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Parent's Long-Term Care Needs and the Economic Status of Adult Children

Kanika Arora

Maxwell School, Syracuse University

Introduction

The dramatic aging of the population is one of the most important demographic trends facing the United States. Over the next three decades, the number of elderly is projected to more than double - rising from 40 million in 2010 to more than 80 million in 2040 (U.S. Census 2008). A likely implication of this trend is an increase in the population's Long-Term Care (LTC) needs. At present, a majority of LTC needs are met through upstream intergenerational transfers, both of time and money, provided by adult children to their elderly parents. Whether our society can continue to sustain this support system depends upon the consequences of such intergenerational transfers on the adult child. In this paper, I analyze one such potential consequence - the effect of parent's LTC needs on an adult child's household wealth.

Theoretically, there are multiple channels through which the provision of time and/or money transfers to elderly parents can impact an individual's financial wealth. First, families are likely to incur significant out-of-pocket expenses associated with health needs of elderly parents. These include payments for formal care (home-based personal care, institutional care and so on), medical supplies and doctor visits, transportation, household items and utilities, and home modifications such as ramps and bathroom grab bars. A parent's health needs may also motivate co-residence or proximity decisions which in turn may entail moving or other transaction costs. Adult children who provide informal care to elderly parents may also incur personal expenditures for respite care, child care (for those individuals who may be in the "sandwich generation"), and alternative health services (like counseling, massage, yoga, etc.)

On the revenue side, informal caregivers might face direct losses in labor income if they take time off from work, forgo promotions or quit work altogether. Given the intense time demands associated with caregiving, adult children may also take up part-time jobs. While working on a part-time or an hourly basis may offer a flexible schedule, it may lead to wage penalties. Large out-of-pocket expenditures combined with reduced income makes the adult child more likely to dip into savings or to borrow (especially if one is paying for parent's nursing home stay, the average cost for which was \$88,000 in 2010) in order to smooth consumption over the entire period of a parent's LTC needs.

Further, wage penalties or early retirement may lead to lower contributions to Social Security, while the take-up of part-time jobs can specifically cause a loss of access to employer-sponsored retirement plans – both these consequences directly influence an individual's retirement savings. Finally, transitions out of full-time jobs may also mean a loss of access to employer-sponsored health insurance which adds to existing out-of-pocket expenditures.

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Thus, there are a number of mechanisms through which parental health needs can negatively influence an adult child's household wealth. If the provision of upstream intergenerational transfers is indeed a source of financial risk, then a case can be made for formulating policies that support adult children who provide these transfers. In the recent past, there have been several unsuccessful attempts in Congress to pass tax legislation giving adult children some relief from parental long-term care expenses. If the results from this study suggest large negative financial consequences then such legislation may be given higher priority. Depending upon the mechanism through which household wealth is influenced (time, money or both), other policies to consider might include the provision of a caregiving allowance or including a paid leave component to the existing Family Medical Leave Act.

Data

To analyze the effect of parent's LTC needs on the savings behavior of adult children, a panel data-set from seven waves (1998-2010) of the Health and Retirement Study (HRS) is developed. The HRS is conducted biannually and is a nationally representative sample of the near elderly in the United States. HRS respondents were ages 51 to 64 when they entered the sample, making their parents prime candidates for receiving LTC, with ages ranging between 70 and 100, and a mean age of 82.

Sample members include adult children who have at least one parent or parent-in-law alive in the current wave. Further, because wage penalties and early retirement can only influence labor market participants, the sample is restricted to individuals of working age, i.e. those below the age of 65.

Household wealth in each wave is measured as the total value of the individual's stocks, mutual funds and investment trusts, checking, savings, and money market accounts, and CDs and bonds. This measure is taken from the RAND HRS files. Wealth values are inflation adjusted and reported in 2010 dollars.

With regards to parental health needs, the HRS asks respondents three questions: 1) whether a parent needs help with basic personal needs like dressing, eating or bathing; 2) whether a parent has a memory-related disease that has been diagnosed by a doctor, and, 3) whether a parent cannot be left alone for an hour. All three health needs are asked separately for the mother and the father. In addition, because the respondent's spouse is asked these questions as well, information about in-law health needs is also available.

Preliminary Estimation and Results

The dependent variable in this analysis is the change in household wealth between wave (w) and wave ($w-1$). The main explanatory variable – whether an individual experienced a parental health shock – is constructed as follows:

“Presence of a parental health shock” if:

- none of the living parents had either of the three health needs in wave ($w-2$); and

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- at least one parent developed any one or more of the three health needs in wave (w-1)

“No parental health shock” if:

- none of the living parents had either of the three health needs in wave (w-2); and
- none of the living parents had either of the three health needs in wave (w-1)

In constructing the between-wave onset of parental need above, I assume that the effect of parental health shock influences wealth change in a lagged manner and not contemporaneously. After deleting observations with missing values, the selection criteria described above lead to a sample size of 5,034 observations. Of these, in approximately 19% cases, there is a “presence of a parental health shock.” Table 1 provides some summary statistics of a few relevant variables. On average, for individuals where a parental health shock was present, the change in wealth from waves (w-1) to (w) was -\$2,517 whereas for individuals where no parental health shock was present, the change in wealth between the two waves was \$783.

To identify how parental health may affect total wealth, I regress the change in household wealth between wave (w) and wave (w-1) on the indicator variable for the presence of a parental health shock. Controls for respondent’s age, education and marital status are also included in the regression.

Because some of the wealth data are imputed, there are many outliers in the upper tail of the distribution. Therefore, the use of Ordinary Least Squares is likely to yield very imprecise coefficients. To address this issue, I estimate the model using quantile regression with the change in assets between periods as the dependent variable. The results, shown in table 2, suggest that the effect of a new parental health need reduces household wealth by a modest amount and the effect is statistically significant only in the upper quantiles of the wealth change distribution. Specifically, parent’s LTC need onset reduces household wealth by approximately \$500 to \$1500 (depending upon the percentile used in the regression).

Current Research Efforts:

In the next set of estimations, I plan to include controls for parent’s age, education and race. I will also include the value of debt in the wealth measure. In addition, I plan to disaggregate health shocks by parent (mother, father, mother-in-law, and father-in-law) and by type of shock (personal needs, memory-related disease, and whether parent can be left alone for an hour). It will also be useful to examine how the effect of a new health shock is different from developing a chronic condition where severity increases with time. Similarly, it would also be interesting to examine what happens to household wealth when a parent dies. Finally, if a negative effect on household wealth is found, I aim to analyze pathways (time and/or money) through which household savings are influenced.

Table 1: Summary Statistics

Variable	All	Par health shock present	No Par health shock present
Age	59.58 (2.88)	59.56 (2.85)	59.58 (2.89)
Male	0.55 (0.50)	0.54 (0.50)	0.55 (0.50)
Change in Wealth	156.57 (72,386.11)	-2,517.49 (62,812.15)	783.44 (74,445.69)
High School Drop-out	0.12 (0.32)	0.16 (0.37)	0.10 (0.31)
High School Grad.	0.32 (0.47)	0.32 (0.47)	0.32 (0.47)
Some College	0.27 (0.44)	0.25 (0.43)	0.28 (0.45)
College Plus	0.29 (0.46)	0.27 (0.44)	0.30 (0.46)
Marital Status: Partnered	0.80 (0.40)	0.83 (0.37)	0.80 (0.40)
Marital Status: Widow/er	0.04 (0.20)	0.04 (0.19)	0.04 (0.20)
Marital Status: Divorced	0.13 (0.33)	0.11 (0.32)	0.13 (0.34)
N	5,034	956	4,078

Table 2: Quantile Regressions

*Quantile Regressions of Parental Health shocks and Child's Wealth Changes**Dependent variable is [Wealth(w) - Wealth(w-1)]*

<i>Explanatory Variable</i>	<i>Percentile</i>			
	<i>60th</i>	<i>70th</i>	<i>80th</i>	<i>90th</i>
Parent LTC need onset	-82.07 (94.11)	-493.38* (295.27)	-1,478.49** (691.81)	-1,893.18 (2,264.71)
Controls for age, education, gender and mar. stat			Yes	
N	5,034			

Significance: '*' = 10%; '**'=5%;