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Parents with an Unemployed Adult Child: Labor Supply, Consumption, and Savings Effects

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It is a long-established result in the economics literature, as well as true of the experiences of many individuals, that family members help each other out in times of need. This is formally known as risk sharing; the risk that is faced by one family member, such as the risk of unemployment or a health shock, is shared across other family members through the sending and receiving of financial assistance. What is less understood is the cost of bearing that risk. Family members voluntarily help out other members, but does that make them worse off or cause a change in behavior that may make them worse off in the future?

In this paper, we examine risk sharing among families in the context of parents and their unemployed children. Among adults, unemployment is most common among workers who are younger than 35, and most unemployment spells are experienced by individuals who are younger than 35. But at that age, their parents would be 20 to 30 years older, or 55 to 65 years old. Indeed, unemployment among children is most common when parents are in their late 50s. This is a critical age in the life of parents, as it is just before they transition to retirement. Hence, our research question is: If parents and children are risk sharing, could it affect parents' retirement security?

To conduct our analysis, we use the Panel Study of Income Dynamics, a longitudinal survey that allows for parents to be linked to their adult children and observed in the same period, even if they are in different households. We can measure unemployment experienced by the child and any concurrent changes among parents. In order to have the largest share of matches between parents and children, we use mothers and mothers' households as the basis of our regression analysis. To control for the circumstances of the mother, we control in our regressions for marital status, employment status, the local unemployment rate, and age. We also use individual fixed effects, which control for any nonchanging characteristics of the mother, whether they are observed, like race, or unobserved, like a character trait. We examine four key outcomes among mothers.

First, we measure any increase in financial assistance flowing to children in the year of a child's unemployment spell, in effect confirming if families risk share, or rather, if we can observe evidence of risk sharing. We find

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that mothers' households are more likely to send a cash gift to a child's household in the year that a child becomes unemployed. Numerically, we find that the increase in the probability of sending a transfer is 1.8 percentage points, off of a mean sending rate of 7.2 percent, which is equivalent to a 25 percent increase in the probability of sending a transfer to a child, a large and robust result. If we examine the amount sent, rather than if money was sent, we find an increase of $76. Again, this is a large and robust result.

Second, we measure if the year of the spell is associated with changes to mothers' observed consumption. Do parents cut back on spending for themselves when a child is unemployed? The only household expenditure measured in our survey is usual food consumption. Nonetheless, we find a large drop in the year of a child's spell of $266; given usual spending of $6,900, this is equivalent to a nearly 4 percent decline in food consumption. Many economists believe that food consumption changes are indicative of broader consumption changes. If food declines, in other words, spending on other goods and services decline as well.

Third, we measure if the year of the spell is associated with changes in mothers' income. Rather than examine income itself, we look at inputs to income. Specifically, we look at whether mothers work more. We find that for mothers who are younger than 62 and, therefore, ineligible for any Social Security benefits and less likely to be retired, there is an increase in the number of weeks worked equivalent to three additional days of work in a year. This is driven by mothers who are already working at or near full-time, rather than mothers who are not working at all. We also examined if there was a change in the share of mothers who are claiming Supplemental Nutrition Assistance or Social Security, but found no change. Likely, mothers who are eligible for those programs are already receiving benefits.

Finally, we examined mothers' savings and assets. We found that younger mothers (younger than 62) who are more likely to be still working and contributing to a retirement account contributed less in the year of a child's spell. But older mothers (older than 70) who had already retired saw a decline in vehicle assets, which could mean that they sell or give a car away.

It should be noted that not all mothers will respond on all margins — some mothers may work more but nothing else, other mothers may make no change at all. What our results show, however, is that the assistance we measure, which itself is only a fraction of the possible assistance given, is accompanied by numerous changes in behavior. Our paper does not assign a value to these changes. That is, we do not evaluate whether mothers are more or less prepared for retirement as a result of the observed changes we measure. Instead, our paper establishes a channel of retirement insecurity that could affect many parents.

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