The Great Recession and Parental Support of Young Adult Children
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Background

In the United States, the Great Recession that began in December 2007 and officially ended in June 2009 (National Bureau of Economic Research, 2010) has been widely recognized as one of the most profound economic downturns since the Great Depression in the first half of the twentieth century (e.g., Grusky, Western, & Wimer, 2011). During the recession, unemployment increased from less than 7 percent to over 10 percent for the general population (Bureau of Labor Statistics, 2014). Early evidence on the impact of the recession on individuals and families in the United States suggests they adjusted their behavior in various ways in response to the changes in economic conditions. Many individuals delayed important life decisions including home buying, moving to a new area, changing jobs, having a child, marrying, or retiring (Federal Reserve Board, 2014). Households generally decreased their consumption (Hurd & Rohwedder, 2011). Young adult children have been adversely impacted by the recession. Friedline et al. (2013) found young adults from households that experienced the largest decline in net wealth during the recession to have subsequently experienced the largest negative effect on their personal savings.

This study adds to the literature by exploring the impact of the Great Recession on the likelihood of parents providing financial support or housing to their adult children. We employ fixed effects and instrumental variables estimation to identify the causal impact of parental income and wealth on financial transfers to adult children. The information on the effect of the income and wealth shocks of the Great Recession on the support young adults receive from their parents is critical in light of the well-established association of parental transfers with young adults’ educational attainment and transition to independent living. In fact, parental transfers, which represent a major source of financial support for children’s college education, are found to be significantly associated with parents’ housing wealth, especially among households earning less than $70,000 a year (LOVENHEIM, 2011). They are also an important source of support for children’s first-time home purchase (ENGELHARDT and MAYER, 1998). In addition, changes to financial support from parents experiences during the transition to adulthood may impact young people’s family formation and childbearing decisions (CHERLIN, CUMBERWORTH, MORGAN, & WIMER, 2013), long-term career and earnings prospects (BLUNDELL, DEARDEN, & SIANESI, 2005), and adult and late-life health outcomes (CUTLER & LLERAS-MUNey, 2006).

Methods

We use nationally representative longitudinal data on young adults, age 18-27, and their middle-age and older parents from the four waves (2005-2011) of the Panel Study of Income Dynamics (PSID) and the Transition into Adulthood (PSID-TA) study. Children in the TA sample provide detailed information on time use, skills, responsibilities, education, employment, income and wealth, marriage and relationships, health and health behaviors, social environment, religiosity, and subjective wellbeing. Key for the study of parent-child transfers, children are asked a series of questions about the financial support they received from parents over the last year (or last 12 months), including purchasing a house or condominium, paying rent or a mortgage, giving or buying a personal vehicle, paying for tuition, covering bills or expenses, and providing a personal loan, as well as receiving large gifts or inheritance. Moreover, children provide information on their primary residence throughout the year. We supplement data from the TA Study with the information from the core PSID on the young adult children’s parents’ income, wealth, health and demographic characteristics.

The sample includes data for 2,155 young adult children of the core PSID respondents who participated in at least one of the four waves of the TA study. Since the TA study follows children age 18-28, as they transition to the core PSID sample, its design closely resembles to a rotating panel design. Therefore, in the initial 2005 wave 745 children age 18-21 joined the study, with the number increasing to 1,907 children age 18-27 in 2011, including 622 children first included in the TA sample in 2005. Consequently, the final analytic sample consists of 5,321 child-year observations.

We describe parent-child transfers and coresidence likelihood over the years 2005-2011 – time periods leading up to the Great Recession and after. We analyze the association between a young adults child’s age,
economic and socio-demographic characteristic and financial transfers from parents and how this relationship is changing across this important time period. We model changes in parent-child transfers and coresidency in the 2005 – 2011 period using probit and logit estimation and examine the impact of parental resources on these transfers with rich controls for child and parent characteristics. It has been demonstrated that parents with high socioeconomic status give more money to their children than parents with low socioeconomic status (Zissimopoulos and Smith 2011). Yet, cross-sectional studies cannot disentangle the effect of socioeconomic status from other unobserved factors. While panel studies provide analytical advantages over cross-sectional studies, identification of wealth changes on parental transfers remains an analytical barrier because wealth should increase then decline over the lifecycle but giving may not. In contrast, unanticipated wealth loss will reduce giving. For some, the Great Recession was a shock to both wealth and income and can be exploited to examine the causal impact of parental wealth and income on the level and likelihood of transfers to adult children.

We use the large and unexpected declines in parents’ household income and wealth, and instrumental variables estimation, to determine the causal impact of income and wealth on parental transfers to their young adult children. We identify instruments for income and wealth that measure changes in unemployment and housing prices in the parent’s geographical location. Using this strategy, we are able to quantify the effects of parental income and wealth on transfers to their young adult children during their transition to adulthood.

Results

Figure 1 shows the likelihood of an adult child receiving a financial transfer from her/his parents and the likelihood of co-residing with a parent for survey years 2005, 2007, 2009 and 2011 by a child’s age. The year on the graph is the interview wave and the report on transfers received refers to financial transfers in the prior 12 months. The likelihood of transfers was consistently lower during the recession (i.e., in 2009) than either before or after the recession as shown in Figure 1.A. The difference ranged from 2.6 to 9.6 percentage points between the pre-recession years and 2009, and from 1.5 to 5.4 percentage points when comparing 2009 and 2011. This suggests that the likelihood of parental transfers to young adult children declined during the recession, but that the decline was likely temporary in nature given that the levels reported in 2011 are comparable to pre-recession levels. Unlike the likelihood of transfers, coresidence likelihood did not change in 2009 compared to pre-recession years as evident from Figure 1.B. However, by 2011, the likelihood of coresidence increased across all but the youngest children’s age group. The difference was particularly pronounced for adult children age 20-21, with the increase in coresidence likelihood ranging from 11.6 to 18.1 percentage points.

We estimate probit models of the likelihood of receiving a transfer and coresidency status adjusting for year, young adult child’s age, sex, race, marital status, children, health, earnings and education, and his/her parents’ characteristics including number of children, education, non-housing wealth, housing wealth, and income. We use estimates from these models to predict the likelihood of a young adult receiving a financial transfer from parents and likelihood of coresidency. Figure 2 shows the predicted probabilities of transfers and coresidency by children’s age and year holding all other model covariates at their mean values. As expected, both financial transfers and coresidence are higher for younger children and drop substantially for older children. However, financial transfers in 2009 are consistently 8 to 11 percentage points lower than their prerecession levels, whereas by 2011 the difference decreases to 4 to 7 percentage points. In the case of coresidence, the difference in predicted probabilities between 2011 and precession period is somewhat smaller, but noticeable. It ranges from 1 to 6 percentage points, with the difference larger for children age 19-24, and smaller for others.

Table 1 shows median values of the wealth of the young adult children in our sample from years 2005 to 2011. Median values decline substantial during the Great Recession. Table 2 also shows the increase in unemployment rates and the decrease in home prices during the Great Recession. We will use this variation to quantify the impact of changes in parental income and wealth on their financial transfers to their young adult children. These findings will further our understanding of transfers intended for important life decisions, which will ultimately advance the study of the relationship between parental assistance and indicators of children’s socioeconomic status, such as educational attainment and homeownership.
References


Figure 1. Transfer and coresidence likelihood, by year and children’s age

A) Transfers

B) Coresidence

Source: PSID Transition to Adulthood 2007-2011

Figure 2. Predicted probabilities from probit models of parent-child transfers and coresidence, by year and children’s age (predictions at mean values of all other model covariates)

Predictions based on probit models. Covariates include both child and parent characteristics.

Table 1. Parents’ Housing and Non-housing Wealth, National Unemployment Rates, National House Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Parental Housing Wealth</th>
<th>Parental Non-housing Wealth</th>
<th>Unemployment Rate</th>
<th>National Housing Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>65,000</td>
<td>21,000</td>
<td>4.2</td>
<td>216,117</td>
</tr>
<tr>
<td>2007</td>
<td>65,700</td>
<td>28,300</td>
<td>4.0</td>
<td>222,250</td>
</tr>
<tr>
<td>2009</td>
<td>49,000</td>
<td>21,300</td>
<td>11.2</td>
<td>179,933</td>
</tr>
<tr>
<td>2011</td>
<td>33,000</td>
<td>17,000</td>
<td>9.8</td>
<td>158,025</td>
</tr>
</tbody>
</table>

Notes: Parental wealth based on PSID linked with PSID-TA sample.
