (500,000 EUR for spouses and 400,000 EUR for children). Our results suggest that any concerns that policy makers may have

about inheritances discouraging work among the working age population are limited. Labour market adjustments are likely to be small and to involve a switch from full-time to part-time work. More generally, extending the results of this paper to other developed countries with low national income growth suggests that, as the disincentive effects of inheritances on labour supply are small, inheritance taxation should not have, as its primary motive, the objective of encouraging labour market participation, at least among the working age population.

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A Tables

Table A.1: Summary statistics: Expectation and inheritances (sample of heirs)

Gender	Men				Women					
	All	With children	Liquidity constrained	Flexible hours	East Germany	All	With children	Liquidity constrained	Flexible hours	East Germany
A. Windfall expectation in 2001										
Subgroup in $t = -1$										
Expect: yes, certain (0/1)	.13 (.34) [419]	.16 (.37) [190]	.12 (.33) [67]	.19 (.39) [79]	.11 (.31) [104]	.14 (.35) [471]	.15 (.36) [239]	.1 (.31) [87]	.13 (.33) [79]	.04 (.21) [114]
Expect: yes, probably (0/1)	.22 (.42) [419]	.22 (.41) [190]	.12 (.33) [67]	.3 (.46) [79]	.13 (.33) [104]	.18 (.38) [471]	.18 (.38) [239]	.14 (.35) [87]	.22 (.41) [79]	.12 (.33) [114]
Expect: no (0/1)	.45 (.5) [419]	.45 (.5) [190]	.54 (.5) [67]	.37 (.49) [79]	.5 (.5) [104]	.46 (.5) [471]	.42 (.49) [239]	.51 (.5) [87]	.34 (.48) [79]	.51 (.5) [114]
Expect: don't know (0/1)	.19 (.39) [419]	.18 (.4) [190]	.22 (.36) [67]	.14 (.45) [79]	.27 (.28) [104]	.23 (.36) [471]	.25 (.37) [239]	.25 (.37) [87]	.32 (.37) [79]	.32 (.22) [114]
B. Inheritance value in year t										
Inheritance value (1,000 EUR)	53.22 (103.11) [370]	58.75 (117.43) [192]	40.95 (70.22) [61]	54.58 (113.03) [79]	21.55 (54.71) [91]	57.66 (105.28) [408]	63.7 (117.4) [228]	35.97 (61.44) [71]	67.48 (119.16) [66]	24.23 (61.58) [95]
Household net income (1,000 EUR)	46.23 (21.05) [370]	48.44 (20.18) [192]	35.84 (16.2) [61]	57.45 (26.16) [79]	38.17 (16.05) [91]	44.07 (22.12) [408]	45.91 (22.05) [228]	32 (16.53) [71]	50.15 (26.05) [66]	37.98 (18.18) [95]
Ratio inheritance to household net income	1.22 (2.52) [346]	1.32 (2.81) [192]	1.34 (2.53) [61]	.93 (2.09) [79]	.71 (1.82) [89]	1.38 (2.52) [383]	1.56 (2.97) [228]	1.24 (2.01) [71]	1.49 (2.87) [66]	.75 (1.85) [93]
Ratio inheritance to household net income > 1 (0/1)	.25 (.43) [346]	.25 (.43) [192]	.23 (.42) [61]	.2 (.4) [79]	.15 (.36) [89]	.31 (.46) [383]	.31 (.46) [228]	.31 (.47) [71]	.32 (.47) [66]	.15 (.36) [93]
Inheritance value > 50,000 EUR (0/1)	.26 (.44) [370]	.27 (.44) [192]	.21 (.41) [61]	.23 (.42) [79]	.11 (.31) [89]	.29 (.45) [383]	.3 (.46) [228]	.17 (.38) [71]	.3 (.46) [66]	.09 (.29) [95]
Inheritance value > 100,000 EUR (0/1)	.16 (.37) [370]	.18 (.38) [192]	.18 (.39) [61]	.15 (.36) [79]	.03 (.18) [91]	.16 (.37) [408]	.2 (.4) [228]	.13 (.34) [71]	.2 (.4) [66]	.03 (.18) [95]
Inheritance value > 150,000 EUR (0/1)	.11 (.31) [370]	.11 (.32) [192]	.1 (.3) [61]	.1 (.3) [79]	.01 (.1) [91]	.12 (.32) [408]	.14 (.34) [228]	.07 (.26) [71]	.14 (.35) [66]	.02 (.14) [95]
Liquidity constrained before inheritance (0/1)	.24 (.43) [256]	.24 (.43) [140]	1 (0) [61]	.17 (.38) [77]	.38 (.49) [66]	.25 (.43) [285]	.26 (.44) [164]	1 (0) [71]	.2 (.4) [65]	.37 (.49) [67]

Note: The survey question about windfall expectation was posted in 2001. Expectation of windfall >50,000 DM corresponds to about 32,000 euros (in 2016). Standard deviations in round brackets. Number of observations in square brackets. Source: SOEP 2016, own calculations.

Table A.2: Summary statistics: Estimation sample treatment and outcomes

Gender	Men			Women						
	All	With children	Liquidity constrained	Flexible hours	East Germany	All	With children	Liquidity constrained	Flexible hours	East Germany
A. Event of inheritance										
Inheritance in year t (0/1)	.07 (.26) [5244]	.08 (.27) [2505]	.07 (.26) [854]	.07 (.26) [1084]	.07 (.26) [1302]	.07 (.26) [5707]	.08 (.27) [2992]	.07 (.25) [1073]	.07 (.26) [940]	.07 (.25) [1422]
Period post inheritance (0/1)	.6 (.49) [5408]	.57 (.49) [2594]	.42 (.49) [880]	.49 (.5) [1123]	.57 (.5) [1341]	.58 (.49) [5897]	.57 (.5) [3095]	.44 (.5) [1112]	.44 (.5) [969]	.58 (.49) [1474]
B. Labour supply outcomes										
Actual hours per week	36.9 (18.3) [5315]	39 (17) [2554]	34.3 (18.6) [873]	43.7 (14.2) [1093]	34 (20.6) [1320]	22.2 (17.8) [5784]	20.4 (16.9) [3022]	23.2 (18) [1096]	30.3 (15.8) [939]	25.6 (18.7) [1447]
Actual hours per week of workers	43.9 (9.5) [4461]	44.6 (9) [2236]	42.7 (8.2) [700]	46.1 (10.2) [1037]	44.2 (10.2) [1015]	31 (13) [4145]	28.2 (13.2) [2184]	32.2 (12.6) [789]	32.9 (13.6) [864]	35.8 (11) [1035]
Desired hours per week	38.9 (7.4) [4468]	39.7 (7.1) [2250]	38.6 (5.7) [699]	39.4 (7.3) [1049]	39.3 (6.9) [1023]	29.2 (9.9) [4143]	27.7 (10.1) [2210]	31.5 (9.8) [792]	29.8 (10.2) [866]	33.8 (7.4) [1036]
Actual - desired hours	5 (8.6) [4409]	4.9 (8.5) [2221]	3.9 (8.7) [698]	6.6 (9.1) [1026]	5 (9.3) [1007]	1.7 (9.3) [4084]	.4 (9) [2173]	1 (10.7) [789]	2.9 (9.2) [851]	1.7 (10) [1021]
Employed (0/1)	.84 (.36) [5408]	.88 (.33) [2594]	.8 (.4) [880]	.95 (.22) [1123]	.77 (.42) [1341]	.72 (.45) [5897]	.73 (.44) [3095]	.72 (.45) [1112]	.92 (.27) [969]	.72 (.45) [1474]
Full-time employee (0/1)	.72 (.45) [5408]	.77 (.42) [2594]	.71 (.45) [880]	.75 (.43) [1123]	.66 (.47) [1341]	.29 (.42) [5897]	.23 (.42) [3095]	.31 (.46) [1112]	.36 (.48) [969]	.34 (.47) [1474]
Part-time employee (0/1)	.03 (.18) [5408]	.02 (.13) [2594]	.03 (.16) [880]	.02 (.13) [1123]	.03 (.17) [1341]	.38 (.48) [5897]	.44 (.5) [3095]	.34 (.47) [1112]	.38 (.49) [969]	.3 (.46) [1474]
Self-employed (0/1)	.092 (.289) [5408]	.085 (.279) [2594]	.067 (.25) [880]	.183 (.386) [1123]	.085 (.279) [1341]	.058 (.233) [5897]	.058 (.235) [3095]	.072 (.259) [1112]	.186 (.389) [969]	.073 (.261) [1474]
C. Time use and satisfaction outcomes										
Time use: domestic work (hours)	3.15 (2.32) [5363]	3.22 (2.44) [2565]	3.53 (2.53) [880]	2.44 (1.86) [1101]	3.72 (2.52) [1338]	6.29 (4.82) [5881]	7.29 (5.17) [3088]	6.09 (5.12) [1111]	4.69 (3.6) [964]	5.32 (3.62) [1471]
Time use: education (hours)	.2 (.77) [4958]	.2 (.81) [2373]	.24 (.97) [806]	.27 (.68) [1011]	.21 (.87) [1229]	.26 (1) [5447]	.19 (.82) [2866]	.37 (1.28) [1054]	.29 (.97) [869]	.3 (1.08) [1337]
Time use: leisure (hours)	1.84 (1.67) [5268]	1.64 (1.63) [2515]	1.81 (1.57) [864]	1.8 (1.55) [1088]	1.83 (1.64) [1307]	1.84 (1.48) [5789]	1.69 (1.34) [3032]	1.72 (1.47) [1094]	1.61 (1.26) [945]	1.79 (1.45) [1451]
Satisfaction with work (0-10 scale)	6.84 (2.05) [4596]	6.87 (2.09) [2302]	6.93 (2.17) [720]	7.03 (1.92) [1063]	6.63 (2.14) [1069]	6.83 (2.52) [4338]	7 (2.04) [2309]	6.52 (2.35) [830]	7.02 (2.05) [902]	6.66 (2.13) [1088]
Satisfaction with individual income (0-10 scale)	6.18 (2.33) [3755]	6.23 (2.34) [1847]	5.28 (2.54) [618]	6.92 (2.14) [806]	5.13 (2.53) [932]	5.65 (2.52) [3932]	5.44 (2.52) [2117]	4.87 (2.42) [759]	6.24 (2.31) [655]	5.2 (2.41) [1020]

Note: Standard deviations in round brackets. Number of observations in square brackets. Source: SOEP 2016, own calculations.

Table A.3: Summary statistics: Estimation sample characteristics

Gender Subgroup in $t = -1$	Men			Women						
	All	With children	Liquidity constrained	Flexible hours	East Germany	All	With children	Liquidity constrained	Flexible hours	East Germany
Household net income (1,000 EUR)	47.08 (24.55) [5408]	49.89 (24.9) [2594]	34.6 (17.31) [880]	59.8 (32.97) [1123]	38.14 (17.91) [1341]	45.03 (24.97) [5897]	46.79 (25.89) [3095]	31.94 (16.66) [1112]	52.16 (28.48) [969]	38.39 (21.59) [1474]
Quintile 1 of household net income (0/1)	.08 (.27) [5408]	.07 (.25) [2594]	.19 (.39) [880]	.03 (.18) [1123]	.16 (.37) [1341]	.12 (.33) [5897]	.13 (.34) [3095]	.26 (.44) [1112]	.04 (.19) [969]	.2 (.4) [1474]
Quintile 2 of household net income (0/1)	.13 (.33) [5408]	.15 (.36) [2594]	.21 (.41) [880]	.06 (.24) [1123]	.18 (.39) [1341]	.14 (.34) [5897]	.17 (.37) [3095]	.2 (.4) [1112]	.08 (.28) [969]	.18 (.38) [1474]
Quintile 3 of household net income (0/1)	.19 (.39) [5408]	.22 (.41) [2594]	.24 (.43) [880]	.1 (.3) [1123]	.23 (.42) [1341]	.19 (.39) [5897]	.22 (.41) [3095]	.23 (.42) [1112]	.16 (.36) [969]	.21 (.41) [1474]
Quintile 4 of household net income (0/1)	.26 (.44) [5408]	.27 (.45) [2594]	.23 (.42) [880]	.23 (.42) [1123]	.21 (.4) [1341]	.24 (.43) [5897]	.23 (.42) [3095]	.19 (.39) [1112]	.28 (.45) [969]	.2 (.4) [1474]
Quintile 5 of household net income (0/1)	.35 (.48) [5408]	.28 (.45) [2594]	.14 (.34) [880]	.58 (.49) [1123]	.21 (.36) [1341]	.31 (.46) [5897]	.25 (.43) [3095]	.12 (.32) [1112]	.45 (.5) [969]	.21 (.42) [1474]
East Germany (0/1)	.25 (.43) [5408]	.26 (.44) [2594]	.43 (.5) [880]	.2 (.4) [1123]	1 (0) [1341]	.25 (.43) [5897]	.26 (.44) [3095]	.36 (.48) [1112]	.22 (.42) [969]	1 (0) [1474]
Couple household (0/1)	.81 (.39) [5408]	.92 (.27) [2594]	.71 (.46) [880]	.83 (.38) [1123]	.84 (.36) [1341]	.76 (.42) [5897]	.8 (.4) [3095]	.56 (.5) [1112]	.76 (.43) [969]	.78 (.42) [1474]
Married (0/1)	.75 (.43) [5408]	.86 (.35) [2594]	.65 (.48) [880]	.78 (.41) [1123]	.78 (.41) [1341]	.70 (.46) [5897]	.74 (.44) [3095]	.51 (.5) [1112]	.68 (.47) [969]	.72 (.45) [1474]
Age (years)	49.2 (9.4) [5408]	47.6 (8.9) [2594]	46.7 (10) [880]	48.7 (9.3) [1123]	50.2 (8.9) [1341]	47.5 (9.6) [5897]	45.6 (8.8) [3095]	44.9 (10.3) [1112]	47.4 (8.9) [969]	48.4 (9) [1474]
Years of education	12.7 (2.8) [5371]	12.4 (2.7) [2558]	11.9 (2.5) [858]	14.4 (3.1) [1111]	13 (2.8) [1338]	12.4 (2.5) [5841]	12.2 (2.3) [3039]	12 (2.3) [1085]	12.9 (2.4) [955]	12.9 (2.5) [1472]
Father deceased (0/1)	.45 (.5) [4988]	.43 (.5) [2295]	.34 (.47) [802]	.47 (.5) [1081]	.47 (.5) [1215]	.41 (.49) [5542]	.37 (.48) [2922]	.34 (.47) [1076]	.4 (.49) [888]	.45 (.5) [1401]
Mother deceased (0/1)	.3 (.46) [5059]	.29 (.46) [2364]	.2 (.4) [804]	.34 (.47) [1086]	.29 (.45) [1212]	.26 (.44) [5636]	.23 (.42) [2926]	.31 (.46) [1086]	.21 (.41) [914]	.35 (.48) [1381]
Partner's father deceased (0/1)	.31 (.46) [5125]	.31 (.46) [2469]	.17 (.38) [853]	.31 (.46) [1081]	.38 (.49) [1278]	.34 (.47) [5529]	.33 (.47) [2827]	.2 (.4) [1038]	.36 (.48) [915]	.38 (.49) [1366]
Partner's mother deceased (0/1)	.2 (.4) [5197]	.19 (.39) [2436]	.22 (.41) [842]	.19 (.4) [1095]	.3 (.46) [1275]	.22 (.42) [5617]	.21 (.41) [2899]	.12 (.33) [1050]	.21 (.41) [935]	.24 (.43) [1377]

Note: Standard deviations in round brackets. Number of observations in square brackets. Source: SOEP 2016, own calculations.

Table A.4: Difference-in-differences estimation: Effect of inheritance on actual hours worked by expectation

	(1)	(2)	(3)	(4)
<u>A. Men</u>				
Post inheritance	-0.171 (0.945)	-0.443 (1.006)	0.678 (1.052)	0.236 (1.058)
Post inheritance \times Expect certain		1.978 (2.067)		1.284 (3.036)
Post inheritance \times Expect \times certain			0.787 (2.125)	
Post inheritance \times Expect \times probable			-4.126* (2.145)	
Post inheritance \times Spouse expect certain				-1.740 (3.192)
Post inheritance \times Exp. certain \times Sp. exp. certain				1.520 (4.780)
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	4499	4499	4499	3830
Adjusted R^2	0.119	0.119	0.122	0.120
<u>B. Women</u>				
Post inheritance	-1.377* (0.779)	-1.491* (0.859)	-1.714* (0.895)	-0.921 (0.921)
Post inheritance \times Expect certain		0.788 (1.939)		-2.263 (2.635)
Post inheritance \times Expect \times certain			1.040 (1.956)	
Post inheritance \times Expect \times probable			1.068 (2.011)	
Post inheritance \times Spouse expect certain				-0.003 (2.698)
Post inheritance \times Exp. certain \times Sp. exp. certain				0.131 (4.359)
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	4915	4915	4915	3928
Adjusted R^2	0.105	0.105	0.105	0.108

Note: All results are based on estimations employing individual fixed effects. Time-varying controls are age and age squared, years of education, a binary indicator for being married, indicators for household type (single, single parent, couple without children, couple with children), state fixed effects and binary indicators for a deceased father, mother, father in law and mother in law. Robust standard errors in parentheses. *** = significant at the 1 percent level, ** = significant at the 5 percent level, * = significant at the 10 percent level. *Source:* SOEP 2016, own calculations.

Table A.5: Difference-in-differences estimation: Effect of inheritance on desired hours of work by expectation

	(1)	(2)	(3)	(4)
<u>A. Men</u>				
Post inheritance	-0.216 (0.422)	-0.319 (0.433)	-0.309 (0.495)	0.237 (0.450)
Post inheritance × Expect certain		0.751 (1.090)		1.275 (1.730)
Post inheritance × Expect × certain			0.740 (1.126)	
Post inheritance × Expect × probable			-0.037 (0.644)	
Post inheritance × Spouse expect certain				-1.410 (1.351)
Post inheritance × Exp. certain × Sp. exp. certain				-0.547 (2.755)
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	3787	3787	3787	3223
Adjusted R^2	0.024	0.024	0.023	0.025
<u>B. Women</u>				
Post inheritance	-1.319*** (0.502)	-1.328** (0.530)	-1.696*** (0.575)	-1.021* (0.567)
Post inheritance × Expect certain		0.055 (0.925)		-0.360 (1.601)
Post inheritance × Expect × certain			0.491 (0.966)	
Post inheritance × Expect × probable			1.745** (0.860)	
Post inheritance × Spouse expect certain				-0.283 (1.838)
Post inheritance × Exp. certain × Sp. exp. certain				-1.103 (3.168)
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	3533	3533	3533	2797
Adjusted R^2	0.047	0.047	0.049	0.048

Note: All results are based on estimations employing individual fixed effects. Time-varying controls are age and age squared, years of education, a binary indicator for being married, indicators for household type (single, single parent, couple without children, couple with children), state fixed effects and binary indicators for a deceased father, mother, father in law and mother in law. Robust standard errors in parentheses. *** = significant at the 1 percent level, ** = significant at the 5 percent level, * = significant at the 10 percent level. *Source:* SOEP 2016, own calculations.

Table A.6: Difference-in-differences estimation: Effect of inheritance on hours worked by size

	(1)	(2)	(3)	(4)	(5)	(6)
	Men			Women		
<u>A. Actual hours worked</u>						
Post inheritance	0.180 (1.021)	0.268 (1.103)	0.214 (1.022)	-2.153** (0.945)	-2.068** (0.961)	-1.734** (0.879)
Post inheritance \times Ratio inheritance/income >1	-2.817 (2.038)			2.745** (1.286)		
Post inheritance \times Inheritance $>25K$		-1.265 (1.742)			1.850 (1.322)	
Post inheritance \times Inheritance $>50K$			-1.583 (2.090)			1.377 (1.487)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4305	4499	4499	4700	4915	4915
Adjusted R^2	0.112	0.119	0.119	0.095	0.107	0.106
<u>B. Desired hours of work</u>						
Post inheritance	-0.230 (0.421)	-0.196 (0.453)	-0.425 (0.440)	-1.596*** (0.542)	-1.606*** (0.573)	-1.584*** (0.537)
Post inheritance \times Ratio inheritance/income >1	0.234 (0.906)			0.956 (0.793)		
Post inheritance \times Inheritance $>25K$		-0.062 (0.737)			0.732 (0.724)	
Post inheritance \times Inheritance $>50K$			0.941 (0.850)			0.993 (0.804)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3621	3787	3787	3398	3533	3533
Adjusted R^2	0.022	0.023	0.024	0.045	0.047	0.048

Note: All results are based on estimations employing individual fixed effects. Time-varying controls are age and age squared, years of education, a binary indicator for being married, indicators for household type (single, single parent, couple without children, couple with children), state fixed effects and binary indicators for a deceased father, mother, father in law and mother in law. Robust standard errors in parentheses. *** = significant at the 1 percent level, ** = significant at the 5 percent level, * = significant at the 10 percent level. *Source:* SOEP 2016, own calculations.

Table A.7: Difference-in-differences estimation: Effect of inheritance on employment

	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)	
	Employed		Full-time		Part-time		Self-empl.									
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Post inheritance	-0.007 (0.022)	-0.020 (0.025)	-0.011 (0.022)	-0.049** (0.022)	0.005 (0.012)	0.026 (0.026)	-0.001 (0.009)	0.003 (0.008)								
Post inheritance \times Expect certain	0.013 (0.038)	0.022 (0.061)	0.012 (0.042)	0.021 (0.054)	-0.006 (0.022)	-0.009 (0.071)	0.007 (0.028)	0.010 (0.037)								
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes								
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes								
Observations	4578	5007	4578	5007	4578	5007	4578	5007								
Adjusted R^2	0.104	0.084	0.128	0.080	0.010	0.042	0.026	0.013								

Note: All results are based on estimations employing individual fixed effects. Time-varying controls are age and age squared, years of education, a binary indicator for being married, indicators for household type (single, single parent, couple without children, couple with children), state fixed effects and binary indicators for a deceased father, mother, father in law and mother in law. Robust standard errors in parentheses. *** = significant at the 1 percent level, ** = significant at the 5 percent level, * = significant at the 10 percent level. *Source:* SOEP 2016, own calculations.

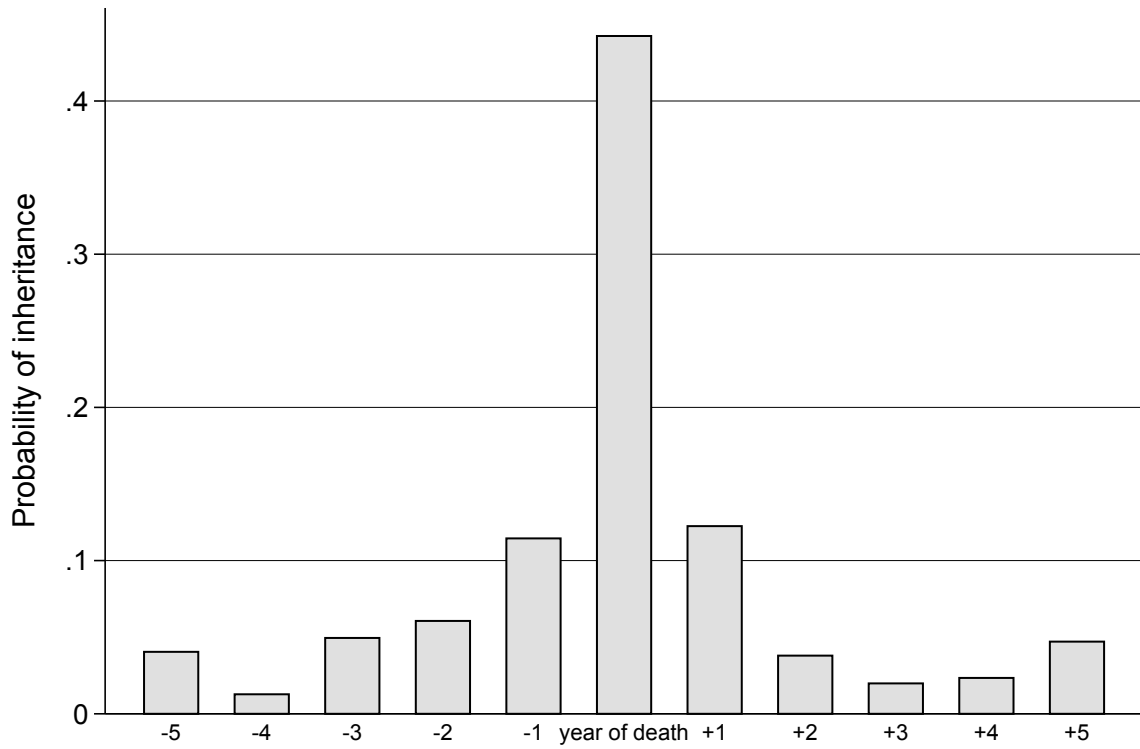
Table A.8: Difference-in-differences estimation: Effect of inheritance on hours worked by subgroups

	Men			Women				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<u>A. Actual hours worked</u>								
Post inheritance	-0.571 (1.110)	-0.364 (1.349)	-3.085** (1.445)	-1.151 (1.040)	-0.496 (0.973)	-1.499 (1.499)	-2.295** (1.095)	-0.454 (0.823)
Post inheritance × liquidity constrained	-0.970 (2.062)				-1.759 (1.693)			
Post inheritance × flexible working hours		-1.606 (2.017)				-1.380 (1.815)		
Post inheritance × household with children			4.314** (1.696)				1.996 (1.412)	
Post inheritance × East Germany				3.922** (1.714)				-3.635** (1.547)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3086	2122	3937	4499	3524	2052	4421	4915
Adjusted R^2	0.109	0.068	0.114	0.121	0.115	0.089	0.091	0.110
<u>B. Desired hours of work</u>								
Post inheritance	-0.668 (0.444)	-0.088 (0.500)	-0.975* (0.509)	-0.273 (0.471)	-0.418 (0.616)	-1.791** (0.870)	-2.912*** (0.675)	-0.705 (0.551)
Post inheritance × liquidity constrained	0.706 (0.779)				-2.684*** (0.900)			
Post inheritance × flexible working hours		0.284 (0.668)				0.524 (0.975)		
Post inheritance × household with children			1.267* (0.675)				2.920*** (0.755)	
Post inheritance × East Germany				0.267 (0.659)				-2.319*** (0.737)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2652	2000	3306	3787	2601	1875	3274	3533
Adjusted R^2	0.018	0.041	0.025	0.023	0.065	0.038	0.052	0.051

Note: All results are based on estimations employing individual fixed effects. Time-varying controls are age and age squared, years of education, a binary indicator for being married, indicators for household type (single, single parent, couple without children, couple with children), state fixed effects and binary indicators for a deceased father, mother, father in law and mother in law. Robust standard errors in parentheses. *** = significant at the 1 percent level, ** = significant at the 5 percent level, * = significant at the 10 percent level. Source: SOEP 2016, own calculations.

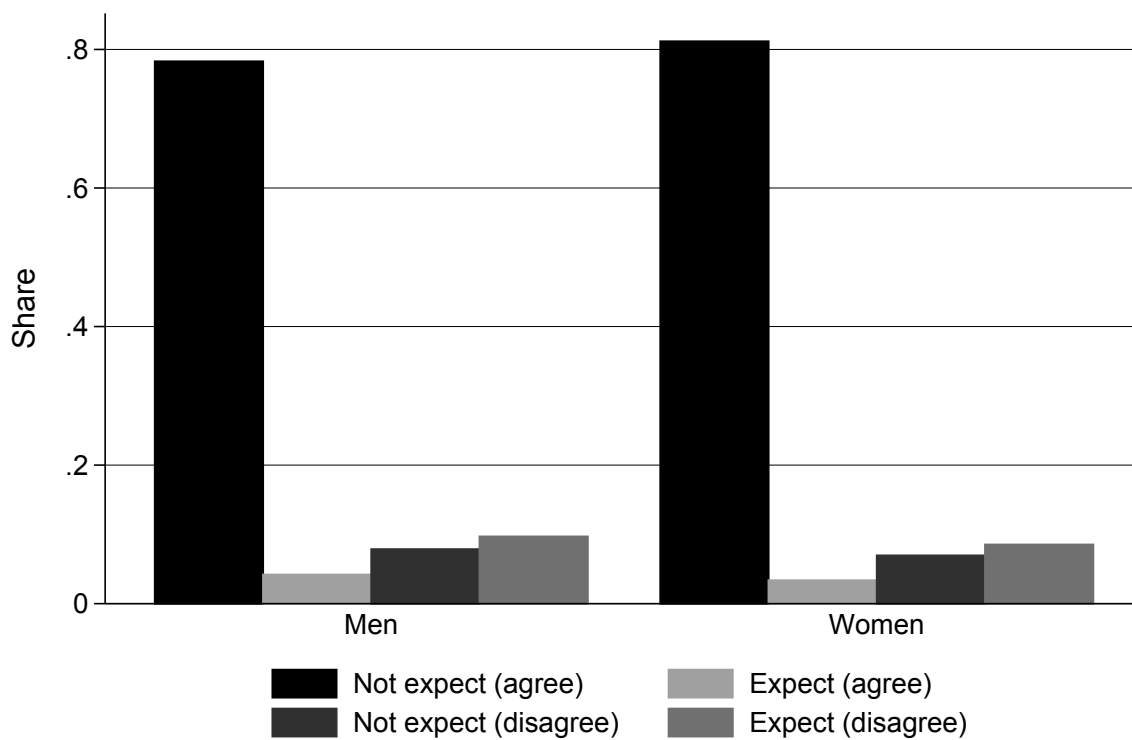
B Graphs

Figure B.1: Event of inheritance relative to the year of a parent's death



Note: This graph shows the probability of receiving an inheritance for the pooled sample of survey years 2001–2016 relative to the year of death of a parent or parent in law. *Source:* SOEP 2016, own calculations.

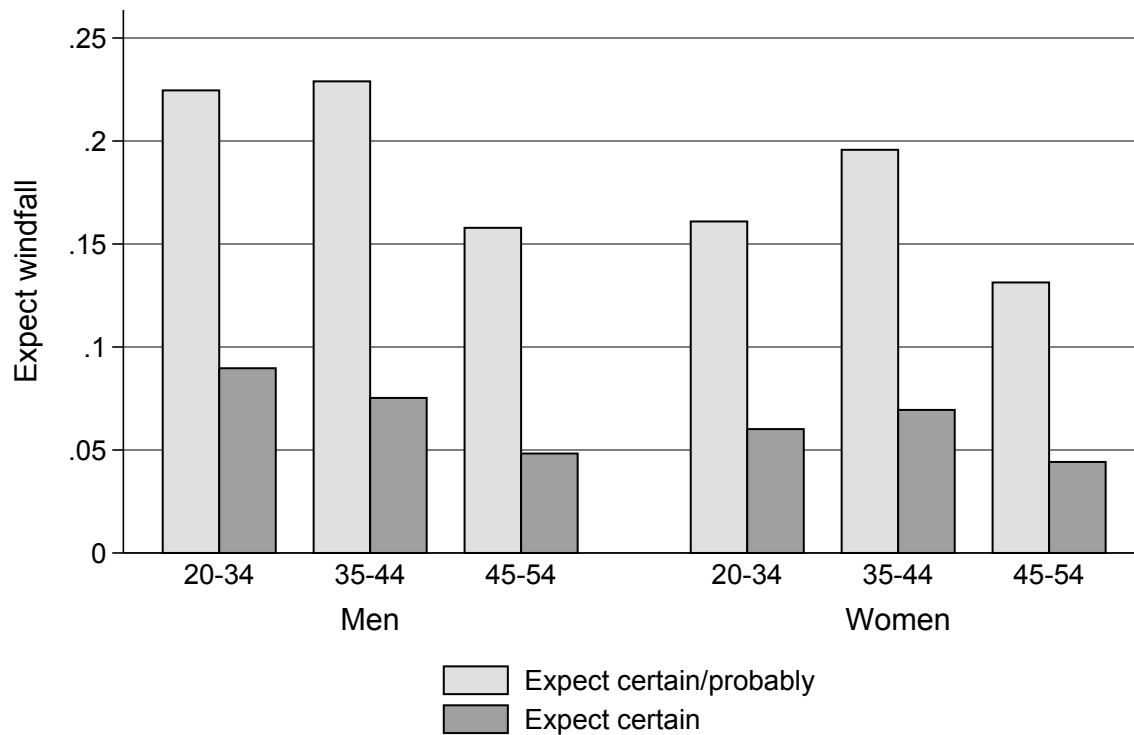
Figure B.2: Expectation consistency within couple households in 2001



Note: This graph shows the share of male and female heirs living in couple households in 2001 who have consistent expectations about a future windfall. *Source:* SOEP 2016, own calculations.

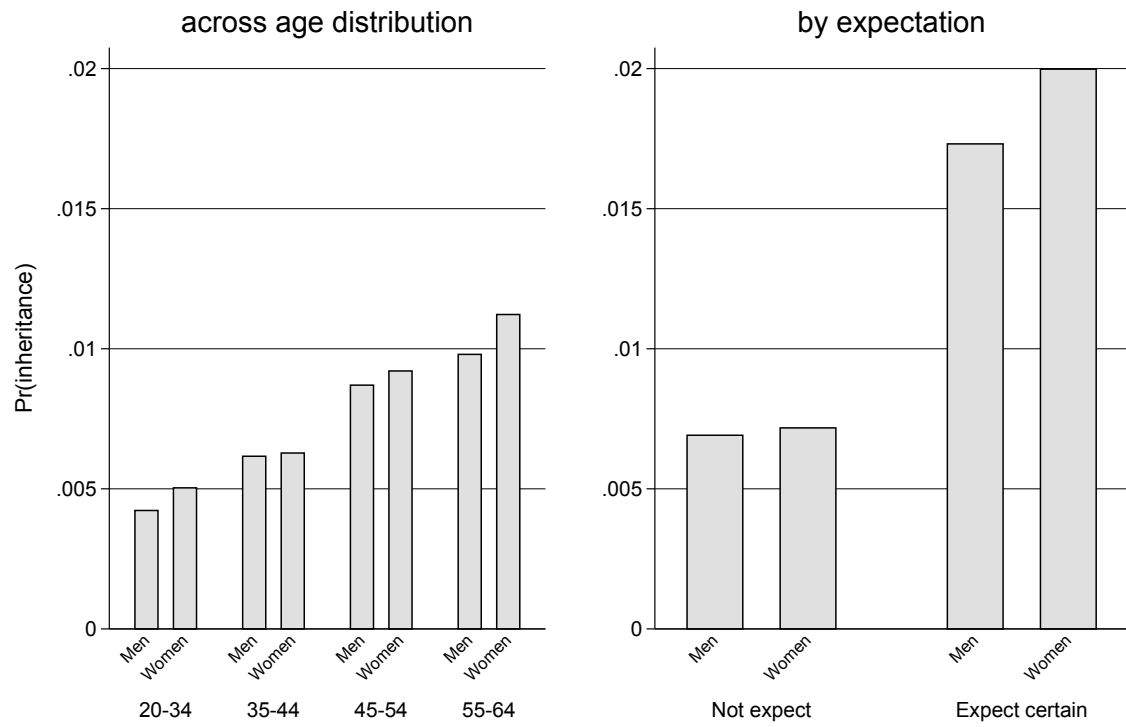
C Supplementary appendix

Figure C.1: Expectation of windfall by age in 2001



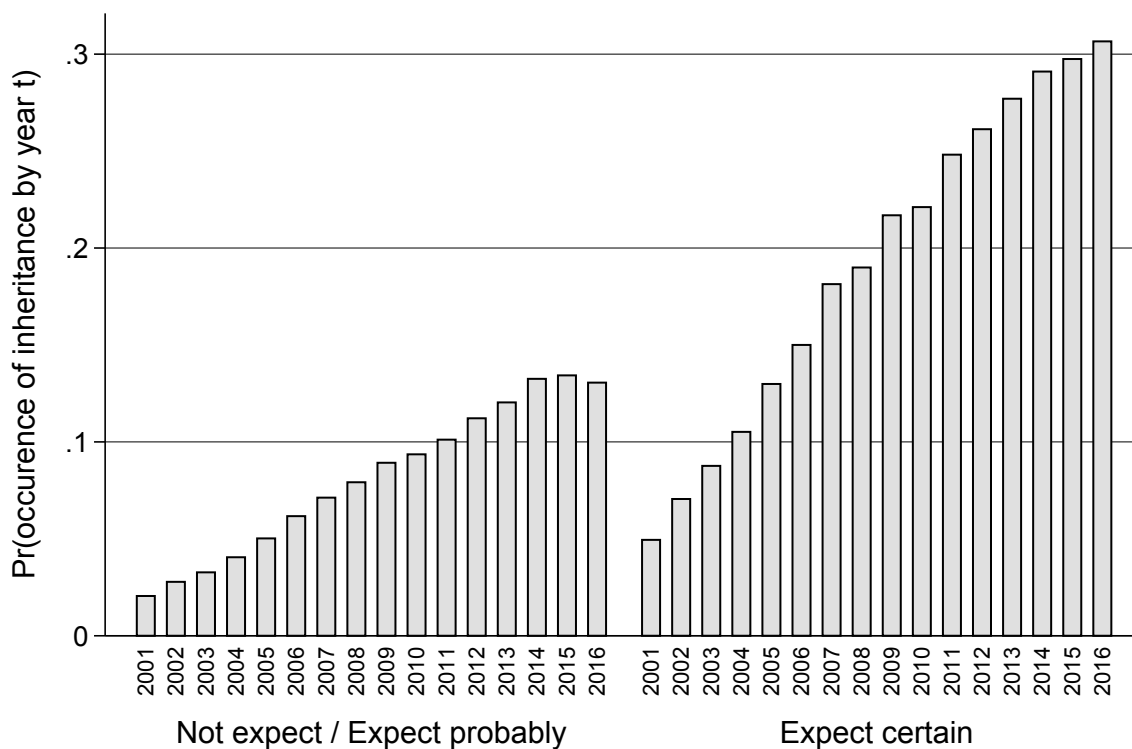
Note: This graph shows the individual probability of expecting any windfall income by gender and age. The survey question about windfall expectation was posted in 2001. Expectation of windfall >50,000 DM corresponds to about 32,000 euros (in 2016). *Source:* SOEP 2016, own calculations.

Figure C.2: Event of inheritance by age and expectation



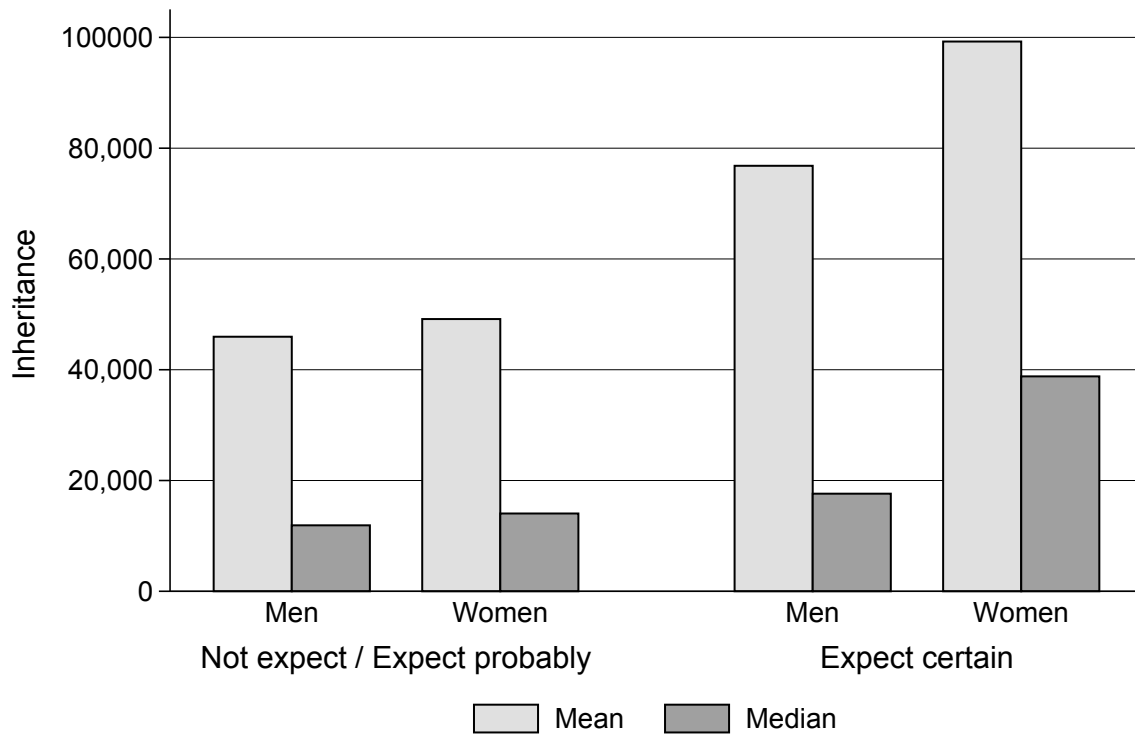
Note: This graph shows the annual probability of receiving an inheritance for the pooled sample of survey years 2001–2016 by age and expectation of a windfall. The survey question about windfall expectation was posted in 2001. Expectation of windfall >50,000 DM corresponds to about 32,000 euros (in 2016). *Source:* SOEP 2016, own calculations.

Figure C.3: Cumulative probability of inheritance from 2001 to 2016



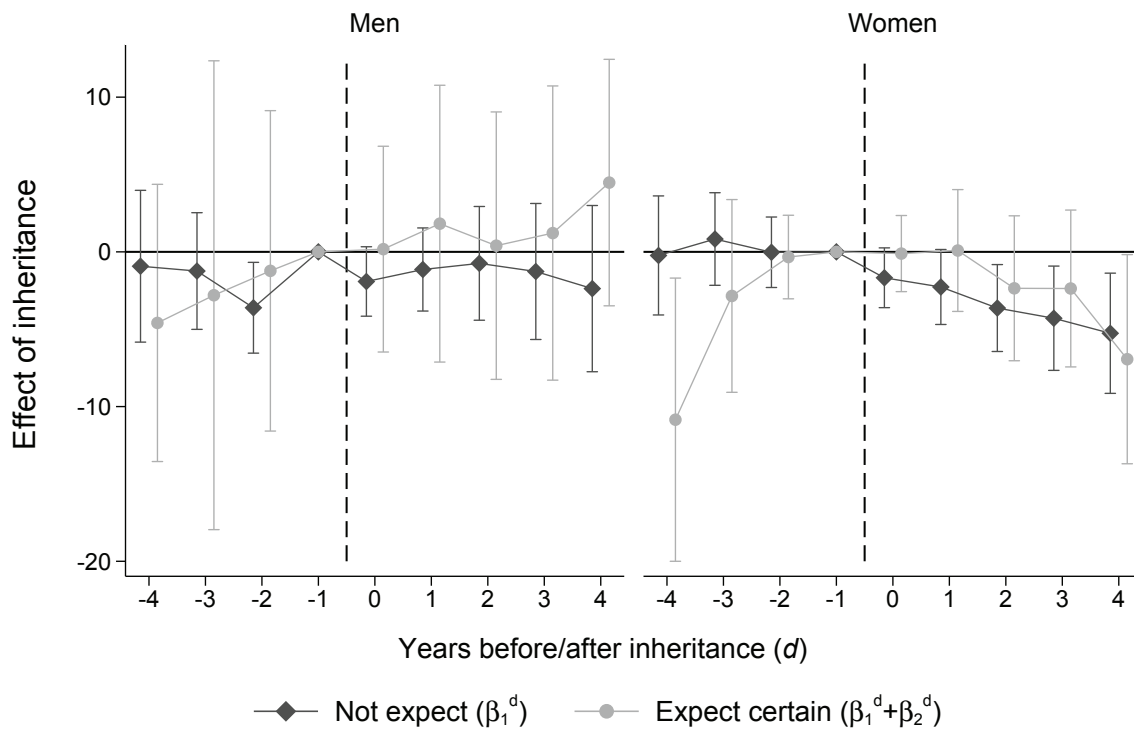
Note: This graph shows the cumulative probability of having received an inheritance by for the period 2001–2016 by expectation of a windfall. The survey question about windfall expectation was posted in 2001. Expectation of windfall >50,000 DM corresponds to about 32,000 euros (in 2016). *Source:* SOEP 2016, own calculations.

Figure C.4: Inheritance values by expectation in 2001



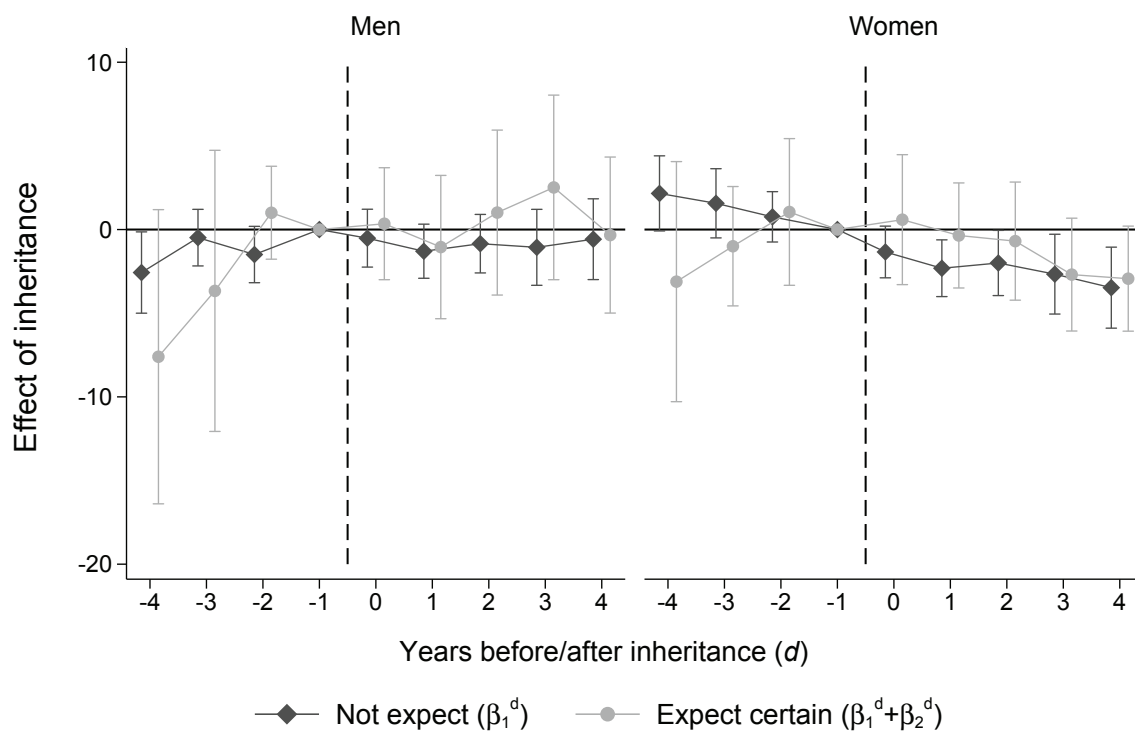
Note: This graph shows the mean and median inheritance levels for the pooled sample of survey years 2001–2016 by expectation of a windfall. The survey question about windfall expectation was posted in 2001. Expectation of windfall >50,000 DM corresponds to about 32,000 euros (in 2016). *Source:* SOEP 2016, own calculations.

Figure C.5: Event study estimation: Effect of inheritance on actual hours of work (subsample 2001–2006)



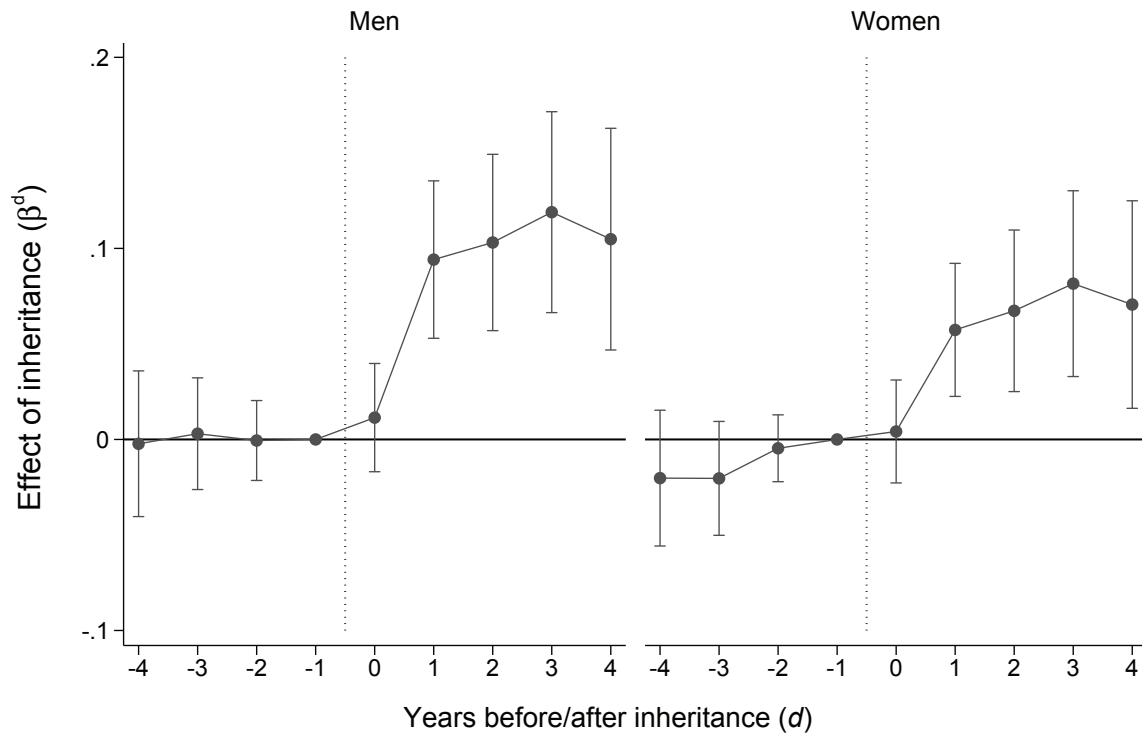
Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

Figure C.6: Event study estimation: Effect of inheritance on desired hours of work (subsample 2001–2006)



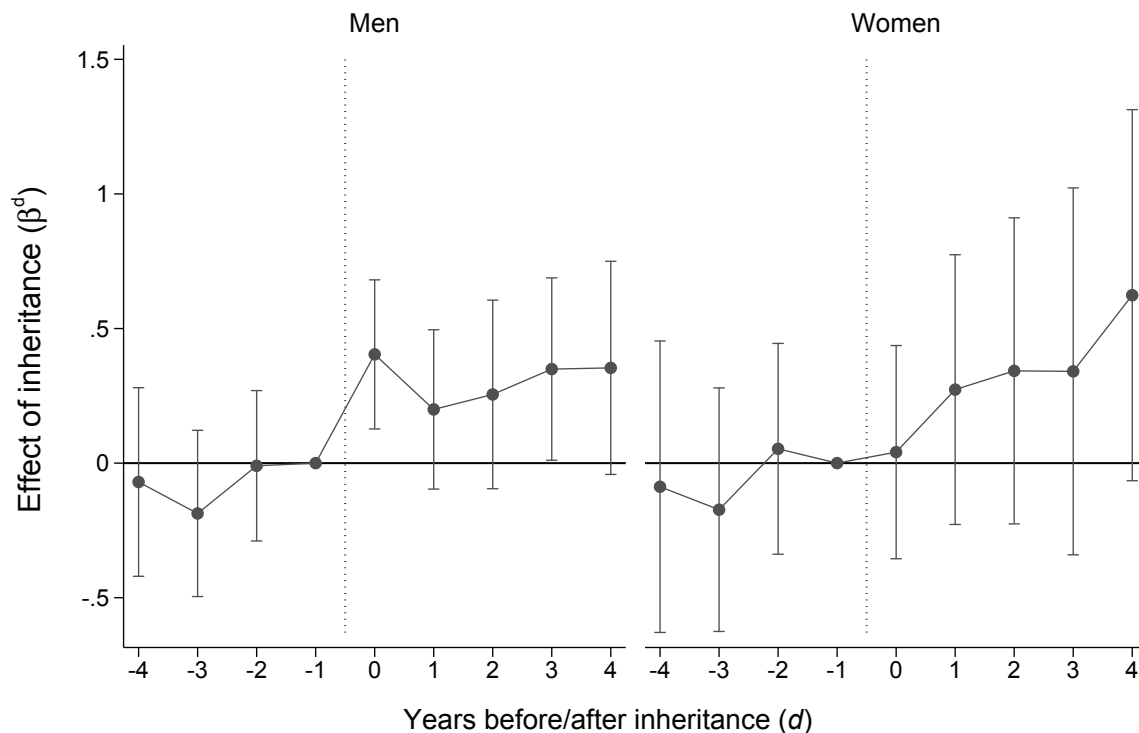
Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

Figure C.7: Event study estimation: Effect of inheritance on owner-occupier status



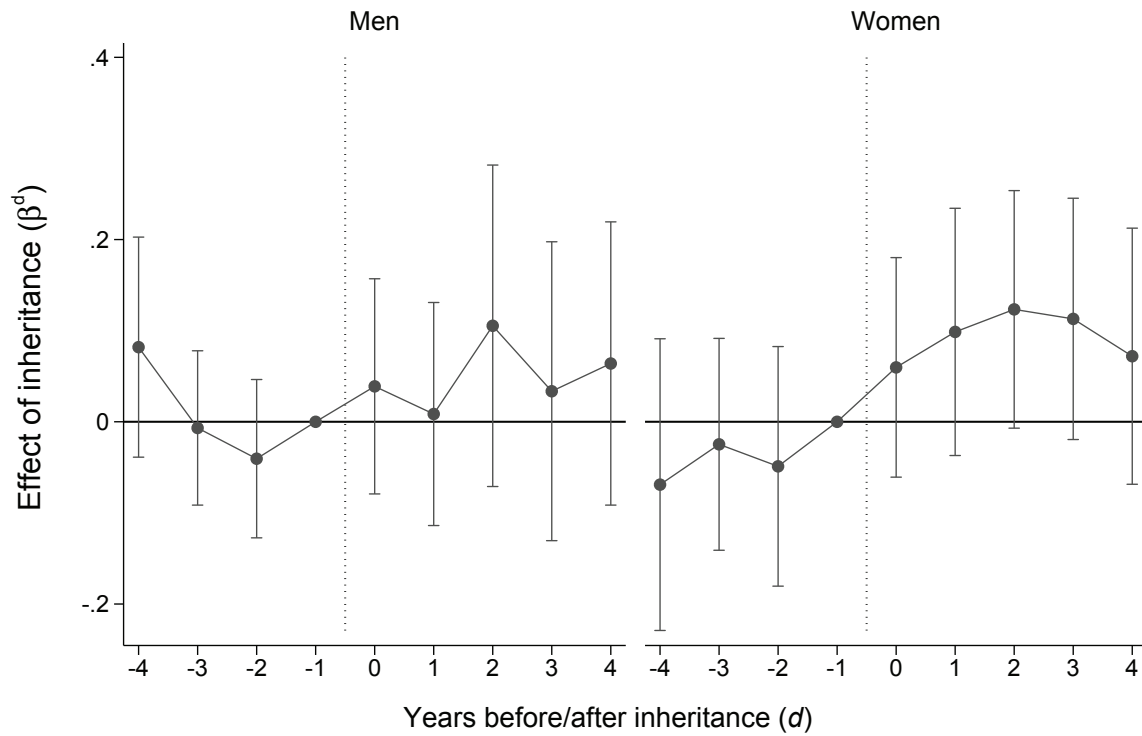
Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

Figure C.8: Event study estimation: Effect of inheritance on time use (domestic work)



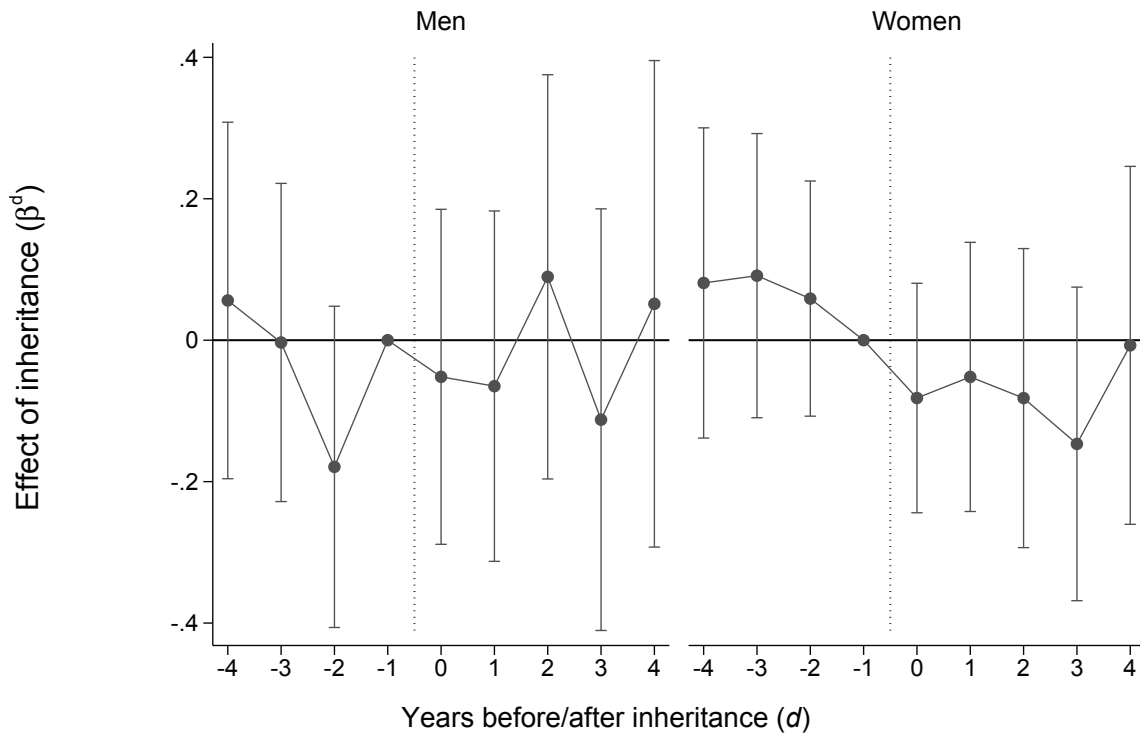
Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

Figure C.9: Event study estimation: Effect of inheritance on time use (education)



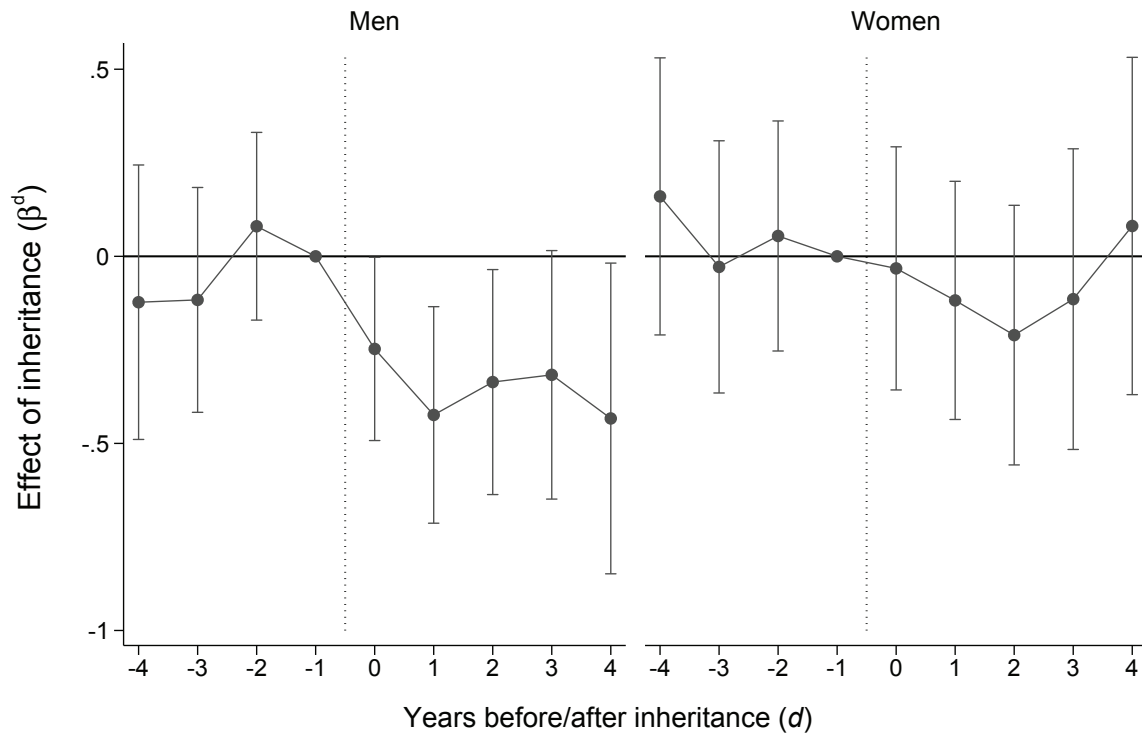
Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

Figure C.10: Event study estimation: Effect of inheritance on time use (leisure)



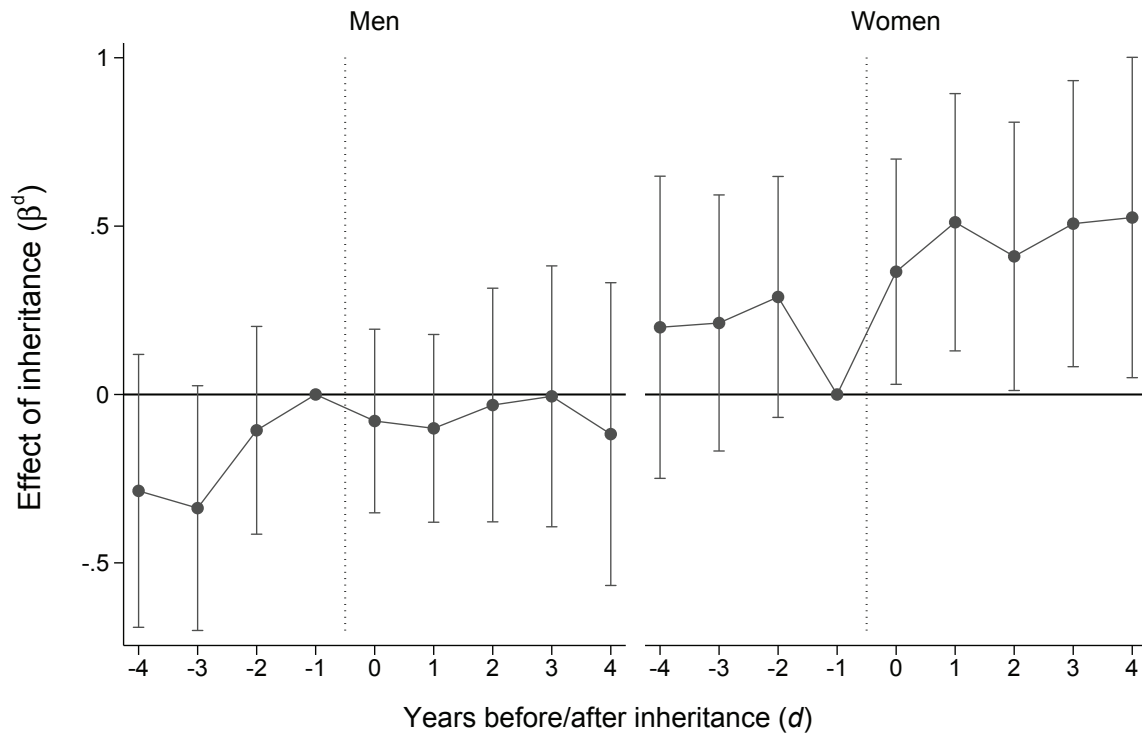
Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

Figure C.11: Event study estimation: Effect of inheritance on satisfaction with work



Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

Figure C.12: Event study estimation: Effect of inheritance on satisfaction with own income



Note: This graph shows estimation results for the coefficients β_1^d and β_2^d from two separate regressions for men and women respectively according to the event study approach outlined in equation (2). The subscript $d \in [-4, 4]$ indicates the period before/after the event of inheritance ($d = 0$), the baseline period is the year before the inheritance ($d = -1$). Each scatter point indicates the respective point estimate. The vertical whiskers indicate 95% confidence intervals.
Source: SOEP 2016, own calculations.

Table C.1: Difference-in-differences estimation: Effect of inheritance on employment by subgroups

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Men				Women			
<u>A. Employed</u>								
Post inheritance	-0.011 (0.023)	-0.009 (0.026)	-0.050* (0.030)	-0.033 (0.022)	0.005 (0.028)	-0.046 (0.033)	-0.062** (0.029)	-0.005 (0.025)
Post inheritance × liquidity constrained	-0.015 (0.044)				-0.038 (0.043)			
Post inheritance × flexible working hours		-0.028 (0.039)				0.006 (0.042)		
Post inheritance × household with children			0.067* (0.037)				0.074** (0.035)	
Post inheritance × East Germany				0.110*** (0.037)				-0.048 (0.040)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3129	2154	3996	4578	3609	2107	4511	5007
Adjusted R^2	0.097	0.046	0.097	0.109	0.082	0.088	0.077	0.085
<u>B. Full-time employed</u>								
Post inheritance	-0.013 (0.024)	0.017 (0.030)	-0.062* (0.032)	-0.035 (0.023)	-0.062** (0.025)	-0.075* (0.043)	-0.088*** (0.030)	-0.023 (0.021)
Post inheritance × liquidity constrained	-0.029 (0.047)				0.001 (0.046)			
Post inheritance × flexible working hours		-0.039 (0.043)				-0.072 (0.055)		
Post inheritance × household with children			0.084** (0.039)				0.067* (0.039)	
Post inheritance × East Germany				0.100** (0.039)				-0.090** (0.045)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3129	2154	3996	4578	3609	2107	4511	5007
Adjusted R^2	0.122	0.065	0.119	0.131	0.101	0.097	0.080	0.084
<u>C. Part-time employed</u>								
Post inheritance	0.006 (0.012)	-0.004 (0.014)	0.019 (0.013)	0.007 (0.012)	0.064** (0.030)	0.022 (0.045)	0.012 (0.033)	0.019 (0.027)
Post inheritance × liquidity constrained	-0.010 (0.022)				-0.059 (0.044)			
Post inheritance × flexible working hours		0.005 (0.015)				0.076 (0.053)		
Post inheritance × household with children			-0.018 (0.016)				0.025 (0.040)	
Post inheritance × East Germany				-0.010 (0.016)				0.023 (0.046)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3129	2154	3996	4578	3609	2107	4511	5007
Adjusted R^2	0.009	0.031	0.006	0.010	0.044	0.054	0.046	0.042
<u>D. Self-employed</u>								
Post inheritance	-0.004 (0.010)	-0.022 (0.014)	-0.007 (0.012)	-0.005 (0.009)	0.002 (0.010)	0.007 (0.022)	0.014 (0.013)	-0.001 (0.008)
Post inheritance × liquidity constrained	0.024 (0.024)				0.021 (0.022)			
Post inheritance × flexible working hours		0.006 (0.018)				0.002 (0.026)		
Post inheritance × household with children			0.001 (0.015)				-0.018 (0.017)	
Post inheritance × East Germany				0.020 (0.023)				0.019 (0.021)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3129	2154	3996	4578	3609	2107	4511	5007
Adjusted R^2	0.002	0.019	0.023	0.028	0.022	0.028	0.014	0.013

Note: All results are based on estimations employing individual fixed effects. Time-varying controls are age and age squared, years of education, a binary indicator for being married, indicators for household type (single, single parent, couple without children, couple with children), state fixed effects and binary indicators for a deceased father, mother, father in law and mother in law. Robust standard errors in parentheses. *** = significant at the 1 percent level, ** = significant at the 5 percent level, * = significant at the 1 percent level. *Source:* SOEP 2016, own calculations.

Table C.2: Difference-in-differences estimation: Effect of inheritance on full-time employment by expectation (with controls)

	(1)	(2)
	Men	Women
Post inheritance	-0.011 (0.022)	-0.049** (0.022)
Post inheritance × Expect certain	0.012 (0.042)	0.021 (0.054)
Age (years)	0.135*** (0.033)	0.062** (0.025)
Age sq.	-0.010*** (0.001)	-0.003*** (0.001)
Years of education	-0.022 (0.026)	0.146*** (0.030)
Married (0/1)	-0.073 (0.060)	-0.240*** (0.085)
Single parent	-0.036 (0.042)	-0.086 (0.057)
Couple without children	0.010 (0.068)	0.096 (0.084)
Couple with children	-0.051 (0.063)	0.001 (0.092)
Father deceased (0/1)	0.025 (0.035)	0.016 (0.039)
Mother deceased (0/1)	0.041 (0.039)	0.011 (0.033)
Partner's father deceased (0/1)	0.089*** (0.032)	-0.005 (0.039)
Partner's mother deceased (0/1)	-0.019 (0.039)	0.067 (0.047)
Constant	-3.552** (1.784)	-3.986*** (1.276)
Year FE	Yes	Yes
State FE	Yes	Yes
Observations	4578	5007
Adjusted R^2	0.128	0.080

Note: All results are based on estimations employing individual fixed effects. Time-varying controls are age and age squared, years of education, a binary indicator for being married, indicators for household type (single, single parent, couple without children, couple with children), state fixed effects and binary indicators for a deceased father, mother, father in law and mother in law. Robust standard errors in parentheses. *** = significant at the 1 percent level, ** = significant at the 5 percent level, * = significant at the 10 percent level. *Source:* SOEP 2016, own calculations.