Intervivos Giving Over the Lifecycle

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Extended Abstract
September 2006

The authors gratefully acknowledge funding from the National Institutes of Health and National Institute on Aging. Some data used in the study were obtained from RAND HRS Data, Version F. Produced by the RAND Center for the Study of Aging, with funding from the National Institute on Aging and the Social Security Administration. We thank Patricia St.Clair, Sandy Chien and Joanna Wedell for excellent data development and programming assistance.

EXTENDED ABSTRACT

Introduction

Inter-vivos cash transfers and bequests between family members total hundreds of billions of dollars each year and are important for many reasons. First, they provide the most direct financial behavioral links that may modify behavior across generations. They may equalize resources within a generation of a family as well as across family generations. In contrast, transfers may extend economic disparities across generations as the well to do transfer considerable resources to their children while middle class and poor households are unable to do so. Transfers delayed to the end of life may represent a significant motive for saving. Because the elderly hold substantial wealth relative to all other age groups, the national saving rate depends on whether they consume it, transfer it to their children, or hold it as a bequest. If they hold their wealth until death and reduce their inter-vivos giving, their saving rate will be high, increasing the national saving rate. If instead they transfer it during their lifetime, the saving rate will be low, assuming the recipients will consume the transfer. Finally, in the aggregate, intergenerational transfers represent an enormous amount of resources that may affect significantly the well being of donors and recipients alike.

Understanding the financial links across generations is important from the point of view of public policy. For example, how Social Security policy will affect the well being of individuals will depend on the determinants of financial cash transfers between generations. If the generations are strongly linked, reducing benefits in response to the financial problems facing Social Security and Medicare will have a less severe impact on the beneficiaries: in response to a decrease in benefits, the elderly may simply reduce their transfers and bequests to maintain consumption. If taxes are increased to maintain benefits, the elderly may increase transfers and bequests. Of course, these compensatory behaviors will not occur in all families, so an important research issue is to understand the heterogeneity in response.

Our understanding of the magnitudes and determinants of intergenerational cash transfers is limited, at least in part because that research has not fully exploited longitudinal data to address issues such as intervivos transfers over the life cycle. To the extent that inter-vivos transfers respond principally to transitory shocks, either to the donors or the recipients, they will appear to be quite episodic. Cross-sectional data on such transfers do not address issues of the extent to which these point-in-time transfers average out over time or across donors and/or recipients. Indeed, little is currently known about the temporary and persistent nature of these financial transfers.

Methods and Results

This paper uses data from the Health and Retirement Study on inter-vivos transfers that span up to twelve years, a large part of the remaining life spans of donors. We describe financial transfers made by parents to children and the correlation between donor characteristics and the likelihood and amount of money given. We exploit theses longitudinal data to examine patterns in transfers over time, age patterns in giving behavior, the persistence of transfers and how transfers change in response to changes in marital status, economic status and health of the donor parents.

Our empirical analysis is motivated and guided by a lifecycle model extended to include intervivos transfers, which frames the giving behavior of donors in a dynamic setting. A life-cycle model with intervivos transfers as an argument in the utility function generates hypotheses about the age pattern of transfers and how mortality risk, risk aversion and economic resources effect giving behavior.

We find over one-third of households make cash transfers to their children (35 percent). The dispersion of cash transfers to children is large: while the median transfer is zero and the 75th percentile is \$1,963, the 95th percentile is \$20,000, the 99th is \$58,423. Consistent with a lifecycle

model of giving for singles, we find that for singles, the amount of money a parent gives to children declines with age suggesting that transfers appear to act like consumption goods for singles. The results for married couples are slightly different. Transfer amounts to children decline with age until age 78 and then begin to increase. This finding is consistent with other empirical estimates of consumption of couples over the life cycle, which finds, in contrast to patterns for singles, flat and increasing consumption over the life cycle for couples. The age estimates control for wealth levels and mortality risk and thus we interpret age effects as the effect of uncertainty of death on intervivos financial transfers.

We exploit the longitudinal nature of the data to understand the extent to which inter-vivos transfers respond principally to transitory shocks, either to the donors or the recipients. Cross-sectional data on such transfers do not address issues of the extent to which the transfers we see in a cross-section are in response to shocks or are persistent in nature. That is, some families may be more connected than others and transfer to children regularly over time. We find the patterns of giving to children when examined over this 12 year period suggests that an important component of giving is due to individual household heterogeneity.

Using the multiple waves of the panel, we analyze the determinants of the changes in transfers that take place between waves. Such an analysis offers several analytical advantages over a cross-sectional approach including the ability to better isolate 'news' or 'shocks' and opportunities to better control for unobserved heterogeneity. Our emphasis is on estimating how parent's between-wave changes and unexpected shocks to them affect the change in financial help given to children. Between-wave changes or shocks include a change in marital status including the death of a spouse, a change in income or wealth, a new health shock and changes in mortality risk.

The panel data allows us to deal with unobserved heterogeneity that is fixed over time. Our analysis of transfers over time suggests that there is unobserved differences among families in transfer behavior. Some families are likely closer and more caring than others and transfers are more frequent and larger. If our covariates do not fully capture unobserved endowment and tastes, family fixed-effects models will account for these unobservables. For measuring health shocks of respondents, we use detailed information on self-reported health, ADLs, disease conditions, and subjective probabilities of survival. While to some extent people may anticipate onset of disability or disease, much of the actual realization and especially its timing may be unanticipated. Preliminary results show unobserved heterogeneity explains a good portion of the transfer behavior we see over time but that households respond to shocks to resources, health and marital status in ways consistent with our lifecycle model.