

Dynamic Altruistic Transfers, Parent College Support and College Attainment*

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Abstract

The paper studies how transfer and bequest between old parents and their adult children shape parents' college investment. First, I study how parents adjust consumption when their adult children are richer or poorer relative to them. Second, I build and estimate an altruistically linked overlapping generation model with endogenous college decisions and incomplete markets in which parents and children interact strategically to quantify how future transfers to or from their children shape parents' savings, college support to their children, consumption, and children's college attainment, particularly between the low-skill children with high-income parents.

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1 Introduction

In the United States, parents play a fundamental role in financing their children’s college education. Even when, in the year 2017, the government spent \$248 billion in college aids¹, the average household with two dependants children, it is expected to contribute \$6500 per children each year². The paper studies parents’ motives to invest in their children’s college education, particularly if college transfers can be rationalized as an investment to avoid future transfers and bequests to their children. Then, I study if financing children’s college increases parents’ later consumption and affects college attainment.

In the first part, I study how parents’ consumption depends on the relative position of their adult children in the income distribution with respect to them. First, I find that parent adjust their consumption depending on their children’s relative position. Inter-vivos transfers and bequests partially explain this adjustment. Then, I build and calibrate an altruistic dynamic heterogeneous model with endogenous college decisions. Parents can transfer money to their children conditionally in attending college or save for later consumption, transfer to their adult children, or bequests. Then I use the model to understand how children’s education affects parents’ consumption and its role in parents’ college support and college attainment, particularly in that affluent low-skill children have higher attainment rates than poor low-skill children.

Table 1 shows the fraction of children that graduate from college by parents’ wealth and children’s ability for the NLSY97 cohort. First, we can observe that graduation rates are increasing in child’s ability. Second, conditional on ability, parent wealth increases college graduation rates. Children in the lowest ability quartile with parents in the highest wealth quartile are 74% more likely to graduate from college than children with parents at the bottom of the wealth distribution. For children in the top ability quartile, this difference decreases to 39%, which is still substantial. [Belley and Lochner \(2007\)](#) shows that parent income and wealth are not relevant to high school completion, but it is relevant for college graduation, particularly among low-ability children. Then, they show in a model that credit constraints can explain these facts. [Brown et al. \(2012\)](#) shows that children’s college attendance depends

¹<https://research.collegeboard.org/pdf/trends-student-aid-2019-full-report.pdf>

²<https://www.forbes.com/sites/troyonink/2017/01/08/2017-guide-to-college-financial-aid-the-fafsa-and-css-profile/6ee3d28f4cd4>

on their parents' willingness to support their college education, and heterogeneity in parents' altruism is a relevant determinant for which kids' college aid would affect college graduation. On the other hand, [Heckman and Mosso \(2014\)](#) argue that the college enrollment of more affluent children might be a consequence of paternalism if education is a normal good and not necessarily a result of borrowing constraints.

In the paper, I study two possible explanations for the higher attainment rates among affluent low-ability kids. The first is that the college return is positive for low-ability children, but they face borrowing constraints that only can be relaxed by their parents. The second is that the return of college is negative for low-skill children; however, parents decrease the cost of attending college for their children to reduce future transfers and bequest. The paper contributes to understanding parents' and children's motives for college enrollment and how this decision is influenced by future interaction.

Table 1. Children College Attainment by Parent Wealth and Child Ability (NLSY97)

| Parents' Wealth\Child's Ability | 1 | 2 | 3 | 4 |
|---------------------------------|------|------|------|------|
| 1 | 0.19 | 0.24 | 0.33 | 0.53 |
| 2 | 0.24 | 0.30 | 0.42 | 0.53 |
| 3 | 0.26 | 0.40 | 0.51 | 0.63 |
| 4 | 0.33 | 0.46 | 0.62 | 0.74 |
| $\Delta\%(Q4 - Q1)$ | 74% | 91% | 87% | 39% |

Parents play a fundamental role in financing their children's education, and old parents interact with their adult children. As a result, college attainment affects children's and parents' consumption later in life. For this reason, college returns should be analyzed from a household perspective and not only from a student perspective. Changes in college costs and policies that relieve education financial constraints or increase college attainment have different returns once we include the effects on the parents, creating an interaction between two of the most important government programs: College Financial Aid and Social Security Retirement.

Old parents' and adults children's consumption are linked. I find that wealthy parents

with low-income kids consume \$3300 less per year than wealthy parents with high-income kids. On the other hand, poor parents with high-income kids consume up to \$5300 more per year than poor parents with low-income kids. To understand how their consumption are related, I study inter-vivos transfers and bequest. The relationship in consumption is explained partially by higher transfers to less well-off children, and consumption increases by lower bequests to wealthier children. However, the amounts reported in the data are insufficient to explain the total variation in consumption. Then, I study transfers from children to parents, finding that children’s transfers to their parents are small, suggesting that the return of high-income children for parents is a reduction in transfers and bequests to their children, allowing them to increase their consumption. Then, I study if parents insure their children’s consumption. Similar to [Attanasio et al. \(2018\)](#), I do not find evidence that parents provide consumption insurance to income shocks to their children, but a 1% change in child consumption changes his parents’ consumption in 0.09%. Finally, using NLSY97 data, I examine how college parents’ transfer depends on children’s ability and parents’ wealth. I find that average parental transfers during college increase with parents’ wealth but not with children’s ability.

Then, I build and estimate a dynamic model. It is important to note that the children’s income distribution position is endogenous to their parent’s decisions. For this reason, I use a model to quantify the effect on parent consumption of investment in their children’s college education, inter-vivos transfers, and bequest in a non-cooperative and without commitment framework. To do this, I add college decision to a heterogeneous dynamic altruistic model similar to [Nishiyama \(2002\)](#), and [Boar \(2020\)](#). To estimate the model, I use the data’s college tuition and credit constraints. Then, I estimate the college premium from the NLSY97 cohort. Finally, I calibrate parents’ altruism, the ability return, and the inter-generational persistence of ability targeting college attainment by parents’ wealth-ability quartiles, college premium, and income volatility. Finally, I evaluated the model’s fit to non-target moments to see if it can explain college parent investment and the difference in college attendance by ability.

The model explains the highest attainment rate among affluent low-income kids, why wealthy parents with poor children consume less but not why poor parents with rich children consume more. The model cannot generate considerable bequests, which is how poor parents

with higher-income children increase their consumption in the data. Part of the decrease in consumption of wealthy parents with poor children is a result of parents' educational investment in low-ability children who are more likely to be poorer than their parents in the future. Even when parents' transfer decreases their savings and future consumption, welfare improves as the college return for these children is higher than saving the money and transferring to them later.

Finally, I analyze the difference between a model with dynamic transfers in which parents can transfer each period to a model in which parents are only allowed to transfer when children go to college as in [Abbott et al. \(2019\)](#). I found that in a model with dynamic transfers, agents save less for the moment that they become parents as they give a smaller college transfer. However, parents have more savings as they get older, as it is optimal for them to have assets in case their kids get a negative shock. For this reason, in a model with dynamic altruism, parents consume more when they are young, and their children are not yet in college but consume less after college compared to a model where parents and children only interact when they attend college. As a result, the implications for parents and children of changes in college cost or retirement income depend on dynamic interactions that are important to analyze in future research.

2 Literature

The paper relates to many branches of the literature. First, it is connected to the research that explores the role of parents' investment in children's education, college attainment, and persistence in income across generations. Some examples of the relevance of parents in children's education investment are: [Ríos-Rull and Sanchez-Marcos \(2002\)](#) who study the sex college attainment ratio, [Lee and Seshadri \(2019\)](#) look childhood and college investment role in the inter-generational persistence of wealth and income persistence, [Abbott et al. \(2019\)](#) analyze college attainment and the interaction with government financial aid or [Daruich and Kozlowski \(2019\)](#) who explore the role of the number of children in parents education investment and the inter-generational persistence of income.

Second, it relates to the literature on liquidity constraints and college attendance. [Carneiro and Heckman \(2002\)](#) and [Keane and Wolpin \(2001\)](#) don't find evidence of liquidity constrain

for the NLSY79 cohort. However, [Belley and Lochner \(2007\)](#), [Bailey and Dynarski \(2011\)](#), and [Lochner and Monge-Naranjo \(2011\)](#) find that liquidity constraints affect college attendance, particularly for low-ability kids. The parents' role in providing the difference between college cost prices and federal financial aid was studied by [Brown et al. \(2012\)](#). They found that children with parents less likely to provide financial assistance are borrowing constrain, which leads to lower college attainment.

Third, it is related to the literature on consumption insurance within the family. The paper is focused on the insurance provided by parents to their children. The closest works are [Altonji et al. \(1992\)](#) and [Hayashi et al. \(1996\)](#), which reject perfect insurance inside family members using food consumption. More recently, [Attanasio et al. \(2018\)](#) found significant potential insurance between parents and children. Still, individuals' consumption responds differently to their own or family income shocks, which shows that these opportunities are not fully exploited. [Choi et al. \(2016\)](#) find that aggregate family income affects individuals' consumption. However, the effect is considerably smaller than the impact of shocks on their income. [McGarry \(2016\)](#) show that parents transfer a considerable amount to adult children, particularly when they suffer large adverse shocks like unemployment or divorce. [Kaplan \(2012\)](#) shows that parents insure children allowing them to move back home after negative income shocks, and [Boar \(2020\)](#) documents that parents accumulate savings to insure their children against income risk.

My work is also related to the literature on parents' consumption after retirement, inter-vivos transfer, and bequests. [Nishiyama \(2002\)](#) study the role of inter-generational transfers in explaining wealth distribution. The role of bequest motives on saving has been reviewed by [Lockwood \(2018\)](#) and [De Nardi et al. \(2016\)](#), and how parents provide bequest and inter-vivos transfers to their children by ([Kopczuk \(2007\)](#), [Barczyk and Kredler \(2018\)](#) and [Barczyk et al. \(2019\)](#)). Finally, [Haider and McGarry \(2018\)](#) study the effect of college parents' spending in later transfer to their children, not finding evidence that later transfers offset differential college spending within their children.

On the quantitative side, my work is related to the literature that studies family through dynamics models without commitment in noncooperative settings ([Attanasio and Ríos-Rull \(2000\)](#), [Nishiyama \(2002\)](#), [Barczyk and Kredler \(2014a\)](#), [Barczyk and Kredler \(2014b\)](#) and

Boar (2020)). My contribution to this literature is to endogenize college decisions in Nishiyama (2002) dynastic model using Boar (2020) assumptions on the timing of parent-children interactions to simplify the model solution.

3 Empirical Evidence

In this section, I discuss the empirical evidence of how parents' relative position regarding their children affects their consumption after they leave their parents' homes. First, parents' consumption depends on their children's relative position in the income distribution, but it is not affected by children's income shocks. This relation is partially explained by inter-vivos transfer and bequest. Then, I examine how parents invest in children depending on ability and wealth. On average, parents' college transfers are increasing in wealth but not on ability.

3.1 Data

I use the Panel Study of Income Dynamics (PSID) and the Health Retirement Survey (HRS) to study how parents' household consumption depends on their adult children's income and wealth. In addition, I use The National Longitudinal Survey of Youth 1997 (NLSY97) to analyze how college attainment and parental support depend on children's abilities. I used the sample data from 1999 to 2017 since PSID only collected consumption data from this year onward. Given my interest in analyzing how adult children's relative positions affect parent consumption, I only use observation from children older than 26 years old and parents older than 50. Because I rank individuals, I drop parents and children born during years when less than 100 individuals in the sample were born. I use the PSID FIMS file to link parents with children. As a result, my sample has 8944 observations corresponding to 2338 parent-child pairs. Finally, I deflated all nominal variables to 2016 prices.

The HRS collects consumption information through the Consumption and Activities Mail Survey (CAMS), which measures household expenditure over the previous 12 months. First, I use the household consumption measures built by RAND, which comprise the sum of all household consumption, including durable consumption, housing consumption, transportation consumption, and non-durable spending. I also use household spending, which is defined as the sum of all of the expenses in the household, including durables, non-durables, trans-

portation, and housing spending. The difference between spending and consumption is that the last incorporates durable goods and housing, which are bought in one period but consumed during an extended time. Next, I link the CAMS file with the HRS Longitudinal File, which has detailed information on individuals' demographics, income, wealth, and health. Finally, I merge this data to the RAND Family Data, which has information on respondent adult children's income, in-kind transfers, and inter-vivos transfers from 1992-2014. Like before, I only consider children above 26 years old and parents older than 50 and drop parents and children born in years when less than 100 individuals were born. After this, I have a sample size of 19179 parent-child pairs and 98861 observations.

Finally, I use The National Longitudinal Survey of Youth 1997 (NLSY97) to study children's college attainment, parents' support, college tuition, and wages after college. The NLSY97 is a sample of Americans born between 1980-84 who were first interviewed in 1997 and are followed until today. This survey has detailed information on individuals during their college time. The sample size of students in which data on parents' wealth and children's ability is not missing is 5400 individuals and 97434 observations.

3.2 Parents' Consumption and Children's Position in the Income Distribution.

In this subsection, I measure the effect on parents' consumption when one of their children is in a different position in the income distribution than themselves. First, I rank parents by wealth to individuals born in the same year. As many of them are retired, they don't report labor income, and wealth is a better predictor of their well-being. In the case of children, I rank them by wealth and income, finding that only the child's position in the income distribution affects his parent's consumption. This result is reasonable as young adults are starting to accumulate assets making income a better predictor of their welfare. For this reason, I refer to the difference in the position between parents in the wealth distribution and children in the income distribution as the wealth-income distribution difference.

Children's position in the income distribution is endogenous to parents' decisions and children's characteristics inherited from their parents. Therefore, I analyze their effect on parents' consumption when children are older than 26 years old. I assume that at this

point, parents have finished investing in each child, and they cannot directly affect their children's relative position in the income distribution. However, given the children's position, parents can support them through transfers or bequests, affecting parents' and children's consumption.

To measure the difference between parents and children in the wealth-income distribution, I construct a rank-rank variable to gauge the relative distance between them in the following form:

1. I rank parents in quartiles by wealth relative to all individuals born in the same year.
2. I rank children in quartiles by income or wealth depending on the specification, relative to all individuals born the same year.
3. Then, I construct a variable $T^{Q_i^p - Q_j^c}$, which is the rank-rank difference between the parents and each of their children in a given year.

For example, for a parent in the fourth quartile who has two children in the first quartile, then $T^{(Q_4^p - Q_1^c)}$ is equal to three. So then, I estimate the following regression:

$$\text{Parents Household Consumption}_{i,t} = \beta_0 + \sum_{q=-3}^3 \beta_q T_{i,t}^q + \beta_X \mathbf{X}_{i,t} + \varepsilon_t + \epsilon_{i,t}$$

i is the parent household, $T_{i,t}^q$ is the variable described before, $\mathbf{X}_{i,t}$ is a set of controls (parents' total wealth, parents' non-financial wealth, parents' household income, parents' quartile in the wealth distribution, parents household head in the labor force, number of people in the parents household, parents head born year, parents head education years, parents household US state, parents head age four order polynomial, rent or own house, parents' race and parents' religion), and ε_t is a year fixed effect.

Table 2. Parent Consumption Given Kids Transition using PSID data

| | (1) Ranking by Children's Wealth | (2) Ranking by Children's Income |
|------------------------------------|----------------------------------|----------------------------------|
| | Parent Consumption | Parent Consumption |
| Child 3 Quartiles Below Parents | 718 (0.44) | -1969 (-0.86) |
| Child 2 Quartiles Below Parents | -380 (-0.34) | -1387 (-1.23) |
| Child 1 Quartiles Below Parents | -246 (-0.30) | -1446** (-2.04) |
| Child Same Quartiles Below Parents | -170 (-0.27) | 91 (0.14) |
| Child 1 Quartile Above Parent | 332 (0.50) | 1371** (2.25) |
| Child 2 Quartile Above Parent | 1492** (2.18) | 2414*** (3.60) |
| Child 3 Quartile Above Parent | 1145 (1.08) | 3393*** (2.93) |
| Constant | -16675 (-0.54) | -18993 (-0.62) |
| Observations | 7083 | 7083 |

Notes: t statistics in parentheses, standard error cluster by household. * $p < .10$, ** $p < .05$, *** $p < .01$.

Table 2 shows the results of the regression. The first column displays the result ranking children by wealth. In this case, the relative position of parents with respect to their children does not affect their consumption. The second column shows the result ranking children by income. Now, the relative position of a child in the income distribution to their parents in the wealth distribution has a significant effect on parents' consumption. For example, a parent in the first quartile with a child in the fourth quartile consumes \$5300 more each year than a parent in the first quartile with a child in the first quartile. On the other hand, a parent in the fourth quartile with a child in the first quartile consumes \$3300 less each year than a

parent in the fourth quartile with a child in the fourth quartile.

The effect of children on parents' consumption increases with the relative distance between them in the wealth-income distribution. A possible explanation for the fact that children's relative position in the income distribution affects parents' consumption but not the relative position in the wealth distribution is that children are young adults who are starting to accumulate assets. The average age of a child in the sample is 32 years old, making income a better predictor than the wealth of children's well-being and their position in society.

As a robustness exercise, I realize the same estimation using HRS data, finding similar results than in PSID. Unlike PSID, in HRS, children's household income is reported by parents, which answers in which of eight brackets are their children. Unfortunately, parents do not report their children's income in every survey. For this reason, I take the average income of each child during the observed periods ranking them respective to all other children born the same year. To construct my variable of the relative position of children respect to their parents, I average parent total wealth during the observed sample period. Then I rank them respect to all parents born in the same year. Finally, I estimate the same regression as before.

Table 3 displays the results. Column 1 shows the results using RAND consumption measure, and column 2 uses household expenditure. PSID and HRS consumption measures differ because the first does not impute durable consumption. However, this is a small fraction of HRS's total consumption, and both measures give the same conclusion. Parents with a child three quartiles below them in the income distribution reduce consumption in \$5500 each year (vs. \$3300 in PSID) to a parent in the same quartile. Parents with a child three quartiles above them increase consumption in \$1100 (vs. \$5000 in PSID) to a parent with a child in the same quartile. As in PSID, the effect on parent consumption is increasing in the relative distance between children. Both surveys give similar conclusions. However, the magnitude of the results differs in both surveys, particularly in that in PSID, the increase in consumption of poor parents with rich children is higher than in HRS. In HRS, the decrease in consumption of wealthy parents with poor children is higher.

Table 3. Parent Consumption Given Kids Transition

| | (1) | (2) |
|---------------------------------|----------------------|----------------------|
| | Total HH Consumption | Total HH Expenditure |
| Child 3 Quartiles Below Parents | -4636*** (-3.56) | -2431* (-1.84) |
| Child 2 Quartiles Below Parents | -1055* (-1.85) | -457 (-0.76) |
| Child 1 Quartile Below Parents | -44 (-0.12) | 83 (0.22) |
| Child Same Quartile Parents | 914*** (3.09) | 906*** (3.10) |
| Child 1 Quartile Above Parent | 1273*** (4.01) | 1469*** (4.22) |
| Child 2 Quartiles Above Parents | 1325*** (3.38) | 1764*** (3.83) |
| Child 3 Quartiles Above Parents | 2113*** (3.49) | 2556*** (3.98) |
| Observations | 19033 | 19033 |

Notes: t statistics in parentheses, standard error cluster by household. * $p < .10$, ** $p < .05$, *** $p < .01$.

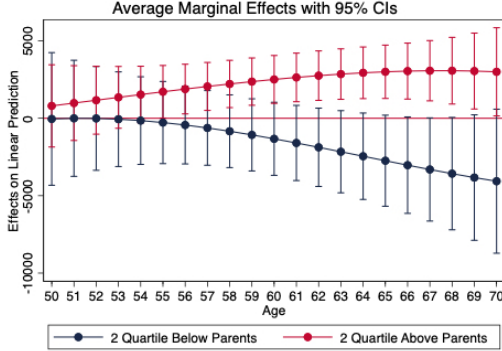
Finally, I study if the effect on parent consumption of having a child above or below them in the income-wealth distribution is heterogeneous on parent age. I interact a third-order polynomial with the relative position between parents and child, as shown in equation 1. The results are shown in figure 1. Figure 1a plots the marginal effect of having a child two quartiles above or below the parent quartile to a parent with a child in his same quartile. Figure 1b shows the same estimation, classifying children if they are above or below their parents in the wealth-income distribution but not differentiating by the number of quartiles.

In both cases, the relative position of a child in parent consumption is not significant until 60. After that, we can observe a gap between parents with poor and rich children. The gap appears as parents with poor children relative to them considerably decrease consumption compared to parents with children in the same quartile. On the other hand, the difference in the consumption of parents with children richer than them to parents with children in the same quartile is very stable across ages.

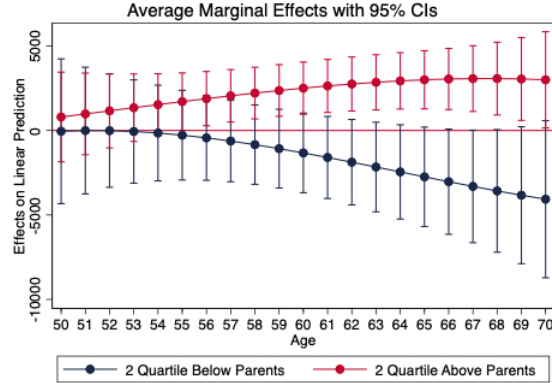
$$\text{Parents Household Consumption}_{i,t} = \beta_0 + \sum_{q=-3}^3 \beta_q T_{i,t}^q f(\text{Age}_t) + \beta_X \mathbf{X}_{i,t} + \varepsilon_t + \epsilon_{i,t} \quad (1)$$

Figure 1. Effect of children position in the income distribution across age

(a) Effect of children position in the income distribution across age (2 Quartiles Above or Below)



(b) Effect of children position in the income distribution across age (Above or Below)



Notes:

3.3 Inter-vivos Transfers, Bequest and Income Distribution.

In this section, I analyze the role of transfer and bequests in parents' and children's consumption and if they can explain why parents adjust their consumption depending on the relative position of their children on the income distribution. I do this analysis using HRS as it is more detailed than PSID in transfers and has more observations on older children-parent populations than PSID, which is necessary to study bequests. I examine the effect of

how inter-vivos transfers and bequests depend on the relative position of their children using differences in transfers between siblings as shown in the following specification:

$$\text{Inter-vivos Transfer}_{ijt} = \beta_0 + \sum_{q=-3}^3 \beta_q T_{ij,t}^q + \beta_X \mathbf{X}_j + \varepsilon_i + \epsilon_{jt} \quad (2)$$

where i is the parent household, j is the child, $T_{ij,t}^q$ is the relative position of the child i to his parents j , \mathbf{X}_j is a set of controls (the year that child born and child blood relationship) and ε_i is a family fixed effect.

The estimation results are shown in table Table 3. In column 1, we can see that children above their parents in the income distribution transfer more than children with parents in the same place of the income-wealth distribution. However, these differences in transfers are not economically significant. For example, on average, a child in the fourth quartile with a parent in the first quartile transfer \$100 more each year than a child in the fourth quartile with parents in the fourth quartile. On the other hand, parents with children below them in the income-wealth distribution transfer more. For example, a parent in the fourth quartile transfers \$500 more each year to a child in the first quartile than a parent in the fourth quartile with a child in the fourth quartile. However, these amounts are insufficient to explain the changes in parent consumption.

Then, I analyze how transfers change across parents' age, interacting a third-order polynomial with the parent-child relative position in the same form as in subsection 3.2. The results are displayed in figure 2. In figure 2a, we see transfers from parents to children. The difference in transfers from rich parents to poor children is flat between 50 and 70 and increases after 70. The difference in transfer from poor parents to rich children increases across ages, but there is a small decrease after 70. On the other hand, in figure 2b, we can see transfers from children to parents. The difference in transfers from rich children to poor parents increases after 70. The difference in transfer from poor children to rich parents is flat across time and not significantly different from zero. Both results agree that parents with poor children consume less than parents with rich children, and the difference increases with age.

Appendix A explores if parents receive other types of support from kids depending on the

relative position between them in wealth-income distribution. I found that children above their parents in the income distribution are slightly more likely to help with health costs and less likely to help them in daily life activities than children in the same position as their parents. On the other hand, parents expect more help from children above them in the wealth-income distribution than children in the same position.

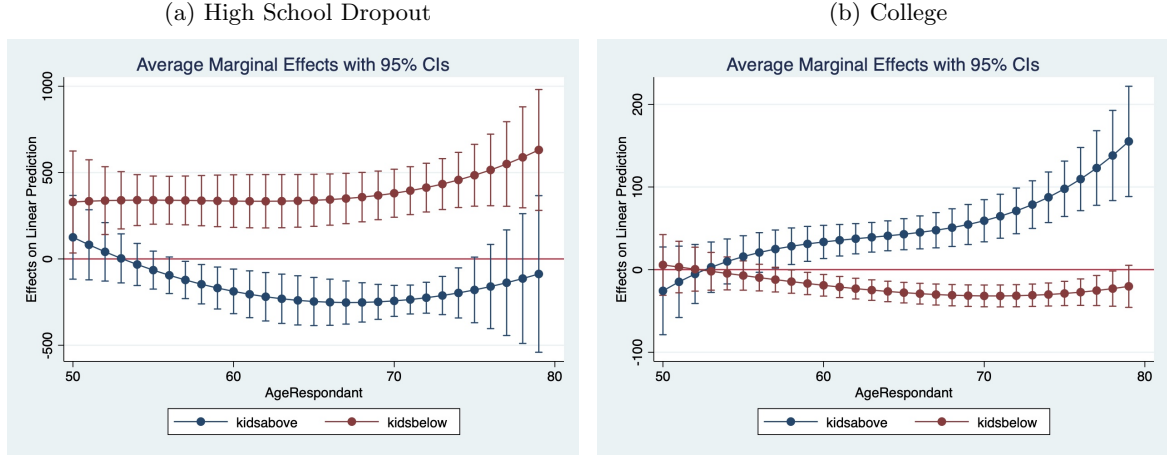
Table 4. Parent Transfers and bequest by Relative Position in the Income Distribution

| | (1) | (2) | (3) |
|---------------------------------|--------------------------------------|--------------------------------------|-------------------------------|
| | Annual Transfer Kids to Parents US\$ | Annual Transfer Parents to Kids US\$ | Total Wealth Last Period US\$ |
| Child 3 Quartiles Below Parents | -32*** (-2.73) | 512*** (6.18) | -31175 (-0.97) |
| Child 2 Quartiles Below Parents | -21*** (-5.28) | 306*** (7.77) | 19839 (1.20) |
| Child 1 Quartile Below Parents | -18*** (-4.26) | 90*** (2.93) | 5838 (0.28) |
| Child Same Quartile Parents | | | 5052 (0.56) |
| Child 1 Quartile Above Parents | 14*** (4.27) | -94*** (-6.56) | -25682*** (-3.43) |
| Child 2 Quartile Above Parents | 51*** (7.17) | -127*** (-7.78) | -17497* (-1.85) |
| Child 3 Quartile Above Parents | 105*** (6.40) | -179*** (-8.85) | -13380 (-1.61) |
| Observations | 76374 | 79136 | 5197 |

Notes: t statistics in parentheses, standard error cluster by household. * $p < .10$, ** $p < .05$, *** $p < .01$.

Finally, I estimate the relative children's position's effect on the parents' assets in the last survey before death as a proxy for bequests. Results are shown in table 4 column 3. Parents with a child above them in the income distribution have fewer assets in the last survey before dying than parents with a child in the same quartile. However, as before, these results can only partially explain the consumption differences. For example, a parent with a child one quartile above their parents has \$25000 less on assets in the last survey.

Figure 2. Effect of children position in the income distribution in transfer from parent to child and child to parents



Notes:

There are many possible explanations for why transfers and bequests cannot fully account for consumption differences between parents with children in different positions of income distribution. One possible reason is measurement error, as transfers are self-reported by parents. As a result, parents can forget transfers to and from children when they report them in the biannual survey, given that the question is how much they had transferred to and received from each child in the last two years. Another explanation is that parents and children realize transfers which they do not consider transfers when reporting them in the survey. For example, parents can think of them as gifts. A more interesting explanation of the difference in consumption between parents with poor or rich kids that the model developed later in the paper suggests is that part of the decrease in parent consumption comes from the fact that parents spend more on the college education of low-skill children, which are going to be in a lower part of the wealth-income distribution than parents in the future, decreasing parents' saving and future consumption.

3.4 Transmission of Children Income Shocks to Parent Consumption

In this subsection, I analyze if parents' consumption depends on children's income shocks following [Blundell et al. \(2008\)](#). First, I regress parents' and children's log income and log

consumption in predictable individual components, as shown below:

$$\hat{c}_{jt} = \log c_{jt} - \beta_t \mathbf{Z}_{jt} \quad \hat{y}_{jt} = \log y_{jt} - \beta_t \mathbf{Z}_{jt}$$

j is the individual (parent or child), \mathbf{Z}_{jt} are education, born year, gender, number of members of the household, race, labor force status, states and parents, and interactions of year dummies with education, race, employment, labor force status, and parents fix effects. I include parent-year dummies in children and parent income regression to capture family common income shocks. Then using the unpredictable part of consumption and income, I estimate the effect of income shock on parent consumption using the following regression:

$$\Delta \hat{c}_{pt} = \delta_p \Delta \hat{y}_{pt} + \delta_k \Delta \hat{y}_{kt} + \epsilon_{it}$$

where p are parents, k are children, $\Delta \hat{c}$ is the first difference in the consumption residual, and $\Delta \hat{y}$ is the first difference in the income residuals. Following [Kaplan et al. \(2014\)](#), I use future differences in income residuals as instruments.

Table 5. Consumption Pass-Through of Children Income Shocks

| | (1) | (2) | (3) |
|-------------------------------|------------------------------|------------------------------|------------------------------|
| | Δ Consumption Parents | Δ Consumption Parents | Δ Consumption Parents |
| Δ Income Parents | 0.11*** (5.26) | 0.11*** (5.29) | 0.10*** (3.80) |
| Δ Income Children | | -0.01 (-0.89) | -0.03 (-1.44) |
| Δ Consumption Children | | | 0.09*** (6.55) |
| Constant | -0.00 (-0.39) | -0.00 (-0.13) | 0.00 (0.47) |
| Observations | 7945 | 7945 | 5499 |

Notes: t statistics in parentheses, standard error cluster by household. * $p < .10$, ** $p < .05$, *** $p < .01$.

The estimation results are displayed in table 5, where we can see that children's income shock does not affect parent consumption. On the other hand, parent income shocks affect parent consumption with an income-consumption pass-through of 0.11. The previous result is consistent with [Attanasio et al. \(2018\)](#) finding that individual's consumption does not respond equally to their own or family income shocks in PSID data between 1999-2008, where families are defined as parents and the children who have left the parent household unit. In column 3, I add the unpredictable changes in children's consumption controlled by parents' income shocks finding that the correlation between changes in children's consumption and parent consumption is 0.09, meaning that an increase or decrease of 1% in child consumption increase or decrease parent consumption on 0.09%. Even when parents' consumption does not directly respond to children's income shocks, both consumptions are related, consistent with the fact that the position of child income distribution affects parent consumption. A possible explanation for the fact that consumption is related but not income is that in the data, most transfers between parents and their children occur when they face major shocks such

as divorce or unemployment, and change in consumption is a better predictor of uninsurable shocks.

3.5 Parents Support During College and Cognitive Ability

In this subsection, I analyze how parent college transfer depends on children's cognitive ability. Cognitive ability is proxied by the Armed Forces Qualification Test (AFQT). I drop from the sample college dropout as I focus on children who attend and graduate from college. Parent wealth is approximated by total net household worth in the 1997 survey. I rank ability and wealth in four quartiles, calculating the yearly average transfer not expected to be repaid plus allowance from parents to children in college. Results are shown in table 6. The average transfer amount increases in parents' wealth and children's cognitive ability. We do not observe that conditionally on wealth, parents give more to low-ability children to compensate them for higher psych costs. However, I do not observe in the data institution tuition, and high-ability children may attend more expensive institutions.

Table 6. Total non-expected to repay college transfers plus allowances by income and ability quartile (NLSY97 Data)

| Parents' Wealth Quartile \ Child's Ability Quartile | 1 | 2 | 3 | 4 |
|---|------|------|------|------|
| 1 | 2122 | 3252 | 4646 | 2332 |
| 2 | 2070 | 3311 | 6579 | 5478 |
| 3 | 2870 | 4924 | 5901 | 5699 |
| 4 | 5762 | 5830 | 8650 | 8755 |

Notes:

In order to control by observables, I estimate the following linear model:

$$\text{Altruistic Transfer}_{it} = \beta_0 + \beta_1 \ln(\text{AFQT})_i + \beta_X \mathbf{X}_i + \varepsilon_t + \epsilon_{it}$$

i is the child, t is the year, AFQT is the AFQT test percentile, and \mathbf{X}_i is a set of controls

(high school GPA, college GPA, parents' household net worth, kid gender, kid race, parents educational attainment, census region, and college type) and ε_t is a year fixed effect.

Table 7. SAT and AFQT on Parent Support (NLSY97 Data)

| | (1) |
|------------------------------------|---------------------------|
| | Altruistic Transfers US\$ |
| Log AFQT | 151.72 |
| | (0.16) |
| Female | -876.37 |
| | (-0.91) |
| Parents Household Wealth 1997 | 0.01* |
| | (1.89) |
| Private not-for-profit institution | 3397.94** |
| | (2.55) |
| Private for-profit institution | 272.35 |
| | (0.15) |
| Constant | 7429.25 |
| | (1.11) |
| Observations | 182 |

t statistics in parentheses, Robust Standard Errors

* $p < .10$, ** $p < .05$, *** $p < .01$

Notes:

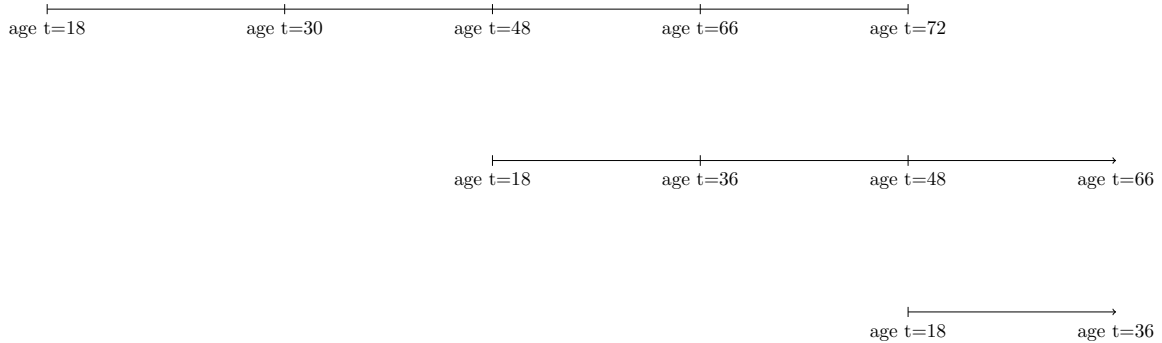
Table 7 shows that differences in college transfers are significant in parents' wealth but not in children's abilities. Then parents seem to support all children with the same amount. However, the sample size of children, which reports all the variables necessary for the regression, is very small.

4 The Model

In this section, I model the interactions between parents and adult children in a non-cooperative and without-commitment setting to quantify how family transfers and bequests shape college transfers, college attendance, and retirement. I build and estimate an overlapping generation heterogeneous agent model similar to [Nishiyama \(2002\)](#), adding a college education decision. The model comprises dynasties formed by one parent and one child. Parents are altruistic to their children's current and future utility. The dynasty separately decides consumption, savings, transfers, bequests, and college. Parents can realize monetary transfer each period and leave a bequest in the last period. As a result, parents and kids behave strategically. The equilibrium properties are derivated in appendix [B](#). Parents and children have incentives to over-consume as children saving reduce future transfers and parent saving reduce children's savings. [Barczyk and Kredler \(2014a\)](#) called this the *dynamic Samaritan's dilemma*.

4.1 Model Demographics

Figure 3. Family Time Line



The economy consists of six years periods. Each agent overlaps their parents between 18 and 42 years old, as shown in figure [3](#). At 42, each child becomes a parent and has an 18-year-old child. The agent retires at 66, and after this, he receives social security until his death at 72. In every period, the parent can transfer money to his child. To keep the state space treatable, parents' income between 46 and 67 only depends on their education. At each moment, half

of the population are parents, and the other half are children. Households face incomplete markets, as they can only save in a non-contingent bond. Parents can transfer money to their children every period and decide on a bequest in the last period before their death. The child receives the bequest in the next period when he becomes a parent.

4.2 Model Decision Timing

The paper follows a stage game in which the parent decides first and children decide conditional on the previous parent's decision, similar to Boar (2020) in contrast to a simultaneous game like Nishiyama (2002) or Barczyk and Kredler (2014a) to simplify the computational solution. The fact that parents' and children's decisions depend on each other choices is important as children decide on education, consumption, and saving, conditional on how much support they expect from their parents in the future. On the other hand, parents can not force children to attend college and cannot commit to not supporting them in the future.

The parent-child game consists of periods divided into subperiod where each decision is made. College attendance is decided in the first period, divided into three stages or subperiods: In the first stage, the child born as a high school graduate decides college enrollment. The model does not have college dropout, so children that attend college will become college graduates $e_c = C$ and the ones that do not attend will continue as high school graduate $e_c = HS$. In the second stage, the parent knowing the child's college decision, decides his consumption c_p , saving a_p , and the money transfer to the child t_p . Finally, in the third and last stage, the child decides on his consumption c_c and saving a_c , given his parent's previous decisions. After the second period, the game comprises two stages. Then, in the first stage, the parent decides on his consumption c_p , saving a_p , and the money transfer to the child t_p . In the second stage, the child decides on c_c and savings a_c , given the parent's choices. In the last period, parent savings a_p will become in bequest b_p that the child receives in the next period.

Children are in the labor market receiving an idiosyncratic income $w\epsilon(\theta, e, z, j)$ that depends on ability θ , education level e , an idiosyncratic income shock z and age j . Parents receive an income of $y(e)$ that depends on their education level. Finally, the ability is transmitted between generations following an AR(1) process with persistence ρ_θ . As a

result, the endogenous states variables are the dynasty assets $a_c, a_p \in A$ and education $e_p, e_c \in E = \{\text{HS}, \text{C}\}$. The exogenous state variables are the child's ability $\theta \in \Theta$ and idiosyncratic income shock $z \in Z$.

4.3 Parent-Child Decision Problem

4.3.1 Parent-Child Problem in Last Parent Period

The parent's last period is the child's last period as he will become a parent next period. I denote this period as $j = T_c$, representing 18 and 72 years old for the child and the parent, respectively. They solve a two-stage game where the parent knows that he dies this period with certainty, and the child will receive all the parent remaining assets as a bequest next period. Then, the child in the second subperiod has the following Bellman equation:

$$\begin{aligned}
V_{j=T_c}^c(a_c, e_c, e_p, \theta, z, t_p, a'_p) &= \max_{c_c, a'_c} \{u(c_c) + \beta \int V_{j=T_c+1}^c(b_p + a'_c, 0, e'_c, e_c, \theta', 0) f(\theta'|\theta) d\theta\} \\
s.t. : a'_c + c &= w\epsilon_{j=T_c} + (1+r)a_c + t_p \\
\log \epsilon &= \log(\alpha_e \theta^{\beta_e}) + A_{e_c, j=T_c} + z \\
\log \theta' &= \rho_\theta \log \theta + \epsilon_\theta \\
\epsilon_\theta &\sim N(0, \sigma_\theta), a'_c \geq 0
\end{aligned}$$

where c_c is the child consumption, a_c is the child assets, e_c is the child education level, e_p is the parent education level, θ is the cognitive ability that affects income through $\alpha_e \theta^{\beta_e}$, A is the life cycle component of income, z is the idiosyncratic labor productivity, b_p is the parent bequest decided in the first stage that is received the next period, and t_p is the parent transfer decided by the parent in the previous sub-period and received by the child this sub-period. The ability of the next generation θ' follows an AR(1) process with persistence ρ_{θ} and normally distributed idiosyncratic shocks $\epsilon_\theta \sim N(0, \sigma_\theta)$. Finally, agents only can save on an asset that pays with certainty next period.

In the first stage, parents know how their children in the next stage will respond to their transfer and bequest decisions. Then, their Bellman equation is:

$$\begin{aligned}
V_{j=T_c}^p(a_p, a_c, e_c, e_p, \theta, z) &= \max_{c_p, b_p, t_p} \{u(c_p) + \eta u(c_c^*(a_p, a_c, e_c, e_p, \theta, z, t_p, b_p)) \\
&+ \eta_d \beta \int V_{T_c+1}^c(b_p + a_c'^*(a_p, a_c, e_c, e_p, z, \theta, t_p, b_p), a_c', e_c', e_c, \theta', z') f(\theta'|\theta) d\theta\} \\
s.t : \quad c_p + b_p &= wSS(e_p) + (1+r)a_p - t_p \\
\log \theta' &= \rho_\theta \log \theta + \epsilon_\theta \\
\epsilon_\theta &\sim N(0, \sigma_\theta), b_p \geq 0 \\
a_c' &= 0, z' = 0
\end{aligned}$$

where c_p is the parent consumption, a_p is the parent assets, η is the parent altruism through their child during the period, and η_d is the parent altruism after his death. During this period, parents are retired and receive a social security transfer depending on their education $SS(e_p)$. It is important to notice that children saving $a_c'^*$ is a function of parents' choices as parents consider children's behavior when deciding consumption, savings, transfers, and bequests.

4.3.2 Parent-Child Problem After College and Before Parent Last Period

These periods represent when parents are between 48 – 72, and their children are between 18 – 48 years old. The dynasty plays the same two-stage game as before, except parents do not decide on bequests. Parents decide on consumption, transfers, and saving in the first stage. In the second stage, the child decides on consumption and saving, given their parents' decisions. The Bellman equation of the child, in the second stage, is the following:

$$\begin{aligned}
V_j(a_c, e_c, e_p, \theta, z, t_p, a'_p) &= \max_{c_c, a'_c} \{u(c_c) \\
&+ \beta \int V_{j+1}(a'_c, e_c, e_p, \theta, z', t_p^*(a'_p, a'_c, e_c, e_p, \theta, z'), a_p^{**}(a'_p, a'_c, e_c, e_p, \theta, z')) f(z'|z) dz'\} \\
s.t : \quad &a'_c + c_c = w\epsilon_j + (1+r)a_c + t_p \\
&\log \epsilon_j = \log(\alpha_e \theta^{\beta_e}) + A_{e_c, j} + z \\
&z' = \rho_z z + \epsilon_z, \epsilon_z \sim N(0, \sigma_{z, e_c}), a'_c \geq 0
\end{aligned}$$

where t_p and a'_p are parents' transfer, and savings decided on the previous stage and are state variables from the children's perspective. However, transfer tomorrow t_p^* and parent saving tomorrow a_p^{**} are function of children current decisions. For this reason, the children consider at the moment of making a decision how their consumption and saving today will affect their parent transfers and saving tomorrow.

Parents decide at the beginning of the period, in the first stage. For this reason, they consider how their decision will affect their children's tomorrow's behaviors. Therefore, the parent Bellman equation in this stage is:

$$\begin{aligned}
V_j(a_p, a_c, e_c, e_p, \theta, z) &= \max_{c_p, a'_p, t_p} \{u(c_p) + \eta u(c_c^*(a_c, e_c, e_p, \theta, z, t_p, a'_p)) \\
&+ \beta \int V_{j+1}(a'_p, a_c^*(a_c, e_c, e_p, \theta, z, t_p, a'_p), e_c, e_p, \theta, z') f(z'|z) dz'\} \\
s.t : \quad &c_p + a'_p = wy(e_p, j) + (1+r)a_p - t_p \\
&y(e_p, j) = \begin{cases} y(e_p, j) & j < j_{ret} \\ SS(e_p) & \text{o.w} \end{cases} \\
&a'_p \geq 0, z' \sim N(0, \sigma_{z, e_c})
\end{aligned}$$

In order to reduce the state space in the model, parents do not face uncertainty in their income. However, they consider their children's income risk z to decide transfers t_p and savings a'_p . Before retirement, parents receive an income $y(e_p, j)$ that depends on their

education and age. After retirement, they receive a fixed social security transfer that only depends on their education.

4.3.3 Parent-Child Problem at College Decision

The child is born in period one as a high school graduate. The timing of the decision is: First, the child decides to attend college or not. Second, the parent chooses consumption, saving, and transfers conditionally on the children's college choice. Finally, children decide on consumption and saving conditional on parent savings and transfers. The children Bellman equation during the consumption saving subperiod is the following:

$$\begin{aligned}
V_{j=1}(a_c, e_c, e_p, \theta, z, t_p, a'_p) &= \max_{c_c, a'_c} \{u(c_c) \\
&+ \beta \int V_{j=2}(a'_c, e_c, e_p, \theta, z', t_p^*(a'_p, a'_c, e_c, e_p, \theta, z'), a_p^{*''}(a'_p, a'_c, e_c, e_p, \theta, z')) f(z'|z) dz'\} \\
s.t : \quad &a'_c + c_c = \tau(e_c)w\theta - \phi 1_{e_c=C} + t_p \\
&\log \theta = \log(\alpha_e \theta^{\beta_e}) + \gamma_{e_c,1} + z \\
&z' \sim N(0, \sigma_{z,e_c}), a'_c \geq 0, c_c \geq 0 \\
&a_c = 0, z = 0
\end{aligned}$$

where t_p^* and $a_p^{*''}$ are the parent transfer and saving policies functions in the next period, ϕ is the monetary college cost, A is a parameter that captures life cycle effects on wages, $\tau(e_c)$ is the percentage of hours that a college student can work as a high-school graduate, α_e and β_e are the parameters that shape college return on ability, and z is an idiosyncratic income shock that depends on education. All children begin with the mean productivity $z = 0$.

In the second stage, the parents decide on saving and consumption, given their children's education decisions. Then, the parent Bellman equation is:

$$\begin{aligned}
V_j(a_p, a_c, e_c, e_p, \theta, z) &= \max_{c_p, a'_p, t_p} \{u(c_p) + \eta u(c_c^*(a_c, e_c, e_p, \theta, z, t_p, a'_p)) \\
&\quad + \beta \int V_{j+1}(a'_p, a'_c{}^*(a_c, e_c, e_p, \theta, z, t_p, a'_p), e_c, e_p, \theta, z') f(z'|z) dz'\} \\
\text{s.t: } c_p + a'_p &= wy(e_p, j) + (1+r)(a_p + b_p) - t_p \\
z = 0, a'_p &\geq 0, z' \sim N(0, \sigma_{z, e_c})
\end{aligned}$$

where c_c^* and $a'_c{}^*$ are the child policy function in the third stage. Additionally, to the own saving from the previous period a_p , the parent has the bequest that his parent left to him. Finally, in the first stage, children decide whether attend college or not; then, their Bellman equation is:

$$\begin{aligned}
\hat{V}_1^*(a_p, a_c, e_p, \theta, z) &= \max_{i \in [HS, C]} \{V_1(a_c, i, e_p, \theta, z, t_p^*(a_p, a_c, i, e_p, \theta, z), a_p^*(a_p, a_c, i, e_p, \theta, z) \\
&\quad + 1_{e_c=C} \kappa(\theta) + \epsilon_i\}
\end{aligned}$$

where $\kappa(\theta)$ is the psych cost of attending college which is decreasing on ability, and ϵ is a type I extreme value shock. Finally, as t_p^* and a_p^* depend on the children's college choices, parents can influence their children's college, consumption, and saving decisions through their future support.

4.4 Equilibrium Definition

The recursive equilibrium, which is also a Markov-Perfect equilibrium, is the set of value functions $\{V_t(s)\}_{t=1}^T$ and policy functions $\{c_p^t(s), a_p^t(s), t_p^t(s)\}_{t=1}^T$, $\{c_c^t(s), a_c^t(s)\}_{t=1}^T$ and $e_c^1(a_p, a_k, e_p, \theta, z)$, where T is the number of periods that a cohort lives and $s = (a_p, a_k, e_p, e_c, \theta, z)$ are the dynasty state variables, such that in each repetition of the parent-child stage game:

- In period $t = 1$ when the children decide whether attend college or not:

1. Solve the children's college attendance problem.

2. Solve the parents' problem given their children and their state variables.
 3. Solve the children's problem, given their parents and their state variables, after seeing their parents' decisions and receiving the transfer.
- In period $t = 2$ to $t = J - 1$, there is not college decision, then:
 1. Solve the parents' problem, given the children's state variables and their state variables.
 2. Solve the children's problem, given their parent and their state variables, after seeing his parents' decisions and receiving the transfer.
 - In period $t = J$, the parents die with certain:
 1. Solve the parents' problem, given their children's and their state variables.
 2. Solve children's problem, given their parents and their state variables, after seeing their parents' decision about bequests and receiving the transfer.

4.5 Solution Algorithm

To solve the computational problem, I adapt [Boar \(2020\)](#) solution algorithm the model:

1. Set a grid on assets, ability, education, and income. Then the size of the state space is given by $T \times A^2 \times H \times E^2 \times Y$. Finally, the ability and income process are discretized using the Tauchen method.
2. Solve the problem for generation J which is not altruistic $V^T(a_p, a_c, e_c, e_p, \theta, z)_{t=1}^T$.
3. Starting from the previous generation, solve the problem backward over the parent-child pairs to obtain $V^{J-1}(a_p, a_c, e_c, e_p, \theta, z)_{t=1}^T$. I do this by solving the problem backward $(T, T-1, \dots, 1)$ using the previous solution as the continuation value for the next cohort in T :
 - (a) Solve the child optimization problem $c_c'^{**}(t, a_c, e_c, e_p, \theta, z, a_p')$, $a_c'^{**}(t, a_c, e_c, e_p, \theta, z, a_p')$ without parent transfers.

- (b) Solve the parent optimization problem in two steps to get the policy functions $c_p^*(t, a_p, a_c, e_c, e_p, \theta, z)$, $a_p'^*(t, a_p, a_c, e_c, e_p, \theta, z)$ and $t_p^*(t, a_p, a_c, e_c, e_p, \theta, z)$:

First, solve the optimal transfer t_p conditional on a_p . Second, solve the optimal parental policy saving a_p' given the optimal transfer $t_p^*(t, a_p, a_c, e_c, e_p, \theta, z, a_p')$. Then using linear interpolation recover $t_p^*(t, a_p, a_c, e_c, e_p, \theta, z)$ and child policies $c_c^*(t, a_p, a_c, e_c, e_p, \theta, z)$, $a_c'^*(t, a_p, a_c, e_c, e_p, \theta, z)$.

- (c) Then if $V^{T-1}(18, a_p, a_c, C, e_p, \theta, z) > V^{T-1}(18, a_p, a_c, HS, e_p, \theta, z)$ we have that $e^*(a_p, a_c, e_p, \theta, z) = C$ and $e^*(a_p, a_c, e_p, \theta, z) = HS$ otherwise.

4. Solve the problem backward until the difference between V^{T-j} and V^{T-j-1} is small enough.

5 Estimation

I estimate the model parameters in three groups. First, I take some parameters directly from the literature as preferences. Second, the income process is estimated separately from the data. Third, I calibrated the remaining parameters using the indirect method of moments. The parameters estimated in the first two stages are displayed in table 8, and the ones estimated in the third stage are displayed in table 10.

5.1 Functional Forms and Preferences

Consumption: Parent and Children utility is CRRA with the relative risk aversion equal to 1.5 following [Abbott et al. \(2019\)](#).

Psych Cost: As shown by [Cunha et al. \(2005\)](#) and [Heckman et al. \(2006\)](#), psychic costs are an important component of schooling decisions. As this cost is decreasing on cognitive ability, the psych cost of attending college is parametrized as $\kappa(\theta) = \frac{\omega_{c1}}{\theta\omega_{c2}}$.

I estimated the discount factor β using the average wealth to average income ratio set to 6.218 following [Boar \(2020\)](#).

Table 8. Parameters from the data or estimated outside the model

| Parameter | Description | Value | Source |
|-------------------|---|---------|--|
| Preferences | | | |
| r | Interest Rate | 0.03 | Daruich and Kozlowski (2019) |
| γ | Risk Aversion | 1.5 | Abbott et al. (2019) |
| College Cost | | | |
| ϕ_C | Annual College Cost | \$12200 | NLSY97 |
| $\tau(e_c)$ | Fraction of Time Work In College | 0.56 | Census |
| Income Process | | | |
| ρ_c | College Graduate Income Persistence | 0.90 | NLSY97 |
| σ_c | College Graduate Income Variance | 0.049 | NLSY97 |
| ρ_{HC} | High School Graduate Income Persistence | 0.93 | NLSY97 |
| σ_{HC} | High School Graduate Income Variance | .032 | NLSY97 |
| \bar{w} | Average Income | \$70000 | Census |
| Retirement Income | | | |
| SS_C | Retirement Income College Graduate | \$25500 | HRS |
| SS_{HC} | Retirement Income High-School Graduate | \$31200 | HRS |

Notes:

5.2 College Cost

As before, all nominal quantities are deflated to 2016 dollars using CPI. The annual college cost in the model is \$12,200, which is the average tuition cost after grants and scholarships reported by college students at the NLSY97 survey. I do not find a significant difference in the net cost of attending college given parent income, which is consistent with the findings of [Abbott et al. \(2019\)](#) using data from the National Center for Education Statistics, which is explained by high-income children receiving more merit aid compensating for higher tuition costs.

5.3 Retirement Income

The estimated retirement income is the average sum of Retirement Social Security Income, Supplemental Security Income, Disability Income, and Employers Pension programs by education group in households where the respondent is retired and older than 67 years old. The

results are shown in table 8.

5.4 Income Process

The income process is given by $\log \epsilon_j = \log(\alpha_e \theta^{\beta_e}) + \gamma_{e,j} + z_j$. I estimate this process using NLSY97 households' labor earnings following [Abbott et al. \(2019\)](#). Because the sample comprises young individuals (the older is 37 years old in the last survey), I estimated the income age profile using a second-order polynomial in PSID data for households where the head is between 18-67 for high school and 23-67 for college graduates. Table 9 shows these results. Then, I regress the part of household income not explained by the age profile on the AFQT test score to control by ability. Then, I use the residual to estimate the income shocks. For this, I assume that the process follows by the log income residual is the following:

$$\begin{aligned} z_{iat}^e &= \log y_{it} - \widehat{f^e(a_{it})} - \hat{\beta}_0 - \hat{\beta}_1 \text{AFQT}_i \\ z_{iat}^e &= \rho_e z_{i,a-1,t-1}^e + \eta_{iat}^e \\ \eta_{iat}^e &\sim N(0, \sigma_\eta^e), \quad z_{i0t}^e \sim N(0, \sigma_{z_0}^e) \end{aligned}$$

where z is an income shock, y is income, $\widehat{f^e(a_{it})}$ is the age profile estimated previously from PSID, η is an innovation of the income shock and ρ is the persistence of the income shock. Then the parameters ρ_e , σ_η^e and $\sigma_{z_0}^e$ are estimated using the Minimum Distance Estimator for the co-variance of wage residual for all possible lags by age and education group. The estimated results are displayed in table 9.

5.5 Return on Ability

I have $\gamma_{e,t}$ and the exogenous shocks z process estimation from the previous subsection. To estimate the ability return by education group $\alpha_e \theta^{\beta_e}$, I follow [Darulich and Kozłowski \(2019\)](#) and I calibrate α_e and β_e targeting the college premium and income volatility for high-school and college graduate between 36-42 years old. As the NLSY97 participants, today are between 36 and 40. I assume they have the same college premium and income variance as PSID data. The parameters that result from the calibration are shown in table 10.

Table 9. Income Process and Age-Profile

| Age Profile | | |
|------------------------|-------------|------------------|
| | High-School | College Graduate |
| Age | 0.067 | 0.115 |
| Age ² *1000 | -6.831 | -11.97 |
| Income Process | | |
| | High-School | College Graduate |
| ρ_z | 0.93 | 0.90 |
| σ_{eta} | 0.032 | 0.049 |
| σ_{z_0} | 0.14 | 0.16 |

Notes:

5.6 Ability, Parent Altruism, and Psych College Cost

The inter-generational ability process is given by $\log \theta^c = \rho_\theta \log \theta^p + \epsilon_{h_0}$ and $\epsilon_{h_0} \sim N(0, \sigma_{h_0})$. The previous parameters $(\rho_\theta, \sigma_{h_0})$ and parent altruism η are estimated using college attainment by children's ability and parents' income group, and the average total transfer from parent to children. The results are shown in table 10.

Table 10. Parameters Estimated Using the Indirect Method of Moments

| Parameter | Description | Value |
|---|----------------------------------|--------|
| Preferences | | |
| β | Discount Factor | 0.96 |
| Parent Altruism | | |
| η | Parent Altruism Before Death | 0.25 |
| η_d | Parent Altruism After Death | η |
| Return to Ability | | |
| α_c | College Level | 1 |
| α_{HS} | High School Level | 0.44 |
| β_c | College Concavity | 0.13 |
| β_{HS} | High School Concavity | 0.07 |
| Intergenerational Transmission of Ability | | |
| ρ_H | Human Capital Persistence | 0.39 |
| σ_H | Human Capital Standard Deviation | 1.88 |

Notes:

6 Model Results

In this section, I discuss the model results. First, the model can achieve higher college attendance among affluent low-skill children, but parents spend more on low-ability children, which is not observed in the data. Second, parent consumption and assets can fit the consumption and assets of the highest two wealth quartiles but fail in the lowest two. Third, for inter-vivos transfers and bequests, the model needs to generate more bequests or transfers during the last parent years. Finally, the model can replicate the difference in consumption between a rich parent with a rich child compared to a rich parent with a poor child but cannot reproduce the increase in consumption of a poor parent with a rich child compared to a poor parent with a poor child, which is because the model does not generate enough bequests from parents to

children, which is the mechanism through which poor parents' increases consumption.

Table 11. Targeted Moments

| College Attainment by HH Wealth and AFQT Quartile (NLSY97) v/s Model College Attainment | | | | |
|---|----------------|----------------|----------------|----------------|
| Parents' Wealth Quartile \ Child's Ability Quartile | 1 | 2 | 3 | 4 |
| 1 | 0.27 (0.19) | 0.32 (0.24) | 0.35 (0.33) | 0.39 (0.33) |
| 2 | 0.27 (0.24) | 0.32 (0.30) | 0.35 (0.42) | 0.39 (0.53) |
| 3 | 0.27 (0.26) | 0.32 (0.40) | 0.35 (0.51) | 0.39 (0.63) |
| 4 | 0.26 (0.33) | 0.32 (0.46) | 0.35 (0.62) | 0.39 (0.74) |
| Targeted Income Moments | | | | |
| | Model | Data | | |
| High-School/College mean Income Ratio | 0.63 | 0.57 | | |
| High-School HH Income S.D | 38477 | 39600 | | |
| College HH Income S.D | 44970 | 60000 | | |
| Mean Yearly Parent-to-Child Transfer | 4372 | 4900 | | |
| Income-Wealth Ratio | 9.12 | 6.22 | | |

Notes:

Table 12. College Transfers by Ability and Parent Wealth

| College Transfer + Allowances Yearly, Model v/s Data (NLSY97) | | | | |
|---|-----------------|-----------------|-----------------|-----------------|
| Parents' Wealth Quartile\Child's Ability Quartile | 1 | 2 | 3 | 4 |
| 1 | 0 (2122) | 0 (3252) | 0 (4646) | 0 (2332) |
| 2 | 0 (2070) | 0 (3311) | 0 (6579) | 0 (5478) |
| 3 | 0 (2870) | 0 (4924) | 0 (5901) | 0 (5699) |
| 4 | 12447 (5762) | 17935 (5830) | 18272 (8650) | 17757 (8755) |

Notes:

Table 12 shows the parents' transfers during college in the model compared with the data. As before, the data values are without parenthesis, and the model results are in parenthesis. The Nan results are because there is no college attendance at that wealth-ability quartile, then there are no transfers in the simulation. The model overstates transfers for high-income parents with high-ability children and understates them for low-income parents with high-ability children. The major failure of the model is that parents transfer substantially more money to low-ability than high-ability children during college, which is not observed in the data. However, as I explained before, the data is limited, given the sample size.

7 The role of Parent Transfer on Education Achievement

This section analyzes parent transfers' role in children's college achievement. In order to do this, I set $\eta = 0$ such that parents do not care about their children and do not affect their children's choices through conditioning present and future transfers on education outcomes.

Table 13. College Attainment Model with Dynamic Altruistic Transfers vs without Dynamic Altruistic Transfers

| College Attainment Non-Dynamic Altruism Model | | | | | |
|---|------|------|------|------|--|
| Parents' Wealth Quartile \ Child's Ability Quartile | 1 | 2 | 3 | 4 | |
| 1 | 0.27 | 0.32 | 0.35 | 0.39 | |
| 2 | 0.27 | 0.32 | 0.35 | 0.39 | |
| 3 | 0.27 | 0.32 | 0.35 | 0.39 | |
| 4 | 0.26 | 0.32 | 0.35 | 0.39 | |
| College Attainment Dynamic Altruism Model | | | | | |
| Parents' Wealth Quartile \ Child's Ability Quartile | 1 | 2 | 3 | 4 | |
| 1 | 0.27 | 0.32 | 0.35 | 0.39 | |
| 2 | 0.27 | 0.32 | 0.35 | 0.39 | |
| 3 | 0.27 | 0.32 | 0.35 | 0.39 | |
| 4 | 0.27 | 0.32 | 0.35 | 0.39 | |

Notes:

8 Conclusion

The paper analyzes how interactions between old parents and adult children affect parents' education investment and their role in the highest college attainment among affluent kids. In the first part, I empirically assess the effect on parent consumption of having richer or poorer kids relative to them. I found that parents with children above them in the wealth-income distribution consume more than parents in the same quartile. This effect on consumption is partially explained because parents increase inter-vivos transfer to poor children and decrease them to wealthy children. Additionally, parents with rich kids reduce bequest and increase consumption, especially among poor parents. However, the inter-vivos transfers and bequests only partially explain the changes in parents' consumption, given their children's position in the wealth-income distribution. Second, the paper explores how parents invest in college depending on their child's ability, not finding a significant difference between low or high-skill children conditional on parents' wealth.

Then, I build and estimate a dynamic altruistic model with endogenous college decisions to assess how future interaction affects parent college transfers and analyze its role in the higher college attainment between affluent low-skill children compared to children with similar ability but less wealthy parents.

Finally, the paper examines the role of parent transfer on college attendance.

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A In-Kind Transfer

This appendix analyses how children’s relative position in the wealth-income distribution affects in-kind transfers from children to parents. To quantify the effect of the relative position of children in the income distribution, I estimate the following model:

$$y_{i,t} = \beta_0 + \sum_{q=-3}^3 \beta_q T_{i,t}^q + \beta_X \mathbf{X}_{i,t} + \alpha_p + \varepsilon_t + \epsilon_{i,t}$$

where y is a discrete variable if parents receive a particular type of help (except in the case of the number of hours helped) from child i , $T_{i,t}^q$ is the child position respect to the parent in the income wealth-distribution, $\mathbf{X}_{i,t}$ is a set of controls (parents’s total wealth, parents’s non-financial wealth, parents’s household income, parent’s household head is in the labor force, number of people in parents’s HH, the state where the parents’s household is located, parents’s household head age four order polynomial, parents’s household household rent or own house, child’s education degree, child’s marital situation, parent contact frequency with the child, child gender, child blood relationship), α_p is a parent fix effect and ε_t is a year fixed effect.

The estimation results are shown in table 14. In the case of the coefficients that represent probabilities are multiply by one hundred. In column 1, similar to what is founded previously, children above their parents in wealth-income distribution are more likely to transfer money than children in the same quartile. In column 2, we can see that wealthy children are slightly more likely to help their parents cover health costs. In columns 3 and 4, we see that there is no difference in help with daily activities. In column 5, we can see the most significant difference; parents expect more support from wealthier kids. Finally, column 6 shows that less well-off children spent more hours helping their parents. A child one quartile below spends 20 hours more each month, which could indicate that parents transfer more to poorer children in retribution for care. However, these results are slightly statistically significant.

B Equilibrium Properties

In this section, I discuss the household problem's equilibrium properties to characterize parents' and children's decisions.

B.1 Parent-Child Problem when the Child Decides College

This subsection characterizes the household problem in the period that children decide college attendance. This period has three-stage. First, the child decides college attendance conditional on parent's transfer and saving. In the second stage, the parent decides his consumption, saving and transfer conditional on his child's education. Finally, given his previous parent's decision and college decision, the child decides his saving and consumption. I assume an interior solution to be able to use the first-order condition to characterize the strategic interactions between parents and children. I will characterize the optimization problem backward.

Child problem

The child in the first period born with zero assets and solve the following problem, in the third and last stage, conditional on his parent decision and his previous education decision. Then, the child solve:

$$\begin{aligned}
V_{18}(a_c, e_c, e_p, \theta, z, t_p, a'_p) &= \max_{c_c, a'_c} u(c_c) \\
&+ \beta E \left[V_{22}(a'_c, e_c, e_p, \theta, z', t_p^*(a'_p, a'_c, e_c, e_p, \theta, z'), a_p^{*''}(a'_p, a'_c, e_c, e_p, \theta, z')) | z \right] \\
\text{s.t: } a'_c + c_c &= \tau_e y(t, 0, \theta) - \phi 1_{e_c=C} + t_p \\
z &= 0, a_c = 0 \\
a'_c &\geq \underline{a_{e,18}}, c_c \geq 0
\end{aligned}$$

where $*$ denote the policies that are equilibrium objects and E is the expectation for

future child income productivity conditional on income productivity today. Then the F.O.C are:

$$\begin{aligned} c_c : u'(c_c) - \lambda &= 0 \\ a'_c : \beta EV_{a'_c}^{t+1} + \beta EV_{t'_p}^{t+1} \frac{\partial t'_p}{\partial a'_c} + \beta EV_{a''_p}^{t+1} \frac{\partial a''_p}{\partial a'_c} - \lambda &= 0 \end{aligned}$$

Using the envelope theorem:

$$\begin{aligned} V_{a'_c}^{t+1} &= (1+r)u'(c'_c) \\ V_{t'_p}^{t+1} &= u'(c'_c) \\ V_{a''_p}^{t+1} &= \beta E[V_{a''_p}^{t+2}] = 0 \end{aligned}$$

Finally we can rearrange this and get the child Generalize Euler Equation:

$$u'(c_c) = \beta(1+r)E[u'(c'_c)] + \beta E[u'(c'_c) \frac{\partial t'_p}{\partial a'_c}] \quad (3)$$

we have an extra term in the Euler Equation, which represents the cost of future saving. As $\frac{\partial t'_p}{\partial a'_c} < 0$, saving decrease future parent transfers and reduce future consumption. Then, the child has incentives to under-save each period compared to the solution with full commitment.

Parent problem

In the period that child decides college attendance parents solve the following problem:

$$\begin{aligned}
V_{46}(a_p, a_c, e_p, \theta, z) &= \max_{c_p, a'_p, t_p} u(c_p) + \eta u(c_c^*(a_c, e_c, e_p, \theta, z, t_p, a'_p)) \\
&+ \beta E \left[V_{50}(a'_p, a_c'^*(a_c, e_c, e_p, \theta, z, t_p, a'_p), e_c, e_p, \theta, z') | z' \right] \\
&\text{s.t. } a'_p + c_p = y(t, e_p) - t_p + (1 + r)a_p \\
&z = 0, a_c = 0 \\
&a'_p \geq \underline{a_e}, c_p, t_p \geq 0
\end{aligned}$$

Parents decide to transfer when children have decided if attending or not college. Then, the child education level is given to the parents, so the first-order conditions are:

$$\begin{aligned}
c_p : u'(c_p) - \lambda &= 0 \\
a'_p : \eta u'(c_c^*) \frac{\partial c_c^*}{\partial a'_p} + \beta E V_{a'_p}^{t+1} + \beta E V_{a_c'^*}^{t+1} \frac{\partial a_c'^*}{\partial a'_p} - \lambda &= 0 \\
t_p : \eta u'(c_c^*) \frac{\partial c_c^*}{\partial t_p} + \eta \beta E V_{a_c'^*}^{t+1} \frac{\partial a_c'^*}{\partial t_p} - \lambda &= 0
\end{aligned}$$

Using the Envelope Theorem we get:

$$\begin{aligned}
V_{a'_p}^{t+1} &= (1 + r)\lambda' = u'(c'_p)(1 + r) \\
V_{a_c'^*}^{t+1} &= \eta u'(c_c'^*) \frac{\partial c_c'^*}{\partial a_c'^*}
\end{aligned}$$

Then we can rewrite the equation system as:

$$u'(c_p) = \eta u'(c_c^*) \frac{\partial c_c^*}{\partial a'_p} + \beta E[u'(c'_p)(1 + r)] + \beta E[\eta u'(c_c'^*) \frac{\partial c_c'^*}{\partial a_c'^*}] \frac{\partial a_c'^*}{\partial a'_p} \quad (4)$$

$$u'(c_p) = \eta u'(c_c^*) \frac{\partial c_c^*}{\partial t_p} + \eta \beta E[\eta u'(c_c'^*) \frac{\partial c_c'^*}{\partial a_c'^*}] \frac{\partial a_c'^*}{\partial t_p} \quad (5)$$

equation 4 is the parent Euler Equation. Note that from the derivative of the child budget

constrain: $\frac{\partial c_c^*}{\partial a_p'^*} = -\frac{\partial a_c'^*}{\partial a_p}$ and $\frac{\partial c_c'^*}{\partial a_c'^*} = (1+r) - \frac{\partial a_c''^*}{\partial a_c'^*}$ then we can rewrite as:

$$u'(c_p) = \beta E[u'(c'_p)(1+r)] - \eta \frac{\partial c_c^*}{\partial a_p'} \left(u'(c_c^*) - \beta E \left[\left(1+r - \frac{\partial a_c''^*}{\partial a_c'^*} \right) u'(c_c'^*) \right] \right)$$

the first term on the right side is the standard trade-off between parent consumption today and tomorrow in the parent Euler Equation. The second term is the trade-off that faces parents from saving. If the parent increases saving receive an additional utility today as the child increases consumption today through a decrease in savings, which reduces consumption tomorrow.

Equation 5 represent the trade-off that face parent to realize transfers, using again the child budget constrain we have that $\frac{\partial c_c^*}{\partial t_p} = 1 - \frac{\partial a_c'^*}{\partial t_p}$, the equation can be rewrite as:

$$u'(c_p) = \eta u'(c_c^*) - \eta \frac{\partial a_c'^*}{\partial t_p} \left(u'(c_c^*) - \beta E \left[\left(1+r - \frac{\partial a_c''^*}{\partial a_c'^*} \right) u'(c_c'^*) \right] \right)$$

The first term represents the marginal benefit for the parent of an additional unit of child consumption. The second term is the trade-off between lower child consumption today as the child increase saving but higher consumption tomorrow, given higher savings.

Child College decision

When the child is 18, there is an additional stage at the beginning of the game, the college attendance decision. The child solves the following problem:

$$V_{18}^*(a_p, a_c, e_p, \theta, z) = \max_{e_c \in [HS, C]} \{V_{22}(a_c, e_c, e_p, \theta, z, t_p^*(a_p, a_c, e_c, e_p, \theta, z), a_p^*(a_p, a_c, e_c, e_p, \theta, z))\}$$

The optimization problem implies that the child decides college not only taking into account the effect of college in his consumption but also considers the effect on his parent transfer and wealth. Then, college attendance is affected by parent altruism.

B.2 Parent-Child Problem when Child is 22-42 and Parent 50-74

This subsection characterizes the problem solution of the first and second stages between the college decision and the parent last period. The parent always decides first his consumption, saving and transfer. Then, given his previous parent decision, the child decides his saving and consumption. Then, the parent and the child optimization problem is the same as in the second and third stages of the game played when the child decides college attendance. Then the trade-offs between consumption, saving and transfers are the same. The reader can skip this subsection as the results are identical to the previous second and third stages. As before, I assume an interior solution to be able to use the first-order condition to characterize the trade-off face by parents and children.

Child problem

Each period the child solve the following problem:

$$\begin{aligned}
V_t(a_c, e_c, e_p, \theta, z, t_p, a'_p) &= \max_{c_c, a'_c} u(c_c) \\
&+ \beta E \left[V_{t+1}(a'_c, e_c, e_p, \theta, z', t_p^*(a'_p, a'_c, e_c, e_p, \theta, z'), a_p^{*''}(a'_p, a'_c, e_c, e_p, \theta, z')) | z \right] \\
\text{s.t: } a'_c + c_c &= y(t, z, e_c) + (1 + r)a_c + t_p \\
a'_c &\geq \underline{a_c}, c_c \geq 0
\end{aligned}$$

Then the F.O.C are:

$$\begin{aligned}
c_c : u'(c_c) - \lambda &= 0 \\
a'_c : \beta EV_{a'_c}^{t+1} + \beta EV_{t'_p}^{t+1} \frac{\partial t'_p}{\partial a'_c} + \beta EV_{a''_p}^{t+1} \frac{\partial a''_p}{\partial a'_c} - \lambda &= 0
\end{aligned}$$

Using the envelope theorem:

$$\begin{aligned}
V_{a'_c}^{t+1} &= (1+r)u'(c'_c) \\
V_{t'_p}^{t+1} &= u'(c'_c) \\
V_{a''_p}^{t+1} &= \beta E[V_{a''_p}^{t+2}] = 0
\end{aligned}$$

Finally we can rearrange this and get the child Generalize Euler Equation:

$$u'(c_c) = \beta(1+r)E[u'(c'_c)] + \beta E[u'(c'_c) \frac{\partial t'_p}{\partial a'_c}] \quad (6)$$

this is the same Generalize Euler Equation than in the period that the child decides college. Then each period, the child has incentives to under-save as saving decreases future savings.

Parent problem

Parent at age t solve the following problem:

$$\begin{aligned}
V_t(a_p, a_c, e_c, e_p, \theta, z) &= \max_{c_p, a'_p, t_p} u(c_p) + \eta u(c_c^*(a_c, e_c, e_p, \theta, z, t_p, a'_p)) \\
&+ \beta E \left[V_{t+1}(a'_p, a_c'^*(a_c, e_c, e_p, \theta, z, t_p, a'_p), e_c, e_p, \theta, z') | z' \right] \\
\text{s.t: } a'_p + c_p &= y(t, e_p) - t_p + (1+r)a_p \\
a'_p &\geq \underline{a_e}, c_p, t_p \geq 0
\end{aligned}$$

which is the same problem during the period that the child decides to attend college. Then the F.O.C are:

$$\begin{aligned}
c_p : u'(c_p) - \lambda &= 0 \\
a'_p : \eta u'(c_c^*) \frac{\partial c_c^*}{\partial a'_p} + \beta E V_{a'_p}^{t+1} + \beta E V_{a_c'^*}^{t+1} \frac{\partial a_c'^*}{\partial a'_p} - \lambda &= 0 \\
t_p : \eta u'(c_c^*) \frac{\partial c_c^*}{\partial t_p} + \eta \beta E V_{a_c'^*}^{t+1} \frac{\partial a_c'^*}{\partial t_p} - \lambda &= 0
\end{aligned}$$

Using the Envelope Theorem we get:

$$\begin{aligned}
V_{a'_p}^{t+1} &= (1+r)\lambda' = u'(c'_p)(1+r) \\
V_{a_c'^*}^{t+1} &= \eta u'(c_c'^*) \frac{\partial c_c'^*}{\partial a_c'^*}
\end{aligned}$$

Then we can rewrite the equation system as:

$$u'(c_p) = \eta u'(c_c^*) \frac{\partial c_c^*}{\partial a'_p} + \beta E [u'(c'_p)(1+r)] + \beta E [\eta u'(c_c'^*) \frac{\partial c_c'^*}{\partial a_c'^*}] \frac{\partial a_c'^*}{\partial a'_p} \quad (7)$$

$$u'(c_p) = \eta u'(c_c^*) \frac{\partial c_c^*}{\partial t_p} + \eta \beta E [\eta u'(c_c'^*) \frac{\partial c_c'^*}{\partial a_c'^*}] \frac{\partial a_c'^*}{\partial t_p} \quad (8)$$

the equation 7 is the parent Generalize Euler Equation, that as before we can rewrite as:

$$u'(c_p) = \beta E[u'(c'_p)(1+r)] - \eta \frac{\partial c_c^*}{\partial a'_p} \left(u'(c_c^*) - \beta E \left[\left(1 + r - \frac{\partial a_c''^*}{\partial a_c'^*} \right) u'(c_c'^*) \right] \right)$$

the equation 8 represent the trade-off that faces parent to realize transfers, using the child budget again constrain we can rewrite the equation as:

$$u'(c_p) = \eta u'(c_c^*) - \eta \frac{\partial a_c'^*}{\partial t_p} \left(u'(c_c^*) - \beta E \left[\left(1 + r - \frac{\partial a_c''^*}{\partial a_c'^*} \right) u'(c_c'^*) \right] \right)$$

then parents face the same trade-off that during the first period.

B.3 Parent-Child Problem During Parent Last Period

In this subsection, I characterize the last period in which the parent is alive, where he knows he dies with certain.

Child Problem

This period is the last period of the child as a child before becoming a parent. He solves the following problem:

$$\begin{aligned} V_{42}^j(a_c, h_0^j, e_c, e_p, z, t_p, a'_p) &= \max_{c_c, a'_c} u(c_c) + \beta E \left[V_{46}^j(b_p^* + a'_c, 0, h_0^{j+1}, e_c^{j+1}, e_c, 0) | h_0^j \right] \\ \text{s.t. } a'_c + c_c &= y(42, e_c, z) + t_p + (1+r)a_c \\ a'_c &\geq \underline{a_e}, c_p \geq 0 \end{aligned}$$

where j denote a particular generation, then $j+1$ are the variables of the child of the child. This period is the last one for the parent and the child decides after him, so the child's decisions do not affect future transfers. Then the F.O.C are:

$$c_c : u'(c_c) - \lambda = 0$$

$$a'_c : \beta E[V_{a'_c}^{j,46}] - \lambda = 0$$

Using the Envelope Theorem we have $V_{a'_c}^{j,46} : (1+r)\lambda' = u'(c'_c)(1+r)$. Then the child have the standard Euler Equation which imply that his saving is not distort by future parent decisions.

Parent Problem:

The parent during the last period solve the following problem:

$$V_{74}^j(a_p, a_c, e_c, e_p, \theta, z) = \max_{c_p, b_p, t_p} u(c_p) + \eta u(c_c^*(a_p, a_c, e_c, e_p, \theta, z, t_p, b_p))$$

$$+ \eta_d \beta E \left[V_{46}^{j+1}(b_p + a'_c{}^*(a_p, a_c, e_c, e_p, \theta, z, t_p, b_p), 0, e_c^{j+1}, e_c, \theta^{j+1}, 0) | \theta^j \right]$$

$$\text{s.t: } c_p + b_p = \text{S.S.}(e_c) - t_p + (1+r)a_p$$

$$t_p, b_p, c_p \geq 0$$

Then the F.O.C. are:

$$c_p : u'(c_p) - \lambda = 0$$

$$b_p : \eta u'(c_c) \frac{\partial c_c^*}{\partial b_p} + \eta_d \beta E[V_{b_p}^{46,j+1} (1 + \frac{\partial a'_c{}^*}{\partial b_p})] - \lambda = 0$$

$$t_p : \eta u'(c_c) \frac{\partial c_c^*}{\partial t_p} + \eta_d \beta E[V_{b_p}^{46,j+1} \frac{\partial a'_c{}^*}{\partial t_p}] - \lambda = 0$$

Using the envelope theorem we get $V_{b_p}^{46,j+1} : (1+r)\lambda' = u'(c'_c)(1+r)$, then we have the following equation system:

$$u'(c_p) = \eta u'(c_c^*) \frac{\partial c_c^*}{\partial b_p} + \eta_d \beta E[u'(c'_c)(1+r)(1 + \frac{\partial a'_c}{\partial b_p})] \quad (9)$$

$$u'(c_p) = \eta u'(c_p) \frac{\partial c_c^*}{\partial t_p} + \eta_d \beta (1+r) E[u'(c'_c) \frac{\partial a'^*_{c'}}{\partial t_p}] \quad (10)$$

the equation 9 shows the trade-off that faces the parent to leave a bequest, the first term in the right is the increase in utility through higher children consumption today given the bequest and the second represent the trade-off between higher tomorrow consumption given the bequest received and lower tomorrow consumption as the child decrease saving. The equation 10 represents the trade-off that the parent face when he transfers the last period. The first term on the right side is the higher utility today through child consumption, and the second term is the decreased utility through lower consumption tomorrow because of the decrease in child savings. Equations 3 and 6 show that children over-consume as saving affects future parent transfers. Then, parents want to set $\frac{\partial a'^*_{c'}}{\partial t_p} = 0$ such that they do not distort the children saving.

C Education, Consumption and Transfer

C.1 Education and Consumption

Table 15. Transfer and Education

| | (1) | (2) | (3) |
|-------------------------|--------------------|--------------------|--------------------|
| | Parent Consumption | Parent Consumption | Parent Consumption |
| Child High School | 1138 (0.75) | 142 (0.09) | |
| Child College DropOut | 2061 (1.41) | 747 (0.50) | |
| Child College | 4044** (2.34) | 1728 (1.00) | |
| Child More Than College | 5693*** (2.86) | 3406* (1.74) | |
| Child 3 Quartile Below | | -1439 (-0.63) | -1969 (-0.86) |
| Child 2 Quartile Below | | -1136 (-1.00) | -1387 (-1.23) |
| Child 1 Quartile Below | | -1306* (-1.84) | -1446** (-2.04) |
| Child Same Quartile | | 78 (0.12) | 91 (0.14) |
| Child 1 Quartile Above | | 1242** (2.07) | 1371** (2.25) |
| Child 2 Quartile Above | | 2174*** (3.28) | 2414*** (3.60) |
| Child 3 Quartile Above | | 2949** (2.58) | 3393*** (2.93) |
| Observations | 7173 | 7083 | 7083 |

t statistics in parentheses

* $p < .10$, ** $p < .05$, *** $p < .01$

C.2 Education and Transfers

Table 14. Transfer from Kids to Parents

| | (1) | (2) | (3) | (4) | (5) | (6) |
|-------------------------------------|-----------------------|-----------------------|---------------------|---------------------|-----------------------|----------------------|
| | Prob Transfer | Prob Help Health Cost | Prob Help ADL | Prob Help IADL | Prob Help in Future | Monthly Helped Hours |
| Child 3 Quartiles Below Parents | 1.30*** (5.22) | 0.37*** (3.12) | 0.08 (0.35) | 0.08 (0.28) | -1.95** (-2.01) | 10.46 (0.81) |
| Child 2 Quartiles Below Parents | 0.36** (2.20) | 0.07 (0.98) | 0.12 (1.20) | -0.08 (-0.67) | -1.16** (-1.98) | 10.04 (1.05) |
| Child 1 Quartile Below Parents | 0.10 (0.86) | 0.05 (0.80) | -0.05 (-0.75) | 0.07 (0.77) | -0.20 (-0.52) | 19.32** (2.45) |
| Child 1 Quartile Above Parents | 0.82*** (5.19) | 0.04 (0.64) | -0.15* (-1.69) | -0.21* (-1.85) | 0.66* (1.72) | -3.79 (-0.54) |
| Child 2 Quartiles Above Parents | 2.42*** (8.00) | 0.40*** (2.63) | -0.24* (-1.66) | -0.41** (-2.17) | 0.71 (1.22) | -12.90 (-1.46) |
| Child 3 Quartiles Above Parents | 5.45*** (8.07) | 0.90*** (3.07) | -0.57 (-1.53) | -0.82** (-2.05) | 2.65** (2.57) | -9.90 (-0.64) |
| Professional Degree | 0.92*** (5.15) | 0.17** (2.20) | -0.05 (-0.50) | 0.19 (1.52) | -0.85* (-1.87) | 8.77 (1.35) |
| Bachelor Degree | -0.13 (-0.78) | 0.05 (0.80) | 0.09 (1.16) | -0.00 (-0.02) | 0.77* (1.89) | -0.64 (-0.13) |
| College DropOut | -0.68*** (-4.04) | -0.10 (-1.35) | 0.11 (1.40) | 0.25** (2.26) | 2.26*** (5.16) | 0.61 (0.10) |
| Married | -0.61*** (-5.16) | -0.09 (-1.62) | -0.27*** (-3.90) | -0.20** (-2.21) | 1.21*** (3.94) | -12.13* (-1.87) |
| Partnered | -0.19 (-1.07) | -0.25** (-2.45) | -0.09 (-0.81) | 0.04 (0.28) | 0.53 (1.07) | 0.12 (0.01) |
| Parent Real Total Wealth | -0.00 (-0.28) | 0.00 (0.89) | -0.00 (-0.50) | -0.00 (-1.22) | -0.00 (-0.88) | -0.00 (-1.13) |
| Parent Real Total Household Income | -0.00*** (-3.29) | -0.00 (-0.41) | 0.00 (1.34) | 0.00 (1.11) | 0.00 (0.56) | -0.00* (-1.77) |
| Parent Real Non Housing Fin. Wealth | -0.00 (-1.34) | -0.00 (-1.23) | -0.00 (-0.33) | 0.00 (0.39) | 0.00 (0.14) | 0.00 (0.96) |
| Child Work | -0.08 (-0.50) | 0.10 (1.06) | -0.04 (-0.30) | 0.04 (0.27) | 0.91* (1.92) | 4.05 (0.42) |
| Child Work Parttime | 0.09 (0.76) | 0.16** (2.54) | -0.13 (-1.57) | -0.16 (-1.48) | -1.00*** (-2.98) | -5.95 (-1.25) |
| Contact Frequency | 0.00*** (5.24) | 0.00*** (3.37) | 0.00*** (5.52) | 0.00*** (7.45) | 0.01*** (10.00) | 0.01 (1.30) |
| Female | 0.19** (2.13) | 0.09** (2.10) | 0.61*** (10.79) | 0.91*** (12.55) | 9.92*** (37.27) | 9.57* (1.87) |
| Step-kid | -0.79*** (-5.93) | -0.21*** (-3.49) | -0.39*** (-5.06) | -0.53*** (-5.30) | -16.34*** (-31.83) | 0.03 (0.00) |
| Constant | -286.65*** (-2.63) | -26.55 (-0.26) | 113.27 (1.31) | 36.43 (0.40) | -133.52 (-0.40) | -930.19 (-0.22) |
| Observations | 156979 | 128183 | 157216 | 157204 | 153013 | 2999 |

t statistics in parentheses, standard error cluster by household

* $p < .10$, ** $p < .05$, *** $p < .01$

Table 16. Transfer and Education

| | (1) | (2) | (3) | (4) | (5) | (6) |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Tot. Kids to Parts \$ | Tot. Kids to Parts \$ | Tot. Kids to Parts \$ | Tot. Parts to Kids \$ | Tot. Parts to Kids \$ | Tot. Parts to Kids \$ |
| Child 3 Quartile Below | -25** (-2.08) | | -32*** (-2.72) | 497*** (5.99) | | 498*** (6.09) |
| Child 2 Quartile Below | -21*** (-4.24) | | -25*** (-5.24) | 311*** (7.92) | | 313*** (8.04) |
| Child 1 Quartile Below | -15*** (-3.65) | | -18*** (-4.23) | 88*** (2.87) | | 90*** (2.93) |
| Child 1 Quartile Above | 13*** (4.11) | | 15*** (4.60) | -92*** (-6.26) | | -92*** (-6.41) |
| Child 2 Quartile Above | 46*** (6.45) | | 50*** (7.03) | -130*** (-7.51) | | -132*** (-8.02) |
| Child 3 Quartile Above | 99*** (6.04) | | 105*** (6.40) | -168*** (-8.06) | | -173*** (-8.70) |
| High School | 2 (0.65) | 7*** (2.87) | | -18 (-0.75) | -45** (-1.98) | |
| College DropOut | 7** (2.06) | 16*** (4.66) | | 29 (1.18) | -22 (-0.90) | |
| College | 17*** (3.88) | 31*** (7.47) | | -51 (-1.47) | -138*** (-4.25) | |
| More Than College | 34*** (5.46) | 49*** (8.01) | | 21 (0.54) | -76** (-2.00) | |
| Observations | 76374 | 76374 | 76374 | 79136 | 79136 | 79136 |

t statistics in parentheses

* $p < .10$, ** $p < .05$, *** $p < .01$

C.3 Income Transition and Education

Table 17. Income Transition and Education

| | (1) | (2) |
|-------------------------|-----------------------------|-----------------------------|
| | Dif Decile Parent-Kids Rich | Dif Decile Parent-Kids Poor |
| Child High School | 0.08 (0.29) | 0.36*** (4.20) |
| Child College DropOut | 0.50** (1.98) | 0.64*** (6.89) |
| Child College | 0.80*** (3.08) | 1.18*** (9.46) |
| Child More Than College | 0.94*** (3.60) | 1.26*** (9.24) |
| Observations | 1604 | 1723 |

t statistics in parentheses

* $p < .10$, ** $p < .05$, *** $p < .01$