

## Health-related Financial Transfers to Young Adults

### EXTENDED ABSTRACT

Parents bestow advantage upon their children through a variety of mechanisms ranging from genetic, role-modeling, human capital investment, providing connections for employment and education, providing advantageous environments, and financial transfers to support the transition to young adulthood. In concert with a growing literature on the transition to young adulthood, this paper focuses on the financial transfers that young adults receive from parents. Previous estimates indicate that 34 percent of young adults living independently receive financial assistance from parents with an average value of approximately \$1000 per year (Schoeni and Ross, 2006). While levels of assistance appear to be increasing over time, financial assistance declines as the young adult ages. Finally, children whose parents have incomes in the highest quartile of the income distribution receive over three times more financial assistance than those parents have incomes in the lowest half of the income distribution (Schoeni and Ross, 2006).

Given that in 2008, 26.5 percent of 25-34 year olds were uninsured (DeNavas-Walt, Proctor, & Smith, 2009), we want to investigate the extent to which our current health care arrangement is placing pressure on parents to cover health-related costs that are encumbered by their children as young adults. We use nationally representative longitudinal data from the Panel study of Income Dynamics to examine if young adult reports of monetary transfers from relatives are higher when the young adult has a health crisis.

### **DATA AND METHODS**

The PSID is a longitudinal national survey of U.S. families. It has followed families and their offspring since 1968, annually from 1968 to 1997 and biennially since that time. One of the unique characteristics of this dataset is that it contains information about adult individuals and

their siblings. Among the wide variety of data included in the PSID are data characterizing families' and individuals' demographic characteristics, their economic situation, and their health status. As of 2005, the survey had collected data on over 8,000 families and on over 60,000 individuals. While there has been attrition out of the PSID since its inception, the fact that it follows the children of the original 5,000 families over time (along with the families these 'children' establish when they are old enough to set up their own households), and the fact that it refreshes the sample with “births,” means that the PSID continues to be representative and thus an excellent source of data for social science research (Fitzgerald, Gottschalk, & Moffitt, 1998).

The PSID has collected extensive information about individual earnings, labor force participation, marital status, and childbearing since its beginning. A variety of health data also are collected in the PSID. These data are collected for specific individuals in the family, namely the heads and wives of the families that are interviewed. Included among this information is data about the onset of several major illnesses, mental health, out-of-pocket health expenses, health insurance coverage and health-related behaviors such as exercising. Finally, data is collected regarding financial transfers (if present, who provided the transfer, and amount).

Our analytic sample is an unbalanced panel of families whose heads are age 25 to 34 from the 1999-2007 waves of the PSID. We will explore the extent to which health-related expenses by young adults are associated with financial transfers from relatives using the following general model:

$$T_{it} = \alpha_i + \beta H_{it} + \gamma X_{it} + \rho_i + \varepsilon_{it}$$

Where  $T_{it}$  represents the probability of reporting a transfer from a relative (binary variable modeled using logit) and in a separate regression the amount of the transfer (continuous variable modeled using tobit). Next,  $H_{it}$  defines a vector of variables that will be used to identify whether the

young adult has a serious medical condition (stroke, cancer, lung disease, heart attack), is uninsured, or has a high ratio of out of pocket medical costs to annual income. We will explore interactions between these variables as well, such as having a serious medical condition and being uninsured.  $X_{it}$  includes a variety of control variables for the young adult such as age, race, employment status, education, household composition as well as family of origin characteristics, such as parental education, wealth and the number of siblings. In addition, recent life events that may have triggered a transfer such as buying a new home or having a child will be included (Schoeni and Ross 2006). Since our data are longitudinal, it is possible for us to include individual-fixed effects in the model in order to control for time-invariant unmeasured heterogeneity as well, shown here as  $\rho_i$ , along with our normally distributed error term  $\varepsilon_{it}$ . Given that we may have multiple young adults from the sample family of origin, we will cluster our standard errors at the family level to correct for the non-independence of observations.

It is important to note that because of the structure of the PSID, this analysis will only capture transfers to young adults that are not living with parents. Given the rapid decrease in independent living among young adults that has been documented in both the United States as well as in other European countries (Bell, Burtless, Gormick and Smeeding, 2007), results will be downward biased and will provide an underestimate of the true level of health-related financial transfers to young adults.

## **POTENTIAL RESULTS**

Previous research by Levy (2007) has shown that the probability of being uninsured is steadily rising over time with most of the increase being driven by delays in securing private coverage. On average, it has taken young adults one year longer to obtain private coverage than it took those one decade before them over the 1960s to 1980s. Our findings will provide some evidence

on the possible consequences of this institutional arrangement for the parents of young adults. Results will further our understanding of how the current health care arrangement affects intergenerational financial transfers.

## REFERENCES

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