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SOCIAL SECURITY REFORM AND THE EXCHANGE OF BEQUESTS FOR ELDER CARE

BY META BROWN

The majority of elderly Americans with long-term care needs live outside of institutions, and, in the 1993 wave of the Asset and Health Dynamics Among the Oldest Old (AHEAD) study, 14 percent of all respondents and 53 percent of unmarried parents with care needs claim to receive care from their children. It is clear that family is a mainstay of long-term care for the elderly in the U.S. We have limited evidence, however, on the financial and social mechanisms securing the supply of such care. An understanding of the process driving the intra-family supply of elder care appears to be of great potential value in predicting the long-term stability of existing sources of support for the elderly.

Due to its wealth of information on the health, assets, and social ties of respondents, the AHEAD study provides a unique opportunity to examine patterns of long-term care receipt in a nationally representative sample of non-institutionalized older Americans. I find that the children of unmarried AHEAD respondents are their most common sources of care and sources of the most time-intensive care. While most non-relative caregivers and caregiving organizations are paid for their services, only 6 percent of caregiving children are paid, and their hourly payments average less than \$1. Further, gifts and loans to children reported by unmarried AHEAD parents do not favor caregivers over non-caregivers.

Given the observed absence of a spot-market for care within the family, the question that this project addresses is whether the cost of caregiving to children is compensated solely by the altruistic benefit of contributing to a parent's well-being, or in part through end-of-life transfers from parents to children that are designed to elicit help. I first examine the division of end-of-life transfers within families, using the AHEAD parents' reports on intended bequests and life insurance for children. In data on AHEAD families with unmarried parents who require long-term care, I find that intended end-of-life transfers to caregiving children are approximately \$12,000 greater than those to non-caregivers. Further, parents who require ongoing care promise greater end-of-life transfers to children who are unmarried and have fewer children of their own. Other researchers have found that children with these family structure characteristics are more likely to assist their parents. For families with parents who do not currently require care, the AHEAD study includes information on which children (if any) parents expect to provide regular assistance in the future. Children who are predicted caregivers receive greater shares of parents' end-of-life transfers.

The observation that children who provide care to their parents are more likely to be included in a will or life insurance policy indicates a relationship between parents' transfer decisions and the caregiving behavior of their adult children. It is difficult, however, to determine whether this connection represents simple variation in the strength of parent-child relationships or transfers that are genuinely designed to elicit care. This distinction is of interest for practical reasons, as well as academic ones. If elder care within families is responsive to financial incentives, the establishment of a bequeathable component to Social Security old age benefits and the trend toward bequeathable private retirement accounts could be expected to increase parents' ability to elicit care from their children.

To test the responsiveness of family care to financial transfers, I construct a model of the exchange of end-of-life transfers for elder care, in which children are motivated to care for their parents by both altruism toward the family and an interest in exchange. Parameter estimates indicate that parents who hold more bequeathable, but not annuitized, wealth are more likely to be cared for by their children. Further, children with greater opportunity costs of time are observed to provide care only at higher levels of bequeathable wealth. The estimates suggest that children respond to both parents' care needs and their bequeathable wealth when making caregiving decisions.

Parameters derived in the estimation are then used to project the response of the supply of elder care within families and at different quantiles of the wealth distribution to changes in the structure of Social Security and private pension benefits. The results of the policy experiments suggest that a 5 to 6 percentage point increase in the rate at which unmarried elderly parents receive family care would result from reforms in which the expected present values of both public and private pensions were included in parents' bequests. However, a more modest change in public retirement benefits, designed to mimic the broad-brush characteristics of an existing proposal for Social Security reform, is predicted to have a negligible effect on care rates.

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CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

Fulton Hall 550, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808
phone 617.552.1762 fax 617.552.1750 crr@bc.edu www.bc.edu/crr