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21 Financial and non-financial transfers from parents to adult children after the economic crisis

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- ▶ The economic crisis has had a long-term effect on financial and non-financial transfers from older Europeans to their adult children
 - ▶ Large financial transfers from parents aged 65 years and older to their adult children increased dramatically during the crisis and remained higher than they were before the crisis
 - ▶ The frequency of looking after grandchildren has decreased since the crisis and continues to be lower than it was before the crisis
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21.1 Financial shocks and interfamilial exchange

Do financial shocks have long-term consequences for the interfamilial exchange of resources and for intergenerational solidarity? The great financial crisis that struck Europe in 2008 provides a unique opportunity to address this important research question. Towards this aim, this chapter presents analyses using data from SHARE to consider the effects of the economic crisis on the parental provision of financial and non-financial assistance to adult children. The longitudinal SHARE data, which span some six waves of data collection from 2004 to 2015, make it possible to examine the trends in private familial transfers before and after the crisis.

In recent decades, a unique confluence of financial constraints among young adults, psycho-social circumstances, cultural factors and family norms has emerged to motivate older parents to continue to provide help to their adult children well into their lives (Albertini et al., 2007). The economic crisis in 2008 has exacerbated this trend given the increased instability that it caused in the labour market, fear of changes in social protection policies and deterioration in terms of pension funds, as well as the increase in financial distress that many adult children have experienced. Major financial shocks, such as the 2008 crisis, thus create dissonance and require adaptation in saving and consumption behaviour. They also affect intergenerational redistribution.

Much of the financial literature focuses on the impact of the economic crisis on household wealth. In this regard, it is suggested that macroeconomic shocks impact household welfare via the labour market, the product market and the financial markets. For example, the consequences of the recession in 2008 in the Euro area included an increase in unemployment from 7.2% in March 2008 to 9.5% in May 2009, a shrinkage of GDP by 4% during 2009 and a decline in the value of financial assets. It has also been shown that households' net wealth as a percentage of disposable income was hit sharply during the crisis in most European countries (Cavasso and Weber, 2014). According to the European Central Bank, the average net wealth in the Eurozone fell by 10%. Changes in household wealth can lead to adjustments in the consumption behaviour of individuals, affecting in turn direct financial support to adult children as well as indirect support via assets such as property that might be used as collateral and, thus, affect households' ability to access credit.

The financial literature on intergenerational solidarity focuses mostly on the effect of the financial crisis on monetary or 'in kind' transfers. However, it is equally important to consider the effect of the crisis on the provision of non-financial assistance. Such non-financial transfers can be considered as indirect financial support because they affect the labour market and capital accumulation for both providers and receivers. Moreover, the increasing number of women in the labour market increases the need for time-related transfers. By looking after their grandchildren, older parents enable their adult children to invest more time in career development and to decrease their childcare expenses. However, investing time into looking after grandchildren might limit the chances of older parents of pre-pension age to keep their jobs or to find new ones, as well as increasing their everyday expenses. These consequences are even more serious during a financial crisis. Consequently, in the current study, we take both financial and non-financial transfers into account. Moreover, insofar as a substitution effect may exist between financial transfers and non-financial transfers (Attias-Donfut et al., 2005), we also consider the relationship between the two.

Towards this end, we consider two types of financial transfers from parents to adult children: large (more than 5,000 euros) and small (at least 250 euros) financial assistance. We also examine two types of non-financial transfers: non-financial transfers (practical help) and looking after the grandchildren. For financial transfers, we observe the provision of the transfer (yes, no). For non-financial assistance, we consider the volume of the transfers (i.e., their frequency).

The main aim of the enquiry is to clarify whether macroeconomic shocks indeed have long-term effects on the provision of private transfers from older

parents to their adult children. An additional aim is to shed light on the inter-relationship between financial and non-financial transfers following an economic crisis. In this regard, we seek to clarify whether there are, in fact, mutual effects of the two types of transfers or whether one substitutes for the other in times of deep financial distress.

21.2 Sample and data

SHARE studies households in Europe with persons aged 50 and older. Because the present study focuses on the provision of financial and non-financial assistance from parents to adult children, the study samples for most of the analyses include only respondents with children. The samples for the examination of grandchild care are further limited because they necessarily include only respondents whose children have children. The data for the analyses were collected biennially and span some 12 years. We use data from Wave 1 (2004) and Wave 2 (2006), which were administered before the financial crisis of 2008, and data from Waves 4–6 (2011, 2013 and 2015, respectively), which were gathered after the crisis. (It should be noted that the SHARE Wave 3 data (2008) were not used in the present analysis insofar as the questionnaire did not include the relevant transfer measures.)

21.3 Transfers before and after the economic crisis

Figure 21.1 describes the distribution of parental providers of large or small financial help (respectively). The figure compares the trends among three age groups: 50–64 (pre-retirement), 65–74 (early post-retirement) and 75+ (late post-retirement). Overall, parents aged 50 and older are observed to provide small financial help more frequently than they provide more sizeable help to their adult children. These results hold for all age groups. To examine the changes in the tendency to provide financial help to adult children, we tested whether the differences between the respective waves were significant. The results indicated that, before the crisis (i.e., changes between Wave 1 and Wave 2), there was a significant increase in the tendency to provide both large and small financial help among all age groups.

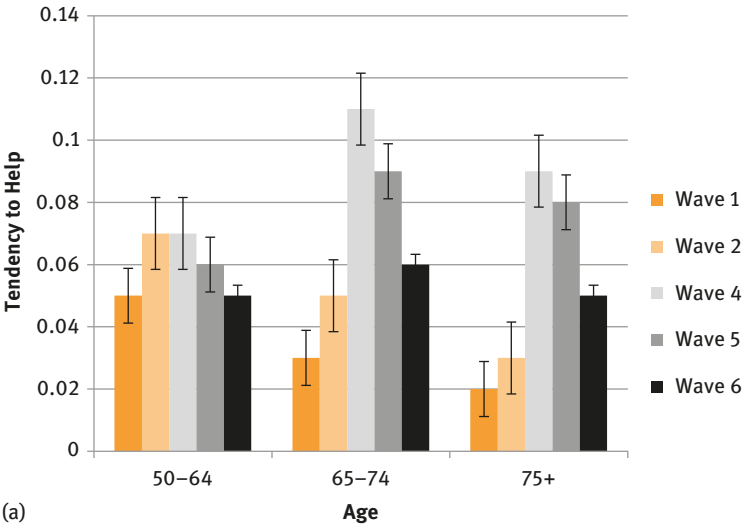


Figure 21.1.a: Tendency to provide sizeable financial help to adult children before and after the financial crisis.

Source: SHARE Wave 1, 2, 4, 5, 6 release 6.1.1.

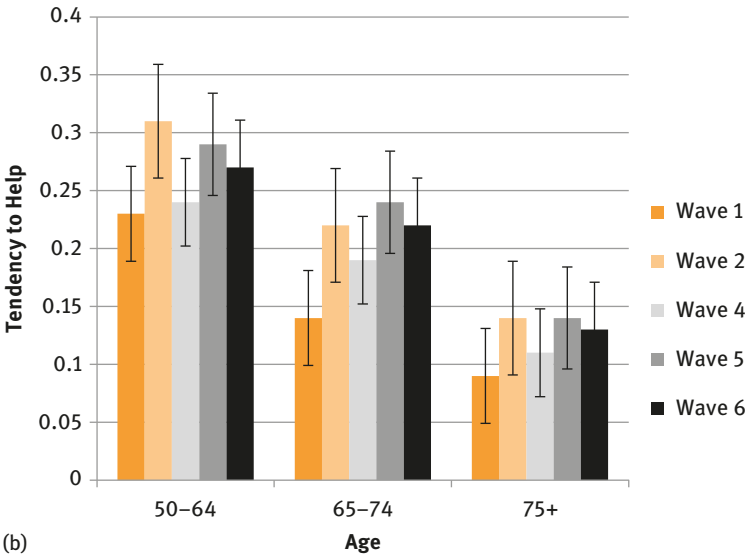


Figure 21.1.b: Tendency to provide small financial help to adult children before and after the financial crisis.

Source: SHARE Wave 1, 2, 4, 5, 6 release 6.1.1.

However, the response immediately after the financial crisis differed among age groups and in relation to the extent of the support. Specifically, whereas parents aged 50–64 years maintained a similar level of sizeable financial help, the tendency of parents aged 65 years and older increased immediately after the crisis and was maintained over time, albeit to a decreasing degree. The decrease notwithstanding, the tendency to provide sizeable financial help at Wave 6 was significantly higher than before the crisis. Hence, the economic crisis seems to have affected the tendency to provide sizeable financial help in both the short term and the long term. In contrast, the tendency to provide small financial help decreased immediately after the crisis but recovered during the fifth and sixth waves. In particular, the propensity to support adult children through small financial gifts among parents aged 65+ returned to the level found in the second wave.

The changes in the non-financial transfers to adult children are presented in Figure 21.2. We observe the frequency of the provided help in two categories: (a) practical help to children, and (b) looking after the grandchildren. Overall, parents aged 75 and older gave such help to their adult children less frequently than their younger counterparts did. For rates over time, no significant changes were found in either category when comparing the first and second waves. However, after the crisis, the frequency of providing practical help

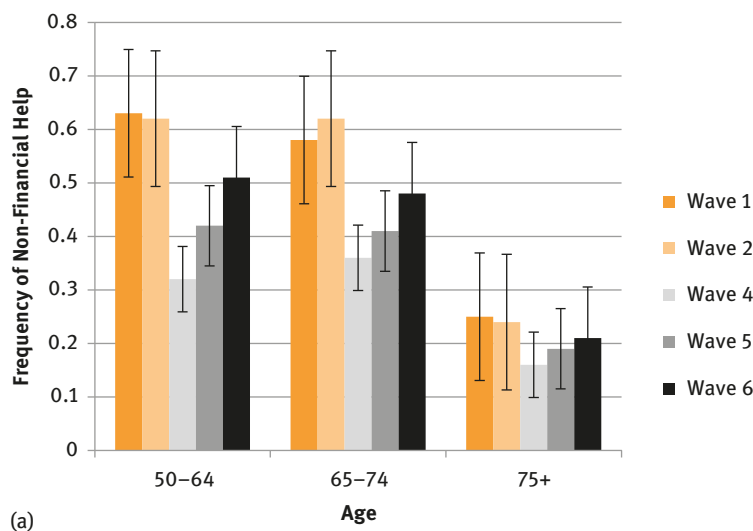


Figure 21.2.a: Changes in the frequency of non-financial help to adult children before and after the financial crisis.

Source: SHARE Wave 1, 2, 4, 5, 6 release 6.1.1.

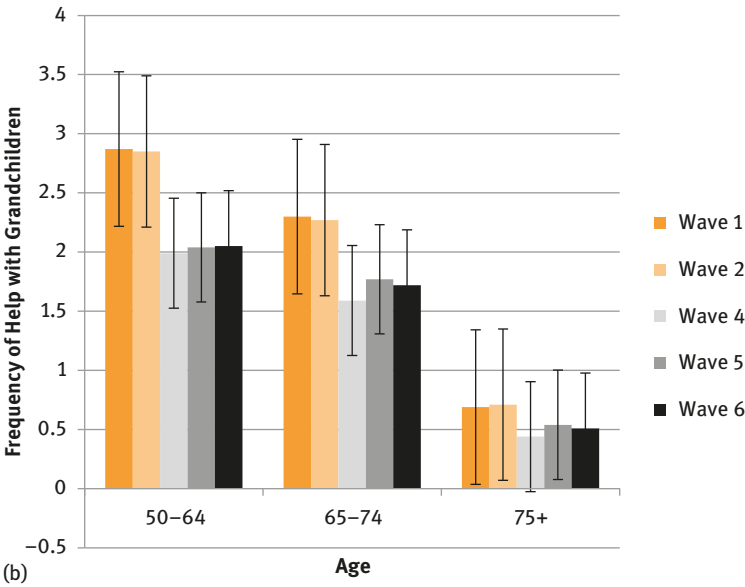


Figure 21.2.b: Changes in the frequency of help to adult children by looking after grandchildren before and after the financial crisis.

Source: SHARE Wave 1, 2, 4, 5, 6 release 6.1.1.

sharply decreased, as did looking after grandchildren, albeit to a lesser degree. These changes occurred in all of the age groups. A possible explanation for this finding is that when experiencing instability in the labour market, a vulnerable population such as older employees will work longer hours to keep their jobs. In addition, given economic distress, those who were unemployed, retired or employed only part-time may decide to fully join the labour market. Taking such steps reduces the free time available to help adult children.

The frequency of providing practical help to children has slowly and subsequently recovered towards its pre-crisis level, but a significant gap still exists between the frequency of such help provided before the economic crisis and the level six years after the crisis. In comparison, the rate of recovery in the frequency of looking after children has progressed only to a small degree. Thus, here also, the economic crisis has had (and continues to have) a long-term effect. Economic shocks impact the provision of both financial and non-financial transfers from parents to their adult children.

21.4 The inter-relationship between financial and non-financial transfers

The next step of the study was to explore the effects of the respective transfer variables on each of the four transfer outcomes, controlling for key demographic variables and economic distress. The analyses were done separately for the second wave (before the crisis), the fourth wave (immediately after the crisis) and the sixth wave (as an indicator for long-term impact). Two of the four transfer variables showed significant results in relation to the long-term effect of the crisis: (1) sizeable financial help and (2) looking after grandchildren.

First, we regressed sizeable financial help on non-financial transfers and small financial help. The coefficients, as presented in Figure 21.3, show a

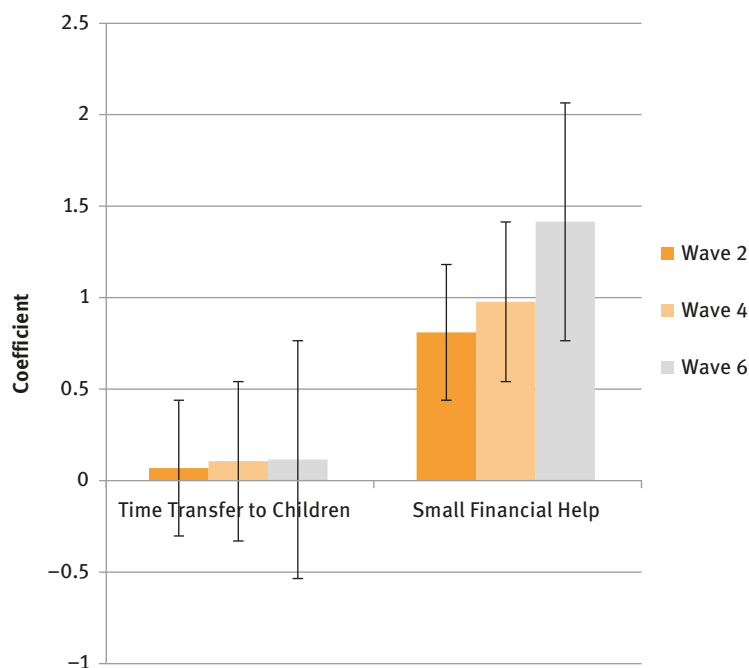


Figure 21.3: Transfer predictors of large financial transfers.

Note: The figure illustrates the effect of non-financial transfers and small financial help to adult children on the provision of sizeable financial help to adult children, as predicted by means of the logistic regression, controlling for age group, gender, education, marital status, number of children and financial distress.

Source: SHARE Wave 2, 4, 6 release 6.1.1.

significant positive effect of the propensity to provide small financial help to children, and of non-financial transfers to a lesser degree on the propensity to provide sizeable financial help. Hence, supporting adult children in everyday matters by providing small financial help and personal/practical help increases the tendency to provide large financial support. The results of a Wald test to compare the coefficients among the waves showed that the effect of small financial help increased significantly after the financial crisis and continued to rise in the long term (wave 6). Thus, sizeable financial help does not substitute for small financial help or non-financial help but supplements such assistance.

Next, we regressed the frequency of looking after grandchildren on the respective transfer variables. The coefficients are presented in Figure 21.4. The results show that before the crisis, the association between sizeable financial help and looking after grandchildren was insignificant, but the correlation increased positively after the crisis. The correlation of small financial help also increased. In comparison, the provision of non-financial transfers (practical help) remained a predictor of looking after grandchildren even after the crisis, but to a lesser degree. Thus, here too, there is little evidence of a substitution effect.

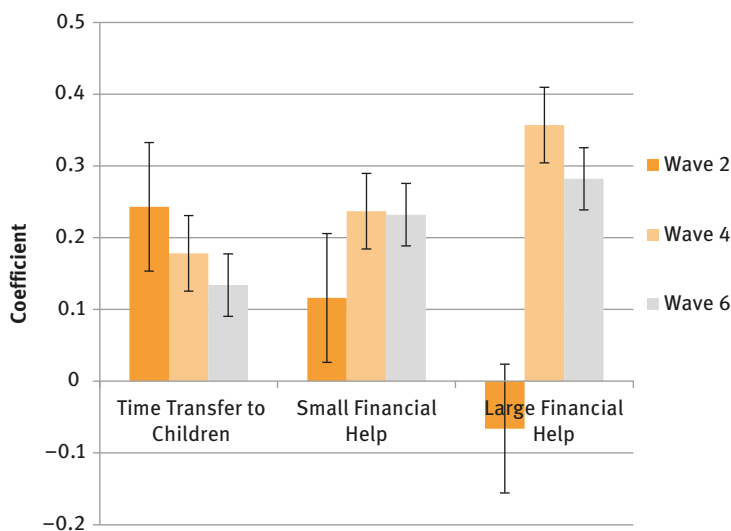


Figure 21.4: Transfer predictors of looking after grandchildren.

Note: The figure illustrates the effect of non-financial transfers, small financial help and sizeable financial help to adult children on the frequency of looking after grandchildren, as predicted by means of logistic regression, controlling for age group, gender, education, marital status, number of children and financial distress. This regression is restricted to respondents that have grandchildren.

Source: SHARE Wave 2, 4, 6 release 6.1.1.

21.5 Conclusions and policy implications

This study clarified that financial shocks, such as the economic crisis of 2008, have long-term effects on private parental transfers to adult children. This study also showed that despite the crisis, little evidence exists for a substitution effect in the balance between financial and non-financial transfers to adult children. Thus, major economic recessions do indeed constitute a serious risk factor for the private exchange of assistance and weaken parents' ability to provide financial and non-financial transfers to their adult children. Nevertheless, many older parents continue to assist their children, both financially and practically, even if to a lesser degree given the tribulations imposed by the economic recession.

References

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