INSTITUTE FOR SOCIAL RESEARCH • SURVEY RESEARCH CENTER
MICHIGAN RETIREMENT RESEARCH CENTER
UNIVERSITY OF MICHIGAN

Research Brief 312 | September 2014

Long-Run Determinants of Intergenerational Transfers

John Karl Scholz, Ananth Seshadri, and Kamil Sicinski *

Determining the adequacy of savings is fundamental for understanding the well-being of elderly households. One factor that affects wealth accumulation is the extent to which parents need to support children and the extent to which children need to support parents. The presence of Social Security has long been known to affect intergenerational transfers but the extent to which it 'crowds out' transfers from parents to children is controversial. The ideal dataset to analyze issues pertaining to the long-run determinants of intergenerational transfers would have detailed information on two or three generations, as well as measures of long-range outcomes of parents and their children. The Wisconsin Longitudinal Study (WLS) offers a possibility to analyze the impact of transfer patterns on wealth accumulation and has been unexplored.

The recent financial crisis had a large impact on economic well-being. It affected those nearing or in retirement and young households who faced a more difficult time in the labor market. With our data, we plan to look at the impact of this financial crisis on transfers from parents to children. If retirees, who have already experienced large declines in their financial capabilities, have the additional burden of supporting their children, the economic impact would be even larger than previously thought. On the flip side, with rising health care costs, retirees may be unable to transfer resources to their adult children and may even rely more on them to maintain their standard of living in retirement. Understanding the effects of transfers and the determinants of transfers is of importance. The impact of transfers from one's parents on transfers to others (the degree of crowding out) is an important parameter that is prominently featured in public policy discussions. Furthermore, if there are long-range determinants of transfers (for instance, if kids receive more transfers, do they transfer more to their children all else equal; are there other factors that would lead parents to transfer resources regardless of economic circumstances), these determinants are useful to policy makers to gauge the effect of changes in the Social Security system on the well-being of the elderly.

We use data from the Wisconsin Longitudinal Survey (WLS). New waves of WLS data were collected from the surviving primary respondents (in 2003 and 2011) and their randomly selected siblings (in 2004 and 2011) that update all information collected in the 1992 and 1993 surveys. This information augments that from primary

** **John Karl Scholz** is the Dean of the College of Letters and Science at the University of Wisconsin-Madison. Formerly, he was the Nellie June Gray Professor of Economics. **Ananth Seshadri** is professor and chair of the department of economics at the University of Wisconsin-Madison. **Kamil Sicinski** is an assistant scientist with the Wisconsin Longitudinal Study. This Research Brief is based on MRRC Working Paper 2013-312.*

respondents and their selected siblings with detail about their relations with immediate family members. With these rich longitudinal multigenerational data, we are able to examine family relations involving two distinct sets of intergenerational pairings: (a) relations between the respondents and their aging parents, (b) relations between the respondents and their own children, as well as (c) relations between respondents and their siblings. The WLS provides extensive, self-reported data from a randomly selected sibling, thus facilitating the statistical control of potentially important, yet unobserved, family-specific characteristics. Using these data, we look at several specifications.

We use logit models to study the factors affecting individual decisions on whether to give and to receive a transfer, and we use linear models to analyze the factors correlated with the amount of transfers. Female participants were 25 percent more likely to ever receive financial assistance from parents than their male siblings. The odds of receiving a transfer are also higher for younger respondents. Each additional year of age reduces the likelihood of obtaining a transfer by 4.7 percent. If most transfers occur in early adulthood, this could simply reflect recall problems – older participants might have forgotten the help they received decades ago. The alternative explanation is that younger children come of age when the parents are at their peak earnings years and have more resources. Education is another important factor affecting transfers. Each additional year of education is associated with 7.3 percent higher odds of receiving parental support. Finally, parents respond to shocks in family formation experienced by their offspring. Divorce, loss of a spouse, and failure to start a family all sharply increase the odds of receiving a transfer.

We observe no association between the respondent's IQ and either the incidence or amount of parental transfers received. However, raising IQ by one point improves the odds of giving to own children by 1.9 percent and increases total transfers by 703.6 dollars. An additional point on the conscientiousness scale reduces the odds of getting a transfer by 12.7 percent. When transfers to own children are considered, conscientiousness is also significant, but here the effect is positive – it raises the odds of making a transfer by 14.8 percent. Long-term transfers are less equally distributed across siblings than short-term transfers and the sum of transfers and inheritances is less equally distributed than transfers and inheritances alone.

We run a fixed-effect linear regression of transfers from parents on a basic set of personal characteristics and the value of transfers received from parents-in-law. We run separate regressions for the period up to 1992/93 and for lifetime transfers. The amount of transfers from parents-in-law are positive but statistically insignificantly correlated with the amount of transfers received from one's own parents. It appears that inter-vivos transfers from parents are not affected by transfers from parents-in-law.

Finally, we find a strong positive association between the incidence of giving to own children and having received a gift from own parents, conditional on income and net worth. The odds of making a gift to own children rise by 36% in 1992/3 and increase to 68% by 2003/4. Different factors seem to govern the likelihood of giving to children and the amounts given. Younger children, biological children, number of grandkids, frequency of telephone contact, how well the child listens, and how critical child is influence the incidence of giving, but not amount. Daughters are less likely to receive gifts and end up receiving less conditional on receiving. Same holds for children that are married. Children that make many demands receive gifts more often and also receive more. Children that live further away receive less. The most revealing item is "help with bills." Children that the respondent would turn to for financial help have much lower odds of receiving gifts and receive significantly less.

University of Michigan Retirement Research Center
Institute for Social Research 426 Thompson Street Room 3026
Ann Arbor, MI 48104-2321 Phone: (734) 615-0422 Fax: (734) 615-2180
mrrcumich@umich.edu www.mrrc.isr.umich.edu

Sponsor Information: The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) through the Michigan Retirement Research Center (MRRC). The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the federal government, or the MRRC.