

Caring for Families: The Role of Transfers

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What Types of Transfers

- **Cash** transfers
 - Parents to adult children
 - Children to their parents
 - Parental investment education
 - Bequests
- **Time** transfers:
 - Caring for elderly parents
 - Grandchild care
- **Transfers in kind:**
 - Co-residence, room and board
 - Gifts of durable goods (cars, home)

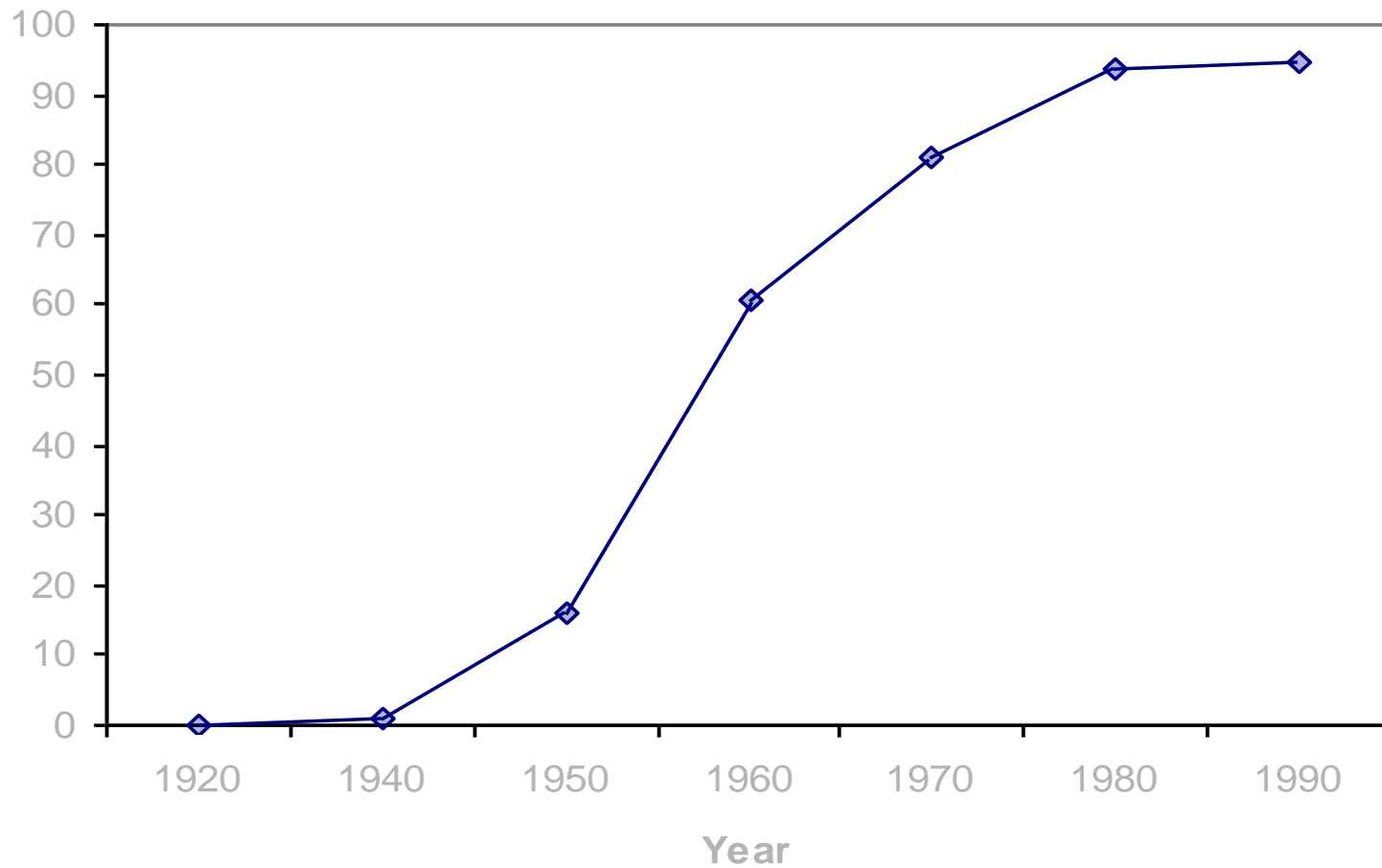
Questions Regarding Transfers

- *Why do families share resources?*
 - Altruism: $U_p = U_p(C_p, V(C_k))$
 - Exchange / reciprocity: $U_p = U_p(C_p, S)$
 - Warm glow : $U_p = U_p(C_p, T)$
 - Evolutionary perspective
- *How are various types of transfers related?*
 - Are they substitutes or complements?
 - How do families decide which type of transfer to make?
- *When are transfers made?*
 - How do they vary over the life course
 - Do they flow in different directions at different times

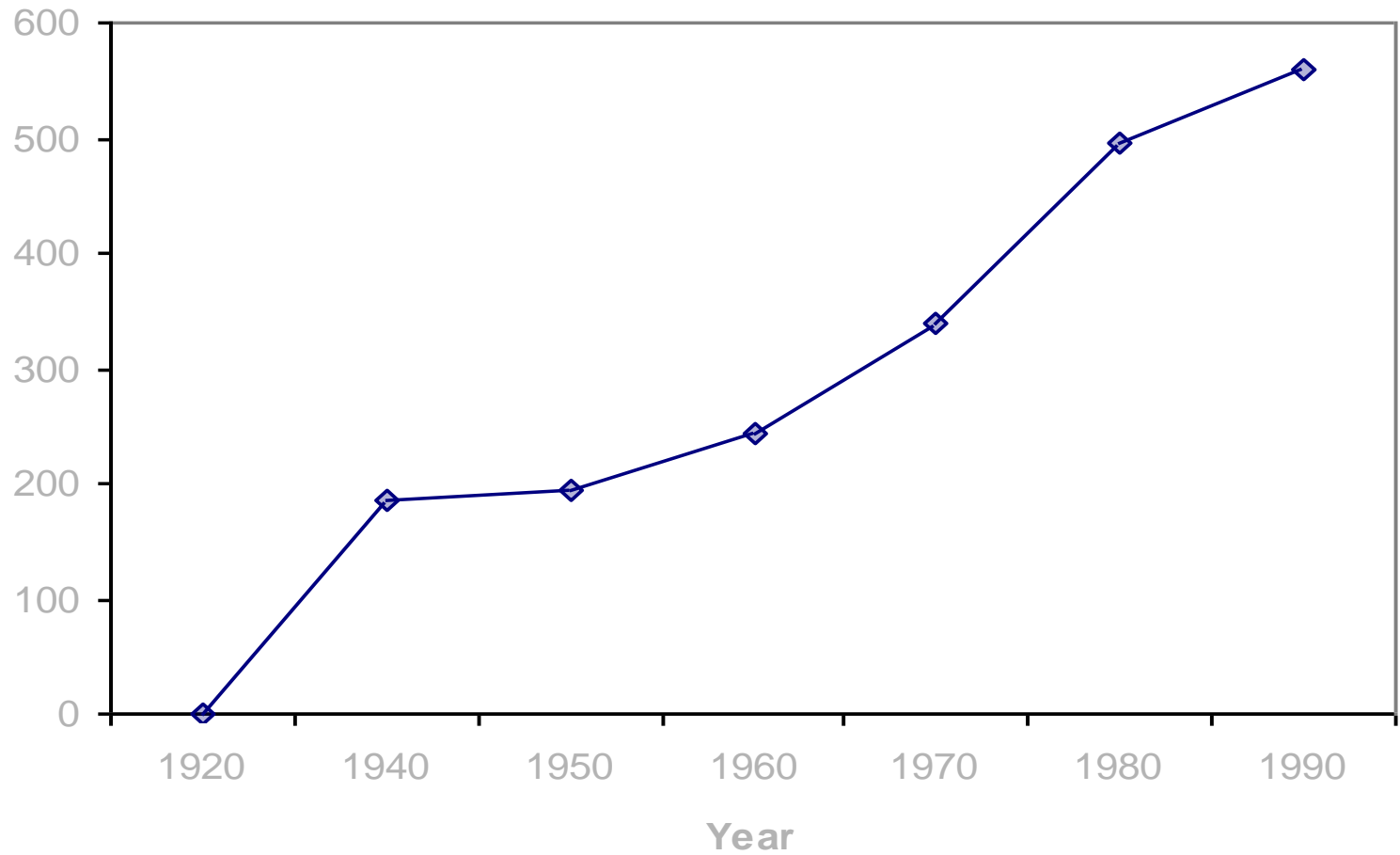
Why Does Motivation Matter?

- *Distributional Issues / Equity*
 - If transfers are compensatory, they may offset differences in resources and mitigate inequality.
- *Implications for well-being of the donor and recipient*
 - Who really benefits and by how much?
 - What are the true costs and benefits?
 - Loss of privacy, independence
 - Changes in labor market behavior that impact years later
- *Effectiveness of government transfer programs*
 - Does the money “stick” with the intended recipients?
 - Who really benefits?

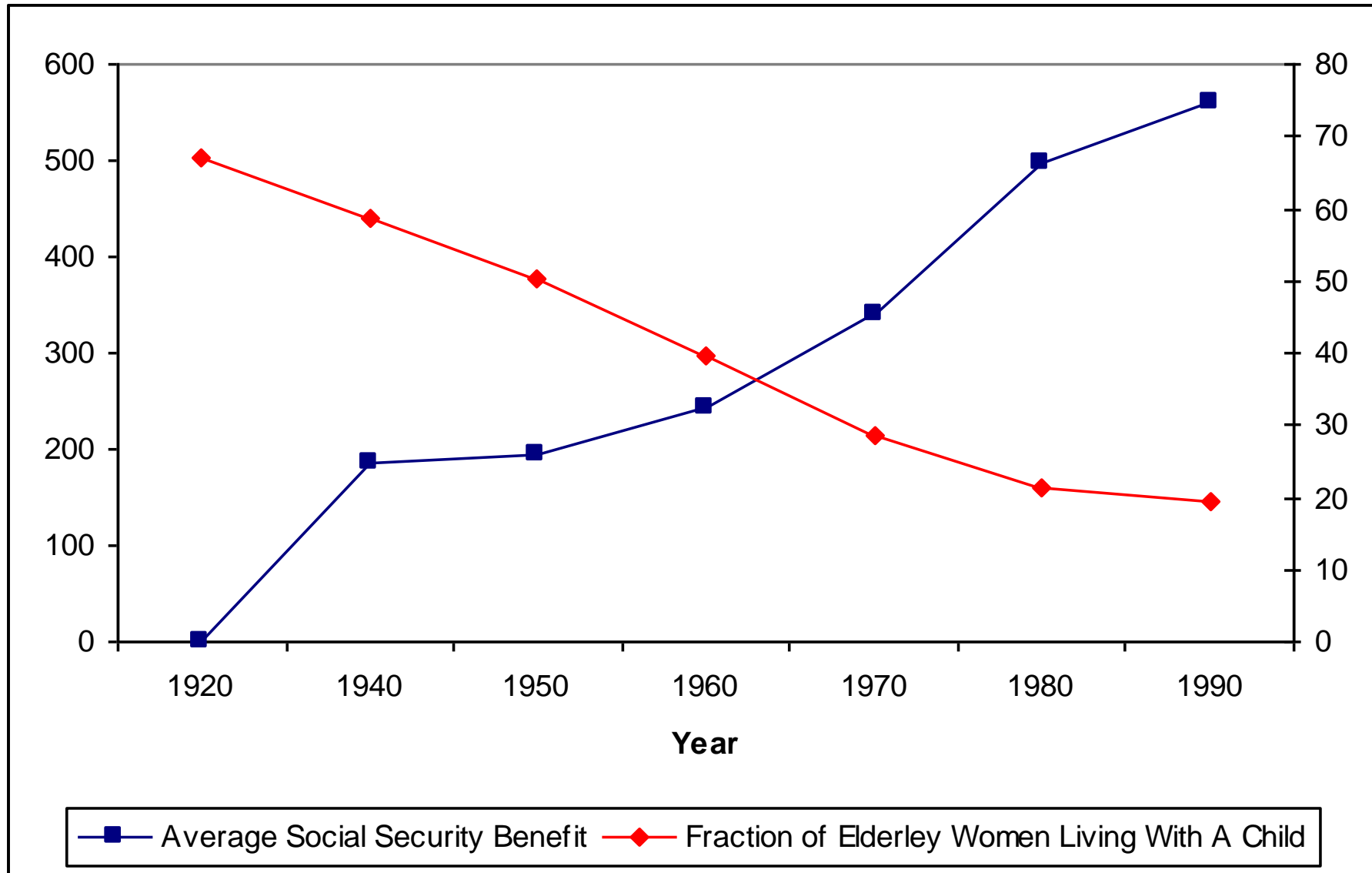
Percent of Elderly Widows with Social Security Benefits (McGarry and Schoeni, Demography)



Average Social Security Benefit of Elderly Widows in 1990 dollars



Social Security and Living Arrangements



Empirical Patterns

- Transfers to children:
 - How common are transfers and how large
 - Approx \$60 billion / yr inter vivos transfers to kids
 - \$180 billion / yr in bequests (to anyone)
 - How do transfers relate to income?
 - Does behavior differ wrt the type and timing of the transfer
- Transfers to parents:
 - How common are transfers and how large?
 - How do transfers relate to income
- The provision of long term care
- What is missing from our knowledge?

Transfers to children

Transfer type	Percent receiving	Mean amt	Mean amt not for type
18+, not at home	13.8	\$4,471	

Of those children receiving a transfer:

Transfers for home	12 percent	\$10,872	\$3,381
Transfers for school	20 percent	\$6,198	\$3,846

Differences within family

Number of non-coresident adult children

	1	2	3	4	5	6 +
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Num Cases	915	1309	976	611	369	472
% give	25%	31%	32%	31%	28%	26%

Of those giving to at least one child:

% kids receive	100%	69%	50%	39%	29%	28%
% same to all	100%	14%	5%	4%	0%	1%

Income and transfers negatively correlated

	Corr in ranking
All families	-0.157
Two-child families	-0.307
Three-child families	-0.097
Four-child families	-0.119

Variation over Time

- Substantial variation across time in receipt of transfers
 - Half of children receiving a transfer in one year, do not in the next
 - Correlation between amounts for those who receive in two consecutive periods is just 0.19
- Changes in transfers are negatively related to changes in income, maintaining strong negative relationship with resources
- Variation in “ranking” of siblings

Distribution of Bequests

- Bequests are typically divided equally (85-90%)
 - Using probate records
 - Using estate tax returns
 - In survey reports of existing wills
- Difference with inter vivos transfers is puzzling
 - Two types of transfers are substitutes
 - Not consistent with models wherein income places an important role.
 - No evidence that bequests are used to “reimburse” children for caregiving

Why are the Patterns Different?

- Bequests are public
 - But can use trusts, children redistribute estate
- Future incomes of children are uncertain
 - Unequal bequests w/ differences in capacity (disability)
- Social norms regarding behavior
 - Attorneys, financial planners suggest equal bequests
 - Default with intestate deaths so even more may desire equality
- Maybe inter vivos transfers are equal
 - Need long panel

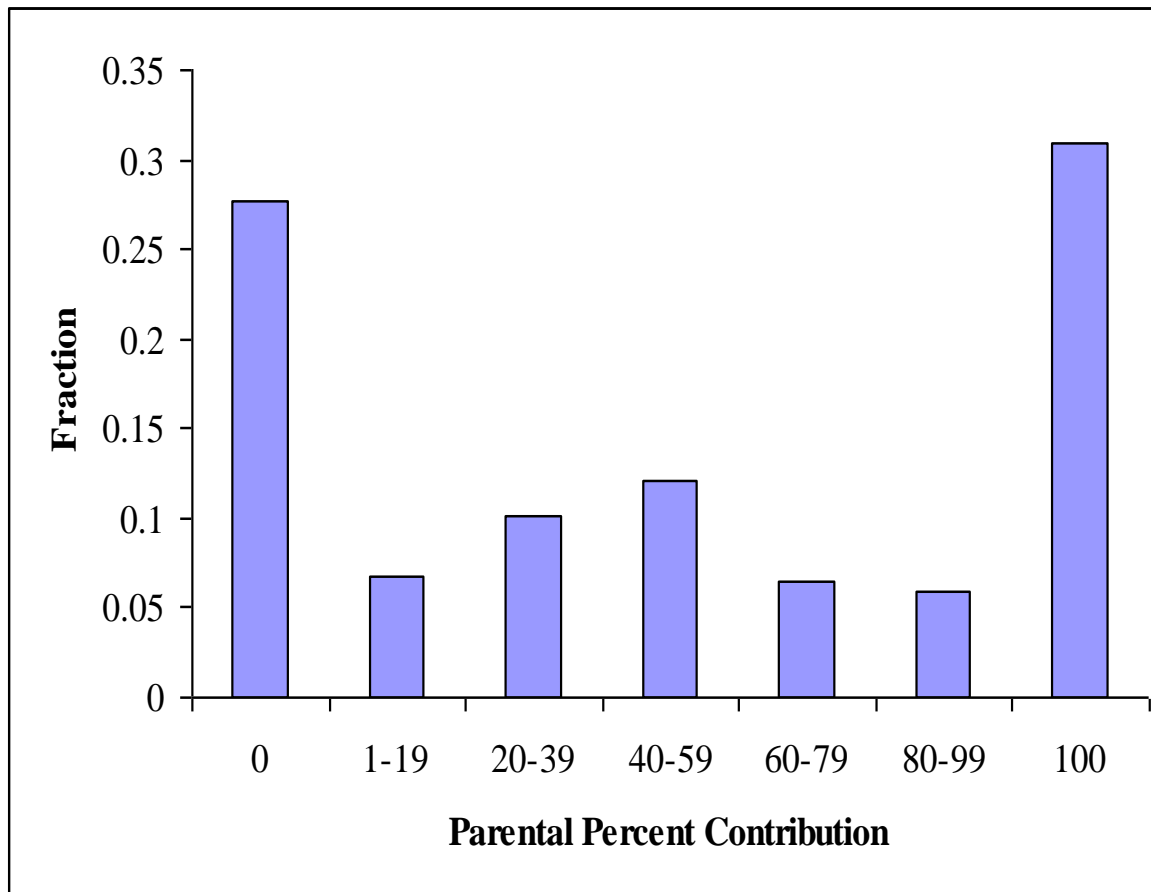
When bequests differ, why?

- Exchange / Reciprocity
 - “___ takes care of me”
 - “Son helped maintain property”
- Altruism
 - “___ needs in more”
 - “Oldest son has more assets than youngest”
- Evolutionary motive
 - “___ is not really my child”
 - “Leaving nothing to step children”

Transfers for schooling

- More public than inter vivos transfers, less than bequests
- More equal than inter vivos transfers, less than bequests

Parental contribution to tuition



Parental Level Transfers

	%	Mean	Mean>0	Median
	pos			
<i>Inter vivos transfers in a given year (2000):</i>				
Per child transfers	30	1,535	5,075	1,858
Total transfers	30	2,930 (3,496)	9,689 (11,561)	3,345 (3,991)
<i>Schooling transfers (anytime, brought to \$2000):</i>				
Tuition / R&B per child	63	10,116	16,070	9,881
Total tuition / R&B	63	21,209 (25,306)	33,690 (40,200)	19,624 (23,415)

Transfers to Parents

- Tend to focus on home health care
- Children do make cash transfers
 - Not always well measured
- Provide assistance with other tasks as well
 - Managing money, chores, transportation
- Both time and cash transfers are related to need
 - Positively related to need of parent
 - Financial need of parents for cash transfers
 - ADL / IADL limitations for time help
 - Positively related to resources of child
- Co-residency
 - One-quarter of elderly widows are living with children
 - Who helps whom?

Mean Transfers

Wave 1 of the HRS

Num

Prop receiving

Mean amt
received

Cash Transfers:

To children 18+

16,678

13.8

\$5,282

To parents

5,843

7.1

\$3,105

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Times Transfers for personal care:

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1,028 hours

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Times Transfers for personal care:

To parents

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5.4

1,028 hours
@ \$19 /hr =
\$19,500

Time vs. Money in transfers to parents

	Child's Income Quartile				
	1 st (lowest)	2 nd	3 rd	4 th	All
% giving any	11.0	18.1	17.4	19.7	15
% giving only time	5.9	9.1	5.5	6.8	8
% giving only cash	4.5	7.9	10.7	11.6	6
% giving both	0.6	1.1	1.2	1.3	1

Co-residence

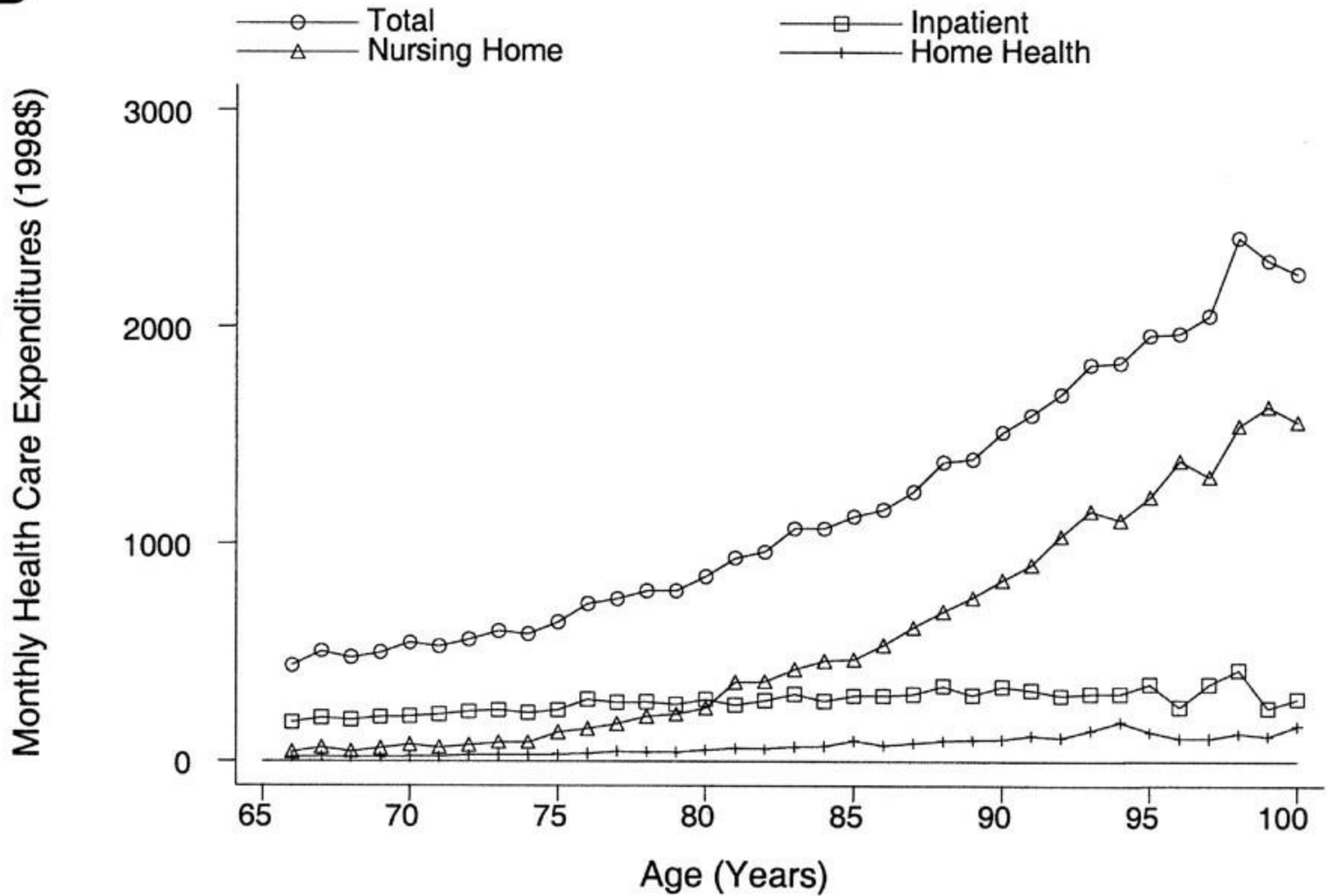
- Direction of transfer is unclear
- Sample of 70+ widows in the PSID
 - 25% are living with an adult child
 - One-third of these case involve children who have never left the home
 - About 20% of these children are disabled
 - Elderly women still providing care to a child

Complete Picture

- Transfers flow in both directions and in multiple currencies
- Our data and analyses typically focus on one type of transfer and transfers made at a single point in time
 - miss important components
 - Do some children provide cash and some time?
 - Are children treated equally over a life course?
 - Are transfers to children later repaid in kind?
- Missing transfers between siblings
 - Do siblings' transfers offset differences?

Long Term Care

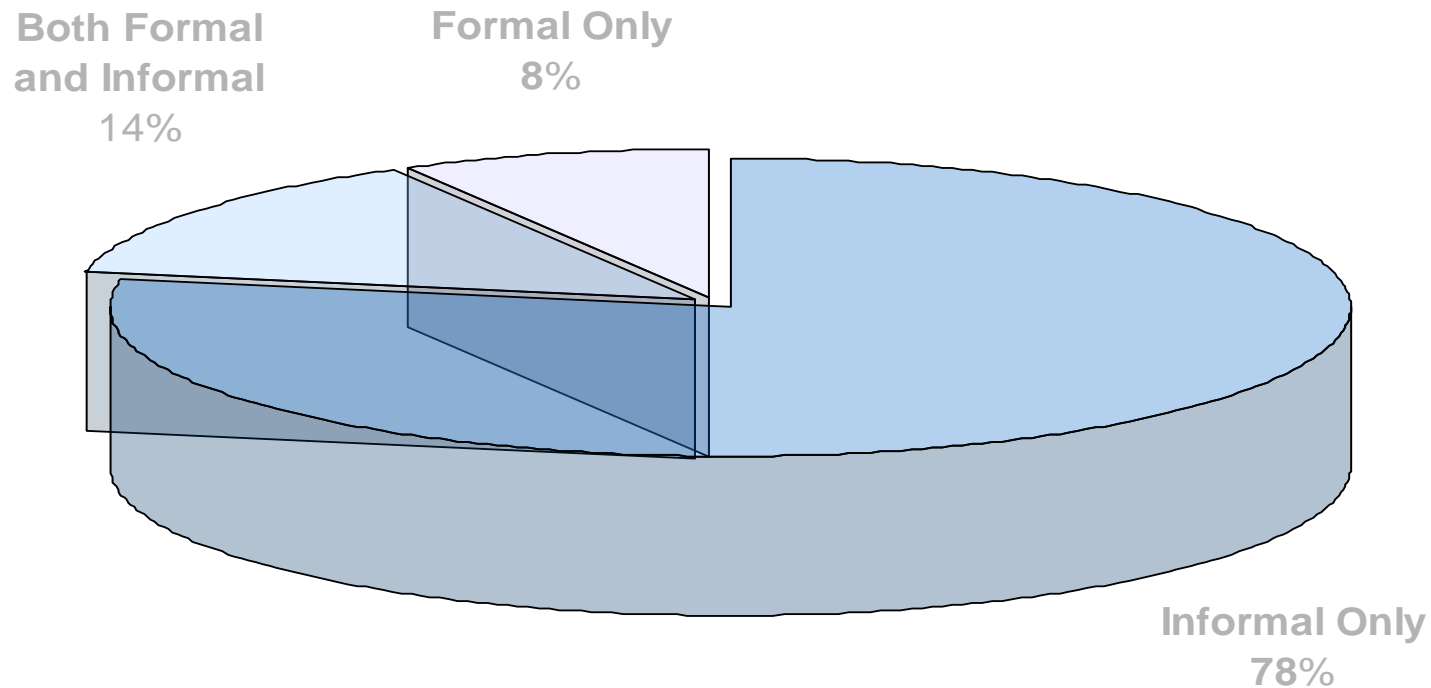
- Perhaps the greatest challenge in coming years
- Nursing homes average \$75,000 year / \$200 day
- **Not** covered by Medicare or Medigap insurance
- Few individuals have long term care insurance
- Long term care *insurance* doesn't provide much in the way of insurance value
 - Want coverage for catastrophic expenses
 - Policies typically have daily and lifetime caps
 - Lack complete inflation adjustment

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Role of the Family

- With little or no insurance coverage of long term care needs, families bear much of burden.

Figure 1
Distribution of Adults Receiving Long-Term
Care at Home, by Type of Care (1994-1995)



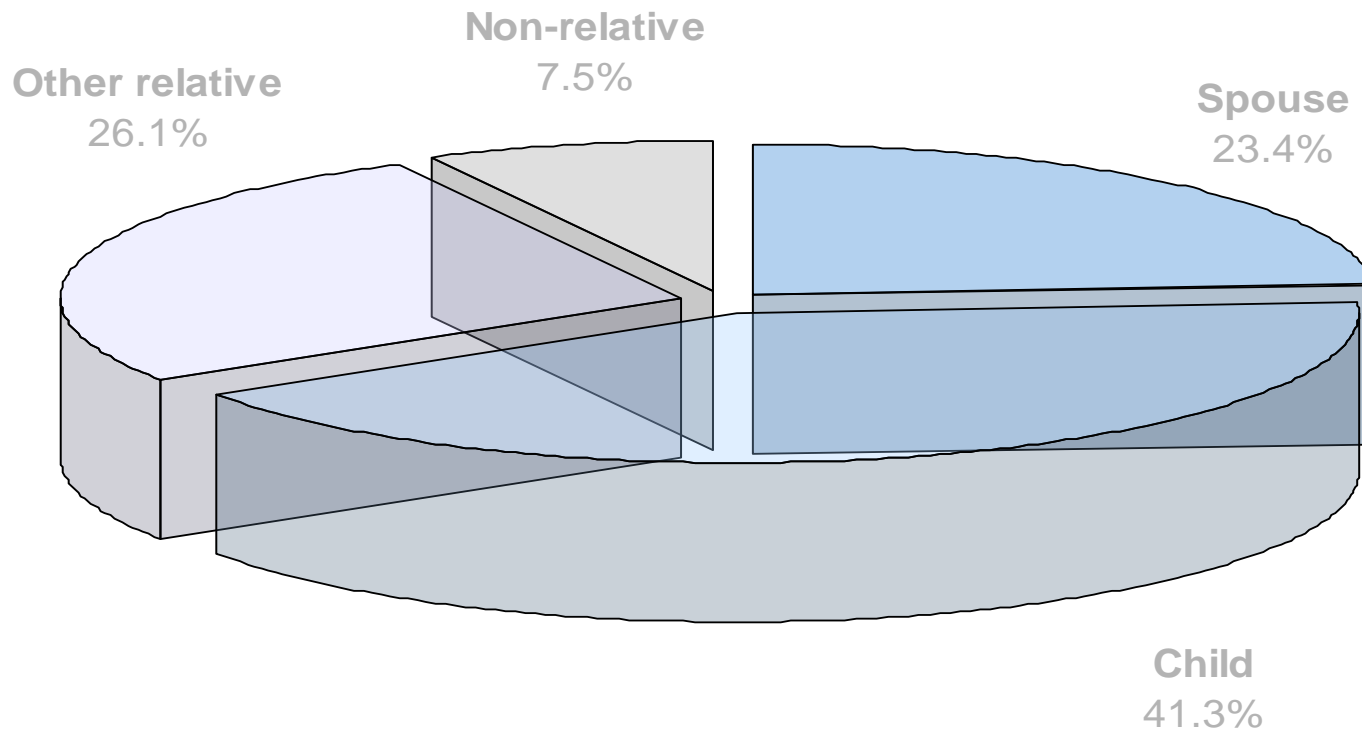
Note: Based on people age 18 or over who, because of disability or health condition, receive help from another person with activities of daily living or instrumental activities of daily living.

SOURCE: Health Policy Institute, Georgetown University, analysis of data from the 1994 and 1995 National Health Interview Surveys on Disability, Phase II.

Role of the Family

- With little or no insurance coverage of long term care needs, families bear much of burden.
- For unmarried elderly, much of this care is provided by children.

Figure 2
Characteristics of Informal Caregivers
of the Elderly

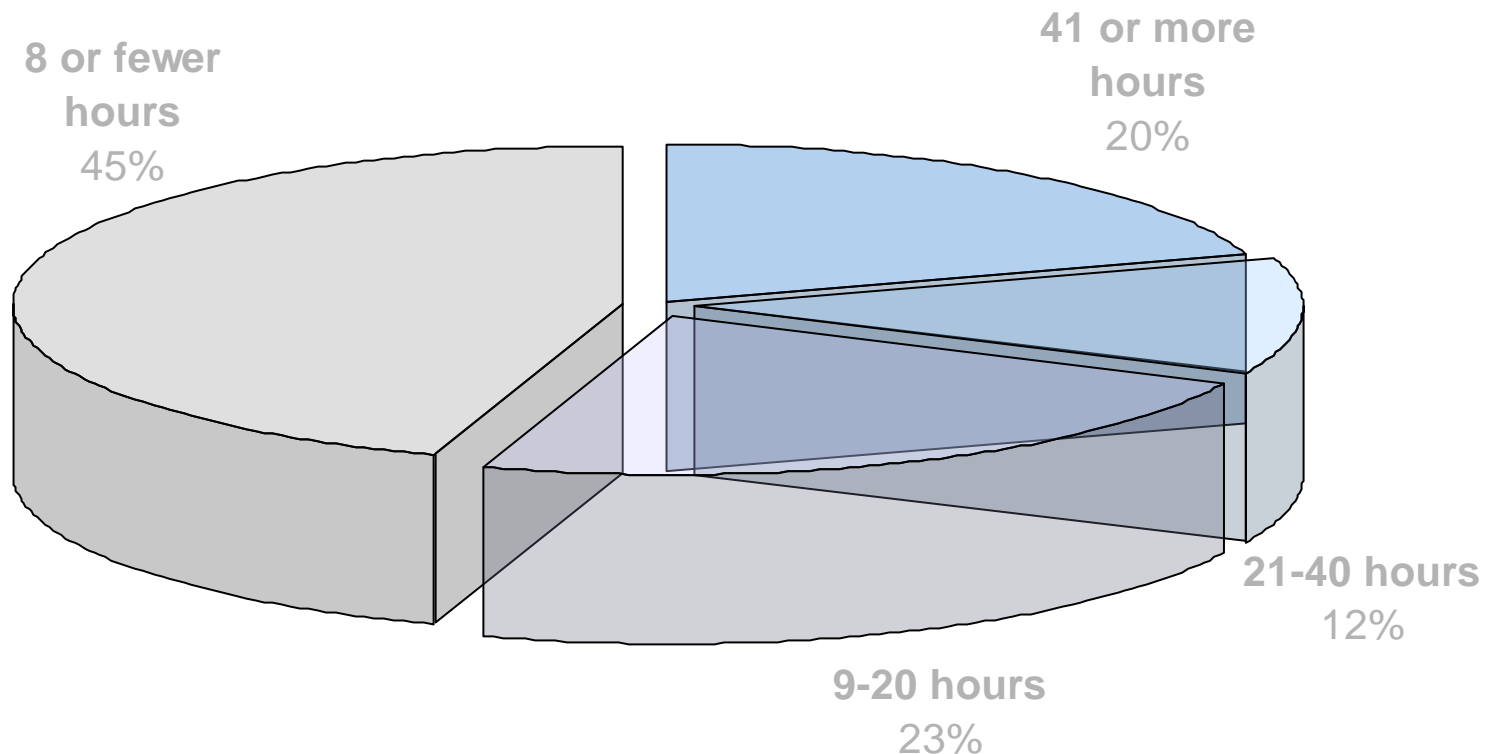


SOURCE: AHRQ Research Report, "Characteristics of Long-term Care Users", 2001, table 9.

Role of the Family

- With little or no insurance coverage of long term care needs, families bear much of burden.
- For unmarried elderly, much of this care is provided by children.
 - Assistance may be either financial or time
- **Implicit value of time help is enormous.**

Figure 3
Distribution of Informal Caregivers, by
Hours of Care Provided per Week (1998)

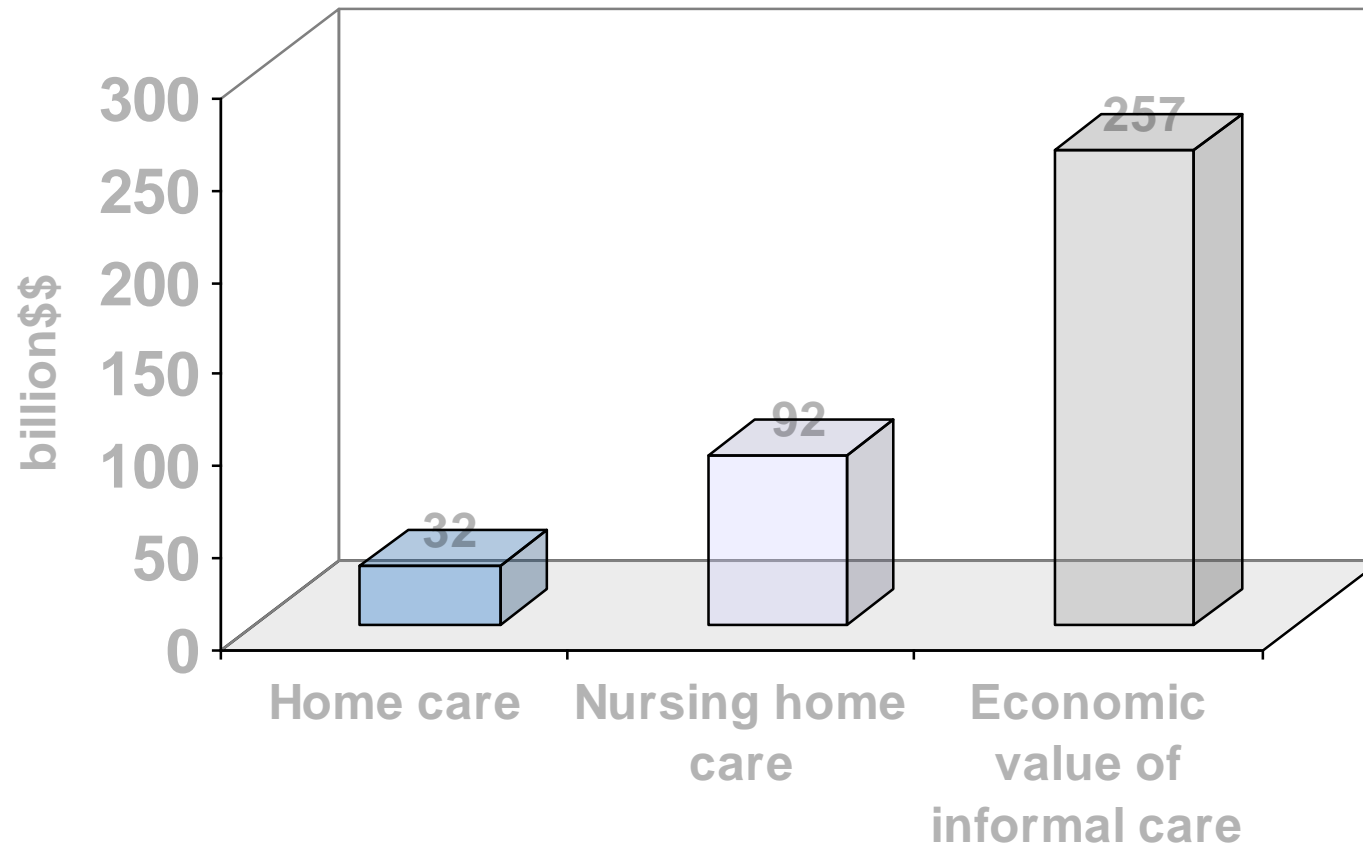


NOTE: Based on people who provide unpaid help or arrange help for a relative or friend who is unable to do some things for herself or himself because of disability, illness, or aging.

SOURCE: K. Donelan et al., "Challenged to Care: Informal Caregivers in a Changing Health System," *Health Affairs* 21, no. 4 (2002): 222-231.

Figure 5

Comparative Cost of Care (2000\$)

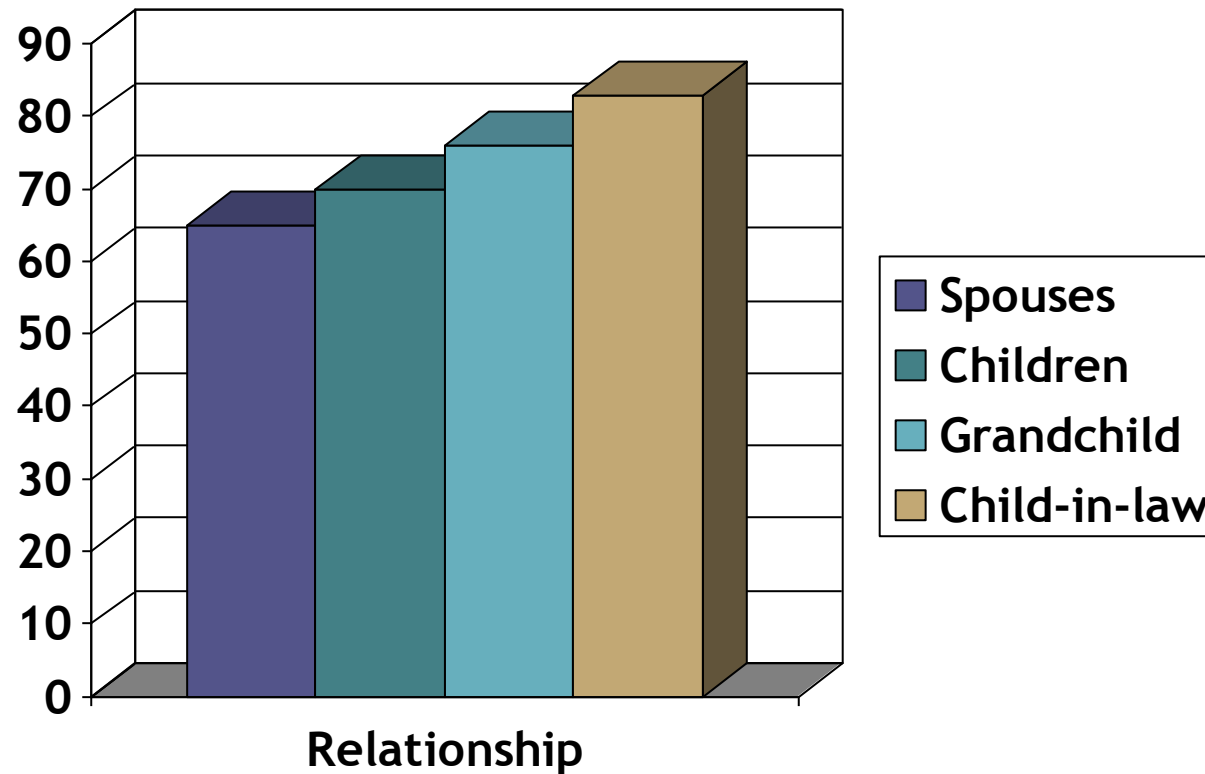


SOURCE: Arno, Levine and Memmott, Health Affairs, 2002.

Role of the Family

- With little or no insurance coverage of long term care needs, families bear much of burden.
- For unmarried elderly, much of this care is provided by children.
 - Assistance may be either financial or time
- Implicit value of time help is enormous.
 - One estimate suggests \$257 billion vs. \$92 billion for nursing homes and \$32 billion for formal home health care
- Caregivers are primarily female.

Fraction of Caregivers who are Female



Outcomes for Caregivers

- Concern about labor supply
 - Decline in labor force participation
 - Decline in earnings growth
 - Effect on retiree benefits: pensions, health insurance
- Concerns about caregiver health
 - Increase in stress, depression, high blood pressure
 - Worse self-reported health
 - Little change in doctor diagnosed conditions
 - Need to examine long term effects / cumulative effects over time
- Is stress from parental need or actual caregiving?
- Or from sibling discord?

Other Outcomes

- Financial and health costs are large but other costs as well:
 - Time with own children for caregiver
 - Loss of privacy with co-residence for both parties
 - Loss of autonomy for recipient
 - Changes in geographic location either by parent or child

Future Role of the Family

- Elderly population is growing → increased demand for long term care
- Increases in cost of formal care
- Changes in disease specific mortality
 - Fewer deaths due to heart attacks and cancer
 - May lead to more chronic conditions and issues with respect to cognitive impairment

Future Role of the Family

- Families may not be able to continue to provide care at the same rate
 - Fewer children
 - Increase labor force participation of women
 - Divorce: may effect husbands / fathers particularly hard
 - Blended families: will step-children provide care?

Conclusions

- Transfers flow in multiple directions
 - Not just downstream but upstream as well
 - Don't know much about transfers between siblings
- Transfers are made in multiple currencies
 - Time (home health care, child care, chores)
 - Money (inter vivos transfers, bequests, bill payment)
 - Co-residence
- Different currencies exhibit different patterns and are made at different times
 - Inter vivos transfers are compensatory
 - Bequests are equal
 - Time to those in need and provided by women
 - Weak evidence of cash and time transfers substituting for each other

Directions for Future Research

- Need wide window of observation to examine variation in transfers over time, flows in both directions, distributional issues
- Need to examine the many currencies to understand transfers accurately
 - Differences by demographic characteristics in forms transfers take
 - Coresidence more likely among lower income
 - Cash more likely among higher income
- Ignored sibling transfers
- Schooling transfers

Mean Transfers

	Num of cases	Percent receiving	Mean Amt
<i>Transfers to Children 18+:</i>			
Children at home	2,639	30.3	\$7,273
Children not at home	14,039	13.8	\$4,471
Total	16,678	16.4	\$5,282

Amounts in 2007 dollars.

Family Fixed Effects

Variable	Probability (12%)		Amount (\$319)	
	Mean	Std err	Mean	Std err
<i>Family Income:</i>				
less than \$10,000	0.091	(.008)	229.0	(46.2)
\$10,000-\$25,000	0.066	(.005)	128.8	(31.6)
\$25,000+ (omitted)	--	--	--	--
Highest grade	-0.000	(.001)	14.4	(7.8)
Owns home	-0.016	(.005)	18.2	(29.0)
Married	-0.022	(.005)	-65.4	(29.3)
Num kids < 18	0.011	(.002)	16.9	(10.6)

Number (pct) receiving by year

Year one status	Year 2 Status		
	Transfer	No transfer	Total
Transfer	882 (5.5)	1,237 (7.7)	2,119 (13.2)
No transfer	1065 (6.6)	12,930 (80.2)	13,995 (86.8)
Total	1,947 (12.1)	14,167 (87.9)	16,114 (100.0)

(Source: McGarry, NBER working paper 7953)

Variation among those w/ transfers

- Even for the 5.5 percent of children receiving transfers in both waves there is a substantial amount of variation
 - The correlation between the amounts is 0.19
- Within families there is also a substantial amount of variation
 - Rank children by the amount they receive in wave 1 (relative to siblings)
 - Rank again by wave 2 amounts
 - Correlation between rankings is just 0.29

Change in income and transfers

Change in Income	Change in Transfer Amount			total
	Decreased	Same	Increased	
Decreased <i>percent</i>	38.5	4	57.5	100%
Same <i>percent</i>	54.5	3.3	42.3	100%
Increased <i>percent</i>	61	3.6	35.4	100%

(Source: McGarry, NBER working paper 7953)

Table 4: Family and Child Fixed Effects

	OLS		Family F.E.		Child F.E.	
	Prob	Amt	Prob	Amt	Prob	Amt
<i>Family Income:</i>						
<10k	0.086 (.009)	284.3 (48.1)	0.091 (.008)	229.0 (46.2)	0.039 (.011)	145.4 (72.5)
\$10K-25K	0.069 (.006)	149.6 (32.6)	0.066 (.005)	128.8 (31.6)	0.025 (.008)	58.1 (50.3)
25,000+	--	--	--	--	--	--
Schooling	0.006 (.001)	40.7 (6.8)	-0.000 (.001)	14.4 (7.8)	0.008 (.005)	46.5 (33.2)

Summary of inter vivos giving

- Transfers are compensatory
 - True within the family
 - True over time for the same child
- Large variation over time at child level
- Few other factors matter
 - No difference by sex of child
 - No difference by schooling level
 - Some differences with respect to grandchildren
- ❖ Do transfers “even out” over time?

Why do patterns differ?

- 1) Bequests are public are concerned above making children unhappy (Wilhelm, 1996; Bernheim and Severinov, 2003).
 - Can “hide” distribution with trusts
 - Are inter vivos transfers really hidden?
 - Anecdotal evidence that children redistribute among themselves

Why do patterns differ? (cont'd)

- 2) Future income of children is uncertain, negative shocks may even out over time
 - See unequal bequests when one child has a severe problem (disability) pointing to permanent difference in financial resources

Why do patterns differ? (cont'd)

3) Social norms about behavior

- Financial planners / attorneys writing wills suggest equality
- Default option is equal division
 - Sends strong signal
 - The 30% without will may desire equal transfers
- Differences in opportunity vs. outcomes

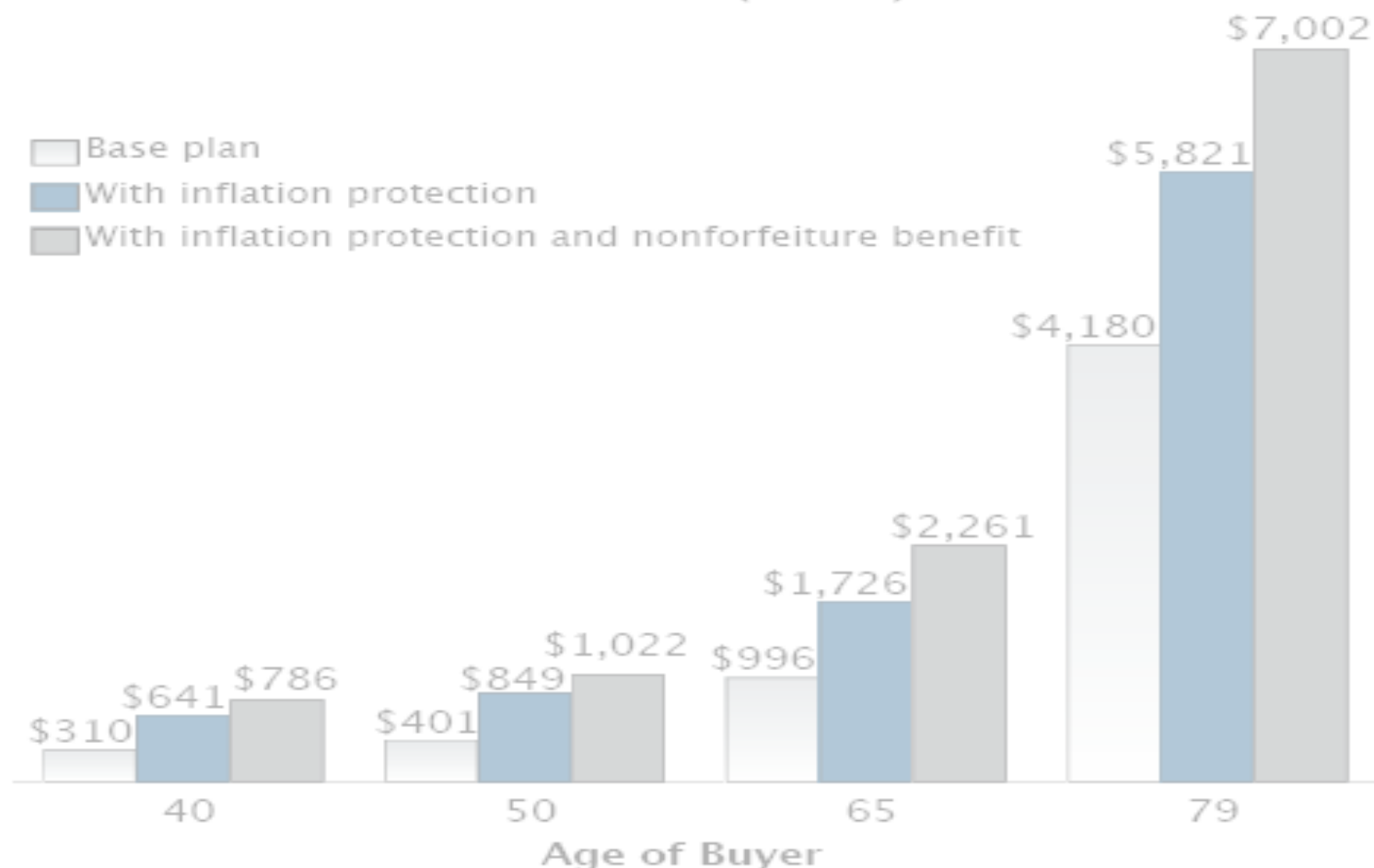
Family Fixed Effects

Variable	Cash (\$176)		Time (5.3)	
	Coeff	Std err	Coeff	Std err
<i>Parental Financial Status:</i>				
Excellent	-352	(127)	15.1	(22.2)
Very good	-300	(101)	16.0	(17.8)
Good (omitted)	--	--	--	--
Fair	108	(150)	20.8	(26.2)
Poor	421	(180)	124.3	(31.5)
Age	-17.2	(6.2)	1.0	(1.1)
Own home	-153	(93)	-12.2	(16.3)

LTC needs are common

- ~60% of those 65+ will use ltc at some point
- ~27% of men and 44% of women 65+ will enter a *nursing home* at some point
- Most stays are short but there is a long tail
 - 2/3 are 3 months or less, but avg is 3 years
 - Women average 3.7 yrs, men 2.2 yrs
- ❖ **\$169 billion in \$2005 for formal ltc**
 - \$122 billion of which is for nursing homes
- ❖ But only 25% of those with functional disabilities live in nursing homes
- ❖ Much of care is formal care

Figure 2
Average Annual Premiums for Long-Term Care Insurance (2001)



NOTE: Base plan provides \$100 daily benefit for four years after a 20-day elimination period. Inflation protection increases benefit payments by 5% each year, compounded annually. Average premiums are based on data from eleven leading insurance companies, which represented 80% of all policies sold in 2001.
 SOURCE: S. Coronel, *Long-Term Care Insurance in 2000-2007* (Washington, DC: Health Insurance Association of America, 2003).