Intergenerational Transfers and Altruism

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Social scientists have been interested in the concept of altruism, because it can have significant implications for social and economic behavior. In this paper we asses the power of subjective measures of altruism to explain intergenerational transfers. We use hypothetical questions asked in the Health and Retirement Study (HRS) that assess individuals' willingness to transfer income to others to construct several measures of altruism. We first explore these measures for within person consistency. We then test each measure for additional explanatory power in standard economic models of intergenerational transfers, and we extend the analysis to examine transfers of income to others outside of the family (i.e. charitable giving). Finally, we explore whether these are stable preferences and evaluate how well subjective measures of altruism measured at one point in time predict actual transfers made in future time periods.

Measures and Models

The standard economic model of altruism assumes that transfers will increase when the intended recipient's income decreases or when the benefactor's income increases. In the case of transfers within a family (e.g., between parents and their adult children), these models are estimated using characteristics of both the recipient (child or parent) and benefactor (parent or child), such as age, gender, marital status, income and wealth, education, labor force participation, family structure, health status, and distance between parent and child. We extend the economic framework by directly including subjective measures of altruism in standard empirical models of intergenerational transfers to evaluate the additional explanatory power of measures of preferences. We then extend our analysis to model transfers to recipients further removed from the benefactors (e.g., charitable giving).

In 1996, the HRS added two modules that asked hypothetical questions about respondents' willingness to transfer income to other individuals. The two modules were administered to a randomly selected subsample of the study respondents. The first set of questions (Module 6), which we call the *Sweepstakes Questions* (see exact wording below), are used to examine how respondents would distribute the money from an exogenous shock to their income. We use these questions to create a measure of altruism: which is the proportion of income remaining after allocating for personal consumption and saving (*Percent Given to Anyone Else*).

Sweepstakes Questions:
Suppose you won a sweepstakes that will pay you (and your (husband/wife/partner)) an amount equal to your current family income every year for as long as your (or your (husband/wife/partner)) live. We'd like to know what effect the sweepstakes money will have on your life.

Thinking of the additional family income as 100%, about what proportion of that additional income would you use to…

Increase your spending now? _____

Increase your saving now? _____

Give some of the money to relatives? _____
Give some of the money to others? _____

The second set of questions (Module 8), which we call the *Conditional Transfer Questions* (exact language below), examine to what extent individuals are inclined to transfer some of their own income to others based on the relative financial need of the potential recipient. We use these questions to construct a set of dichotomous variables for whether the individual would transfer money based on the proportion of the recipient's income to their own (income less then one-third their own, income one-third to one-half their own, income one-half to three-quarters their own and income greater than three-quarters, but less than their own). We also create an ordinal variable, with the income less then one-third their own equal to one and income greater than three-quarters, but less than their own equal to four. The least altruistic individuals would only be willing to transfer money (if at all) to those much worse off than themselves, while more altruistic individuals would also be willing to transfer money when potential recipients are only somewhat worse off than themselves. While not shown here, these questions were also asked regarding income transfers to their own parents, siblings, friends, and charities[1].

Conditional Transfer Questions:

Sometimes people give substantial financial help to relatives or friends. We would like to find out about situations where you (and your husband/wife/partner) might be willing to give substantial help to others. You should suppose that any help you give will not be repaid, and that the person you might help has been unlucky rather than lazy.

Suppose that one of your children had only half as much income per person to live on as you do. Would you be willing to give your child 5 percent of you own family income per month, to help out until things change – which might be several years?

Yes ☐
No ☐

Suppose that they had three-quarters as much income per person as you. Would you be willing to give 5 percent of your family income to help out?

Yes ☐
No ☐

Suppose that they had one-third as much income per person as you. Would you be willing to give 5 percent of your income to help out?

Yes ☐
No ☐

Preliminary Results

[1] In the case of charities the question is reworded as "Suppose you became aware of a well-run charity that gave financial help to people who typically have about one-fifth of the income that you (and your (husband/wife/partner)) have. Would you be willing to give 5% of your income per month to that charity if you knew it would go directly to the benefit of these people? The range of choices is also different, less than one-tenth, one-tenth to one-fifth, one-fifth to one-third, and over one-third, of the respondent's income.

The table below shows preliminary results for models that include the different altruism measures described above on the probability of an adult child receiving a transfer from his or her parents. The first column presents the results of our base model which has similar findings to McGarry and Schoeni (1995). Because the altruism modules were only asked of a subsample of HRS respondents, our sample is only about 20% of the HRS sample used in McGarry and Schoeni (1995). However, the subsample is similar to their sample with 13.8 and 14.4 percent of children receiving transfers, respectively.[2] For children, the more income that a child has the less likely he or she is to receive a transfer. Children for whom parents do not report about income are less likely to receive transfers than those for whom income was reported[3]. Younger children[4], those living closer to their parents and those with their own children are more likely to receive a transfer, while owning a home reduces the probability of receiving a transfer. For parents, higher income and more assets increase the probability of a transfer[5]. White parents are more likely to transfer income to their children.

Columns two through four show the additional explanatory power of the altruism variables created from the modules in the HRS. In column two, the proportion of a sweepstakes that an individual reports to give to anyone else indicates that the less an individual allocated for themselves the more likely a child was to receive a transfer. In the last two columns examining the conditional transfer variables we see that the more altruistic is the parent, the more likely the child is to receive a transfer.

Next Steps

We plan to extend our current analysis to examine the explanatory power of the subjective altruism measures on the amount of income transfers received by adult children and include information on siblings to control for competing recipients for parents' transfers. We also plan to examine other groups receiving transfers from the HRS respondents, in particular, their parents and charities. Finally, we will use subsequent waves of the study to evaluate how well subjective measures of altruism measured at one point in time predict actual transfers made in future time periods.

[2] The average amount transferred in our sample and theirs is $500 and $450, respectively. Results not shown.
[3] McGarry and Schoeni (1995) and McGarry and Schoeni (1997) claim this results because parents who know little about their child's financial situation are less likely to provide assistance or because parents of highest-income children are reluctant to report their child's income out of respect and highest income children are less likely to receive financial support from their parents.
[4] Our sample is currently of those 25 and over, to reduce the bias of capturing transfers that were for educational purposes. The omitted category is children over 30.
[5] The HRS asked if the parents have made a transfer of $500 or more to their children; therefore not taking into account smaller transfers that may have been made in lower income households.

Probability of Adult Child Receiving Transfer from Parent(s) in 1996 - Logit Models

	Base Model	Sweepstakes Model	Conditional Transfers Models	
	(1)	(2)	(3)	(4)
Child's Characteristics				
Income 10K-25K	-0.372	-0.380	-0.359	-0.384
	(0.260)	(0.260)	(0.262)	(0.261)
Income > 25K	-0.590**	-0.598**	-0.594**	-0.622**
	(0.275)	(0.275)	(0.277)	(0.276)
Income Missing	-1.566***	-1.588***	-1.539***	-1.570***
	(0.331)	(0.332)	(0.333)	(0.332)
Age 25- 30	0.710***	0.707***	0.726***	0.721***
	(0.150)	(0.150)	(0.150)	(0.150)
Male	-0.192	-0.182	-0.188	-0.195
	(0.127)	(0.128)	(0.128)	(0.128)
Owns Home	-0.597***	-0.602***	-0.592***	-0.601***
	(0.151)	(0.151)	(0.151)	(0.151)
Married	-0.126	-0.122	-0.125	-0.116
	(0.160)	(0.161)	(0.161)	(0.160)
Living w/in 10 miles	0.369***	0.367***	0.349***	0.350***
	(0.125)	(0.125)	(0.126)	(0.126)
Employed Full Time	-0.00293	-0.00390	-0.00729	-0.00816
	(0.159)	(0.159)	(0.159)	(0.159)
Has Child	0.286*	0.292*	0.281*	0.282*
	(0.150)	(0.150)	(0.150)	(0.150)
Respondent's Characteristics				
Age 51-61	-0.115	-0.106	-0.0973	-0.0821
	(0.234)	(0.235)	(0.236)	(0.235)
Age > 61	-0.125	-0.112	-0.113	-0.0940
	(0.262)	(0.263)	(0.263)	(0.263)
Black	-0.719***	-0.713***	-0.711***	-0.716***
	(0.258)	(0.258)	(0.258)	(0.257)
Income 2nd Quartile	0.284	0.277	0.286	0.295
	(0.210)	(0.211)	(0.211)	(0.211)
Income 3rd Quartile	0.190	0.183	0.190	0.196
	(0.215)	(0.215)	(0.215)	(0.215)
Income 4th Quartile	0.629***	0.615***	0.645***	0.641***
	(0.219)	(0.219)	(0.219)	(0.218)
Assets 2nd Quartile	0.883***	0.885***	0.885***	0.897***
	(0.219)	(0.219)	(0.219)	(0.219)
Assets 3rd Quartile	0.988***	0.996***	1.001***	1.006***
	(0.224)	(0.224)	(0.224)	(0.223)
Assets 4th Quartile	0.916***	0.926***	0.948***	0.964***
	(0.236)	(0.236)	(0.237)	(0.237)
# of Living Parents	0.0199	0.0231	0.0273	0.0303
	(0.071)	(0.071)	(0.071)	(0.071)
Sweepstake Variable				
Percent Given to Anyone Else		0.307**		
		(0.156)		
Conditional Transfer Variables				

Child Income > 3/4 Parent Income			0.555**	
			(0.245)	
Child Income 1/2 - 3/4 Parent Income			0.583**	
			(0.268)	
Child Income 1/3 - 1/2 Parent Income			0.350	
			(0.406)	
Ordinal Transfer Variable				0.128*
				(0.066)
Constant	-2.172***	-2.346***	-2.719***	-2.654***
	(0.388)	(0.399)	(0.456)	(0.461)
Observations	2503	2503	2503	2503
Chi Squared	180.9	184.8	187.2	184.9

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

References:

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