Intergenerational Transmission of Inequality: Parental Wealth and Financing of College and Home Buying

By

V. Joseph Hotz (Duke University)
Joshua Rasmussen (Duke University)
Emily E. Wiemers (U of Massachusetts Boston)

Extended Abstract

Parents have long been a primary source of financial support for their children’s post-secondary education (Lovenheim & Reynolds, 2013) and in helping their children launch careers and purchase homes (Engelhardt and Mayer, 1998). But, since the late 1970s in the U.S. there have been dramatic increases in the costs of a college education, which, in the last two decades, has been coupled with unexpected instability in housing prices. Over the same period, there has been rapid rise in the inequality of the distribution of both family income (Fisher, Johnson, & Smeeding, 2013) and wealth (Keister & Moller, 2000) and continuing high persistence of outcomes across generations (Chetty et al., 2014).

Given the rise in the costs of higher education, as well as income and wealth inequality, a number of studies have looked at the relationship between family income and college enrollments and graduation. For example, Lovenheim & Reynolds (2013S) found that the rise in housing values during the first part of the 2000-10 decade significantly increased college enrollments, with the largest effects among less wealthy households. And a number of studies (Carneiro & Heckman, 2002; Dynarski, 2003; Lochner & Monge-Naranjo, 2015) have attempted to determine the extent whether students from poorer families are less able to finance the costs of higher education.

Similarly, there is a growing literature on the home-leaving patterns of young adults
(Kaplan, 2012, Matsudaira, 2015, Wiemers 2014a, 2014b,) and the role that the higher cost of housing and the burdens of consumer debt, especially student debt, play in young adults being able to secure a mortgage (Yelowitz, 2007; Chiteji, 2007, Dettling & Hsu, 2014). Furthermore, many of the consequences of the Great Recession for families and their attainments resulted from what happened in the housing sector of the U.S. economy, e.g., increased foreclosures, price declines and curtailing of new construction (Hurd and Rohwedder, 2010). These changes in housing markets are notable for families, given that one’s home is the single largest or second largest (to retirement accounts) asset for American households (Gottschalck et al. 2013).

These changes in housing wealth are all the more notable given previous evidence that housing wealth, and changes in it, has consequences for fertility (Dettling & Kearney, 2014; Lovenheim & Mumford, 2011), the affordability of college education for young adults (Lovenheim & Reynolds, 2013), and for physical health, psychological well-being and cognitive functioning of family members (Hamoudi & Dowd, 2013a, 2013b). What is less known is how changes in housing wealth, especially during the Great Recession, affected financial and other forms of assistance between non-coresident family members, including caregiving for younger children by grandparents and for older parents by their adult children. Understanding these patterns is important for assessing the long-term consequences of the Great Recession and other macro changes in housing markets.

While some of the contours of the relationship between parental resources or capacity and the college and housing attainment of their children are understood, what is missing from our understanding are the mechanisms for some of these links. For example, while indirect evidence exists about the importance of parental income and wealth on college enrollment, most sources of data do not actually measure how much parents of differing backgrounds actually provide in
the way of financial help with college tuition and expenses. Similarly, we have few studies which directly measure the extent to which parents help children finance housing as the latter leave their parental homes. Finally, the recent studies of the role of student debt in affecting the housing and other transition-to-adulthood decisions of young adults typically don’t have measures of the financial capacities of their parents and, thus, the potential roles that parents may play as safety nets for their adult children.

In this paper, we address these latter questions about the relationships between parental wealth and children’s higher education and housing decisions using data from the 2013 Panel Study of Income Dynamics (PSID) and the new Rosters and Transfers Module which obtained information from all parents in the PSID on the financial help (transfers) they provided to each of their adult children for education, housing and other larger expenses. In addition, we exploit the data collected in the PSID on family wealth, including housing wealth over the entire history of the PSID and a more comprehensive measurement of the components of family wealth since the late 1990s, and more recent data on student debt for all PSID households, including young adults. These data allow us to more directly examine exactly how parental wealth affects parental contributions to their children’s education and housing by looking at the relationship between parental wealth and the direct transfers parents make to their children for these two investments as well as the indebtedness of their children.

A key issue to address is the extent to which parental resources, i.e., measures of wealth, have a causal impact on the transfers for education and housing and on the indebtedness of their children. Put differently, any findings of differences in the impact of parental wealth on these outcomes across the wealth distribution may simply reflect sorting across families with respect to common ability or other traits which gives rise to the attainments of each generation. In order to
isolate exogenous influence of parental wealth, we will use measures of local labor and housing market conditions as instrumental variables for parental wealth. The characteristics include changes in local employment and unemployment rates, the industrial composition of employment, etc., for labor markets, and local measures of changes in housing values, foreclosure rates, etc. for housing. The detailed geographic information included in the PSID makes it possible to incorporate these contextual data to identify exogenous shocks to parental resources and examine the effect of these changes in parental wealth on transfers to children for college and home purchases. Data on local labor markets are obtained from the Quarterly Census of Employment and Wages (QCEW), a joint program of the Bureau of Labor Statistics and the U.S. Department of Labor, and for local housing markets from CoreLogic.

In the remainder of this abstract, we describe the PSID data, especially the 2013 Transfers Module, in more detail and also provide some preliminary tabulations from these data.

**PSID Data**

The PSID began with a sample of roughly 18,000 people in approximately 5,000 household units in 1968. All individuals in households recruited into the PSID in 1968 are said to have the PSID “gene.” Individuals who are born to or adopted by someone with the PSID gene acquire the gene themselves and are recruited to become members of the PSID sample for the rest of their lives. This genealogical design implies that the study provides data on a sample of extended families at each wave. Individuals without the PSID gene also are represented in the PSID as long as they live with a PSID sample member. These individuals without the gene are not followed if they stop living with a PSID sample member. Though the PSID provides a sample of extended families at each wave, this extended family is incomplete because some children (particularly step children), and some parents (for example in-laws without the PSID
gene) are not included in the sample. The 2013 Roster and Transfers Module was designed to complete the parent-adult child information in the PSID and to describe the transfers that parents and adult children make to one another.

**The 2013 PSID Roster and Transfers Module**

We use the Roster and Transfer Module of the 2013 PSID in which respondents (PSID heads and wives) are asked to list and describe their adult children and step children (those age 18 and older), as well as their parents, step parents, and in-laws (including “in-laws” from long-term cohabiting relationships). Respondents also report about transfers of time and money that they give to and receive from each parent and adult child over the last year and about transfers of money for school, housing, and other large expenses since they (their children) were 18 years old. In what follows, we refer to these larger forms of help as “long-term” transfers. Respondents report about relationships and transfers with coresident and non-coresident children and parents (see Schoeni et al., 2013 for a more complete description of the module).

**Long-term, Life-cycle Transfers.** The 2013 Roster and Transfers Module includes questions about large transfers that the Head and Wife of a PSID household each may have received from their parents (whether or not the parents are alive in 2013) and/or provided to each of their children since they/their children were age 18. Two specific large life-cycle transfers were assessed—one for post-secondary education and a second for help with the purchase of a home—along with a more general question on large financial transfers between parents and their adult children. These questions capture retrospective information about important and salient types of transfers. For transfers to offspring, both whether assistance was provided and the amount of assistance was assessed. However, for transfers from parents only yes/no and whether the transfer was received from the parent of the head, the parent of the wife, or both, was
assessed because of the potentially long recall period. In what follows, we rely mainly on reports from parents about what they gave to children for schooling and housing but in future work we plan to also examine whether adult children report receiving a transfer from their parents. Until 2013, the PSID had never asked these types of life-cycle transfer questions.

Some Preliminary Results

Brief description of the Tables 1 & 2

Table 1 compares long term financial transfers to children from parents across the wealth distribution. Table 1 shows the percentage of parents who made a financial transfer, the average number of children per household receiving a financial transfer, and the average transfer amount per child (unconditional on making a financial transfer), for schooling and for housing, in each parental wealth quintile. The quintiles were calculated using total family wealth.

We observe substantial differences in transfers to children between parents of different wealth quintiles. Almost half of the parents in the top quintile of the wealth distribution make at least one transfer to at least one of their adult children for help with schooling, with an average transfer amount of $20,503 per child. In contrast, only 33% of parents in second highest wealth quantile make financial transfers for schooling and on average they make smaller transfers. The incidence and average amounts of financial transfers for schooling continue to decline with parental wealth, leveling off for the lowest two wealth quintiles, with only 18% parents in the bottom quintile of wealth making transfers for schooling, and transferring on average $1,552 per child.

Similar patterns exist for parents making financial transfers to help their children purchase a home. Transfers to children for housing are uncommon for all parents except those in the highest wealth quintile. In the top quintile of the parental wealth distribution, 17% of parents
make transfers for their children’s housing, and give $5,472 on average. We note that both the incidence and amounts of transfers for housing are small in the Roster and Transfers data. However, these data combine transfers given over a very long period of time and so are not comparable to contemporary data on financial transfers for home purchases.

In addition to being more likely to give financial transfers, and giving more money to children, wealthy parents also provide financial help to a greater number of children. On average, one child for every household in the top 20% of the parental wealth distribution receives financial help with college, compared to 0.6 children for the next highest wealth quintile. The average number of children receiving transfers for schooling per household in the lowest two wealth quintiles is 0.3 and 0.2. The drop from the wealthiest parents to the second highest quintile is even more dramatic for housing transfers, 0.27 children per household in the top quintile of parental wealth receiving financial help compared to 0.05 children in the bottom quintile.

We also find evidence that student loan debt accumulation is associated with the financial status of an individual’s parents. Table 2 shows the student loan debt of children by their parent’s wealth. Individuals with parents in the bottom wealth quintile are significantly more likely to have outstanding student loan debt—46% of respondents in this group have such debt—while rates of student loan debt for the other four quintiles of parental wealth range between 11% and 21%. Similarly, the average amount of student loan debt for individuals with parents in the bottom quintile of the parental wealth distribution is substantial at $17,896, while children with wealthier parents carry much lower levels of student loan debt.

We are currently linking the 2013 Roster and Transfers data to the main PSID data and obtaining wealth and geographic information for parents at the time their children were 18 years
old—when schooling decisions are likely made. In future work we will examine how transfers
for schooling are correlated with parental wealth at the time children were age 18 and will use
the detailed information on the zip code of parental residence to examine the causal effect of
differences in parental wealth on transfers for schooling.

References:

Black, S. & P. Devereux. 2011. “Recent Developments in Intergenerational Mobility,” in O.


Intergenerational Mobility,” NBER Working Paper #19844.

Chiteji, N. S. (2007). To have and to hold: An analysis of young adult debt. In S. Danziger and
C. Rouse (Eds.), The Price of Independence: The Economics of Early Adulthood. Russell
Sage Foundation.

American Progress.

Young Adults,” unpublished manuscript.

market on the decision to have a baby?" Journal of Public Economics. 110: 82-100.


Engelhardt, G. and C. J. Mayer (1998), Intergenerational Transfers, Borrowing Constraints, and
Saving Behavior: Evidence from the Housing Market," Journal of Urban economics, 44:
135-157.

in Inequality of Individuals and Families: Income and Consumption.” American


Hamoudi, A. & J. Dowd. 2013a. “Physical Health Effects of Housing Boom: Quasi-
Experimental Evidence from HRS.” American Journal of Public Health. 103(6): 1039-
1045.


Table 1. Parental Financial Transfers for College and for Housing by Parental Wealth

<table>
<thead>
<tr>
<th>Parental Wealth Quintiles</th>
<th>Financial help with College</th>
<th>Financial Help with Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of Parents who made transfer</td>
<td>Avg # of Children who Receive Transfers per HH</td>
</tr>
<tr>
<td>Bottom 20%</td>
<td>18%</td>
<td>0.3</td>
</tr>
<tr>
<td>21% - 40%</td>
<td>17%</td>
<td>0.2</td>
</tr>
<tr>
<td>41% - 60%</td>
<td>24%</td>
<td>0.4</td>
</tr>
<tr>
<td>61% - 80%</td>
<td>33%</td>
<td>0.6</td>
</tr>
<tr>
<td>Top 20%</td>
<td>48%</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Table 2. Student Loan Debt of Adult Children by Parental Wealth

<table>
<thead>
<tr>
<th>Parental Wealth Quintile</th>
<th>Incidence of Debt</th>
<th>Mean</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 20%</td>
<td>46%</td>
<td>$17,896</td>
<td>$550,000</td>
</tr>
<tr>
<td>21% - 40%</td>
<td>16%</td>
<td>$2,039</td>
<td>$150,000</td>
</tr>
<tr>
<td>41% - 60%</td>
<td>21%</td>
<td>$3,501</td>
<td>$215,000</td>
</tr>
<tr>
<td>61% - 80%</td>
<td>17%</td>
<td>$2,511</td>
<td>$160,059</td>
</tr>
<tr>
<td>Top 20%</td>
<td>11%</td>
<td>$2,725</td>
<td>$350,000</td>
</tr>
</tbody>
</table>