Time and Money: Social Security Benefits and Intergenerational Transfers

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Time and Money: Social Security Benefits and Intergenerational Transfers

By Anita Mukherjee*

Social Security is the single largest component of the federal budget, and looming deficits spell a range of possible changes that could reduce individual earnings from this program. The current Social Security Trust Fund, which helps support 62 million recipients, is expected to deplete by 2037 (Goss 2010). The eligibility age has increased from age 62 at the program's inception to age 67 for current cohorts, and other proposed changes include a cap on lifetime benefits or a reduction in benefits for high earners. With such major changes potentially on the horizon, it is critical to understand how this form of income support interacts with the informal care provided by intergenerational transfers.

This paper examines the impact of Social Security benefits on both pecuniary and non-pecuniary intergenerational transfers. Specifically, I examine how the probability (and amounts) of monetary transfers between parents and children evolve with respect to parental receipt of Social Security benefits. Both inter vivos transfers and intended bequeathing behaviors are studied. The non-pecuniary transfers examined include the hours of help provided between parents and children. Since Social Security is currently the dominant source of late-life income replacement, the current analysis also sheds light on how income more generally impacts intergenerational transfers.

Using detailed panel data on the economic behaviors of older Americans, I find that parents behave altruistically and view any type of resource transfer to their children as a normal good: parents with more Social Security benefits provide both more money and hours of care to their children. Children, however, appear to reduce both their provision of financial transfers and hours of help with increases in parental benefits. This pattern suggests that changes to Social Security benefits and related policies will have significant impacts on the next generation. For example, reductions in benefits, especially if not complemented with improved long term care, may impact the labor force participation of program recipients' children due to increased caregiving burdens (Løken, Lundberg and Riise 2017; Coe, Goda and Van Houtven 2015).

The research question also fits within the large economic literature on intergenerational economic ties that explores the roles of altruism and strategic bequests (Altonji, Hayashi and Kotlikoff 1997; Bernheim, Shleifer and Summers 1985). The present analysis shows that increased Social Security benefit is linked with parents providing resources to children even without expectation of reciprocal caregiving, supporting the theory of altruistic transfers.

I. Data and Background

The primary source of data is the Health and Retirement Study (HRS), which is a panel survey that collects detailed information about economic and family behaviors for older Americans. The survey is conducted biennially, and the present analysis uses 11 waves of the data spanning 1992 to 2012. The survey's focus on older Americans and their families makes it uniquely appropriate for examining questions related to Social Security, as a large number of surveyed individuals receive payments from the program.

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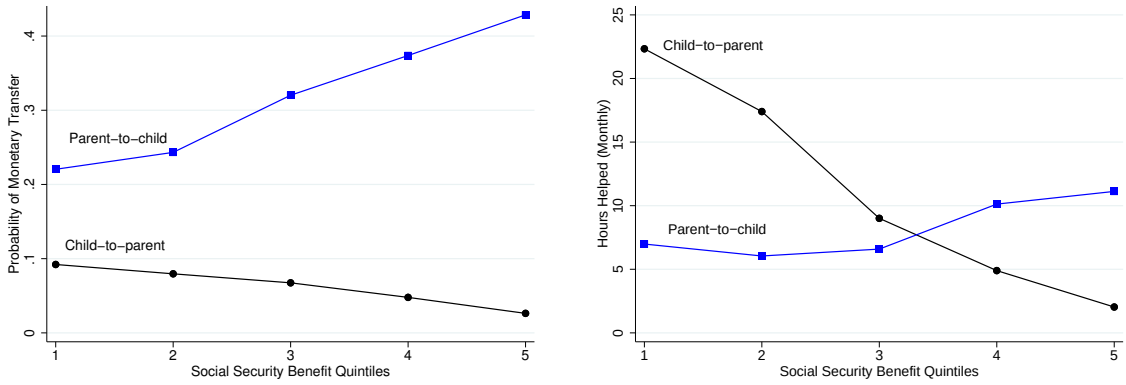

Panel A: Probability of Monetary Transfer *Panel B: Hours of Help Transferred*

Figure 1. : Intergenerational Transfers by Parental Social Security Benefits

Notes: Panel A shows the probability of monetary inter vivos transfers as a function of Social Security benefit quintiles. Panel B analogously shows the monthly number of help hours transferred between parents and children.

The HRS provides key data on Social Security benefits along with information on transfers of money and time between parents and children. Regarding monetary transfers to children, survey questions ask respondents whether they made any transfer to a child (exceeding $500) since the last survey (about two years). A subsequent question collects information on the total amount of monetary transfers to all children over the same time period. The HRS also includes survey questions on planned bequests: specifically, respondents are asked the probability (0 to 1) with which they expect to bequeath more than $10,000 or $100,000, respectively. In recent work, McGarry (2016) examines how these variables related to parental giving change over the lifecycle with respect to a variety of child outcomes and characteristics.

Regarding transfers of time, the main form of parent-to-child giving is in the form of care for grandchildren. The HRS asks respondents to provide the number of hours that they spent providing grandchild care since the last survey. Children can provide various forms of help to parents, however, so the survey questions capturing child-to-parent transfers of time are broad. The HRS simply asks respondents about the number of days and hours of help received in the last month by each child. These questions refer to any kind of help, including caregiving.

The transfers of money and time can be linked to a rich set of demographic controls and other respondent behaviors. Of particular interest as controls in this study are the variables relating to respondent age, marital status, and number of children, since these are highly predictive of intergenerational transfers. To rule out possible confounds, I also examine data containing information on the respondent's working status, purchase of long term care insurance, and household wealth.

The main sample consists of 55,337 respondent-wave observations and includes household heads with at least one child. The average annual Social Security benefit within the household for these individuals is $16,400 (in 2012 dollars). The average age is 74, and the average number of children is 3.4. Over half of respondents (54 percent) have a living partner, and one-third of the household heads are female. Also, one-third of the sample has education less than high school. With regard to race and ethnicity, 15 percent of the sample is Black and 7 percent of the sample is Hispanic.

There were significant parent-to-child transfers of money and time. About one-third of respondents (31 percent) transferred at least some money to a child since the last survey, and the average amount of total transfers was $4,300. Conditional

on any transfer, the amount was about $13,740. The majority of respondents also indicated strong bequeathing intentions. Most respondents (65 percent) planned to leave a bequest of $10,000 or more, and 41 percent planned to leave a bequest of $100,000 or more. Time-wise, 14 percent of parents devoted some care for grandchildren, averaging 8.1 hours per month. (Since this latter variable is measured as the number of hours of care provided since the last survey, the number is divided by 24 to obtain a monthly amount.)

Children also provide meaningful transfers of money and time to their parents. The probability of any child-to-parent money transfer since the last survey was seven percent, and the average amount of transfer was about $350. Conditional on any giving, this amount was $5,280. Child-to-parent transfers of time occur with 11 percent probability and amount to 2.5 days of help, or 11.7 hours of help (measured by a separate survey question), in the month prior to the survey.

Figure 1 shows the patterns in intergenerational transfers of time and money by Social Security benefit quintiles. Panel A shows that parents increase monetary transfers with quintiles of Social Security benefits, while children reduce such transfers along this dimension. Panel B shows that parents increase grandchild care with quintiles of Social Security benefits, while children respond by reducing their hours of help. These patterns persist in the formal regression analysis that follows.

II. Empirical Findings

I estimate several regressions examining the relationship between Social Security benefits and transfers using the rich set of outcomes and controls afforded by the HRS. These regression models are specified as:

$$Y_{it} = \alpha + \beta\ SocSec_{it} + \gamma X_{it} + \lambda_t + \epsilon_{it},$$

in which the outcome Y_{it} represents various measures of transfers between parents and children. The estimates are obtained using OLS, probit, or tobit models depending on the outcome studied, though this choice does not drive the results. The main coefficient of interest is β as it captures the impact of Social Security benefits on the different transfers. All the regressions use respondent-level information provided by the household head, and as such, they are weighted at the respondent level. To account for correlated behaviors within the household across years, all standard errors are clustered at the household level.

The covariates include the respondent's education level (dummy for whether it is less than high school), age and age squared, gender, region of birth, number of children, partner status (whether never married, divorced or separated, or widowed), race (whether Black or "other"), and ethnicity (whether Hispanic). They also include the respondent's household wealth and whether he or she is currently working or has purchased long term care insurance. The reason for these latter controls is that they may interact with informal care decisions, as shown in Mommaerts (2016) and Brown, Goda and McGarry (2012). Additionally, bequest motives may reduce the decision to insure late-life care (Lockwood 2014) or may be present to compensate help received (Groneck 2016). The control λ_t includes linear, quadratic, and cubic controls for time, measured as years since 1990.

The present analysis is limited to associations, and further research is required to establish the causality of the linkages studied. If there are omitted variables that impact both Social Security benefits and intergenerational transfers, the estimates of β will be biased; the possibility of such bias for other outcomes has been documented in prior work (e.g., Gelber, Isen and Song 2016; Moran and Simon 2006). To mitigate these concerns, the estimated regressions control for factors such as education, wealth, and working status, which absorb some of the potentially endogenous variation in Social Security benefits.

A. Evidence on Monetary Transfers

Table 1 shows the regression results on monetary transfers. Column (1) shows that each $10,000 in benefits is associated with

Table 1—: Impact of Social Security Benefits on Monetary Transfers

	Parent-to-child				Child-to-parent	
	(1) Any transfer?	(2) Amount of transfer	(3) Plan Bequest > 10K?	(4) Plan Bequest > 100K?	(5) Any transfer?	(6) Amount of transfer
Social Security Benefits	0.022	0.303	0.041	0.049	-0.005	-0.074
	(0.004)	(0.057)	(0.004)	(0.005)	(0.002)	(0.034)
Observations	40,239	40,239	34,176	33,728	40,102	40,102

Notes: This table shows the coefficient on Social Security Benefits for separate regressions in each column. All dollar amounts shown are in $10,000. Covariates not shown are described in Section II. The dependent variable in columns (3) and (4) is a number between 0 and 1. Columns (1) and (5) report mean marginal effects from probit models, columns (3) and (4) report OLS estimates, and columns (2) and (6) report mean marginal effects from tobit models. Robust standard errors are clustered at the household level and shown in parentheses.

a 2.2 percent additional likelihood of providing a transfer to at least one child. The amount transferred, shown in column (2), is also statistically significant: each $10,000 in benefits is linked with $3,030 in additional transfers to the next generation. Since the transfers are measured over a span of two years, this estimate implies a pass-through rate of Social Security benefits from parents to children of about 15 percent.

Social Security benefits also appear linked to bequeathing behavior. Columns (3) and (4) of Table 1 show that each $10,000 in benefits increases the probability of a planned bequest of $10,000 or more by 4.1 percent, and of $100,000 or more by almost 5 percent. These changes are statistically significant and represent effect sizes of about 6 and 12 percent, respectively. Columns (5) and (6) show that each $10,000 in benefits is linked to a 0.5 percent reduction in any child-to-parent financial transfer since the last survey (from a base of 7 percent), and a $740 reduction in the transfer amount (from a base of $350).

B. Evidence on Time Transfers

Table 2 shows the regression results on transfers of time. Column (1) in this table shows that a $10,000 increase in Social Security benefits is linked with a 1.1 percent increase in the likelihood of providing any childcare (for grandchildren), from a base of 14 percent. Measured in hours of such care in column (2), the estimate implies an increase of 8 hours each month, a doubling over the baseline. Children also respond in meaningful ways. The regression estimates in columns (3) and (4) show that each $10,000 in benefits is associated with a slight reduction in providing any help, and with about 2.6 fewer days of help. Measured in hours of help in column (5), the reduction is about 17 hours each month. These effects on the days and hours of help are large compared to their bases of 2.5 days and 11.7 hours per month. These correlations are revealing given that they are conditional on many factors, including parental purchase of long term care insurance.

III. Discussion

The purpose of the Social Security program is to help the elderly population avoid poverty and maintain some stability in lifestyle even after their prime earning years. This goal is increasingly important as individuals enter late life with greater levels of debt and financial fragility than previous generations (Lusardi, Mitchell and Oggero 2017). As such, it is important to consider the ways in which this income receipt is used. This paper shows that Social Security benefits are linked with increased monetary transfers to the next generation, and the pass-through rate of benefits from parents to children is at least 15 percent. Additionally, Social Security benefits appear to alleviate caregiving burdens on the next generation, so changes in the benefit structure may cause financial, emotional, or even physical burden on the children of re-

Table 2—: Impact of Social Security Benefits on Time Transfers

	Parent-to-child		Child-to-parent		
	(1) Any childcare?	(2) Hours of childcare	(3) Any help?	(4) Days of help	(5) Hours of help
Social Security Benefits	0.011	7.905	-0.008	-2.598	-17.313
	(0.003)	(2.478)	(0.003)	(0.979)	(6.902)
Observations	31,986	31,986	39,854	39,848	39,848

Notes: This table shows the coefficient on Social Security Benefits for separate regressions in each column. All dollar amounts shown are in $10,000. Covariates not shown are described in Section II. Columns (1) and (3) report mean marginal effects from probit models and columns (2), (4), and (5) report mean marginal effects from tobit models. Robust standard errors are clustered at the household level and shown in parentheses.

tirees. These nontrivial interactions of Social Security benefits with both pecuniary and non-pecuniary intergenerational transfers should be considered as the program undergoes future changes.

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