Retirement savings and bequest motives

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Leanne Cass
Outline

1. Assess the empirical validity of alternative theories of the bequest motive.

2. Is there a retirement savings puzzle?

3. What would be the long-run effect of an interest rate rise on the composition of personal asset-holdings and wealth inequality?
Why do we care about bequest motives?

- Equity: intergenerational wealth transfers affect wealth inequality
- Efficiency: bequest taxation
- Testing the life-cycle hypothesis
Accident and inertia

• Accidental bequests cannot be ruled out, but evidence suggests that intentional motives are important

• Page (2003)
  • A one percentage point increase in the marginal tax rate on bequests is associated with almost $4000 in additional inter-vivos gifts over a three year period.

• Kopczuk and Lupton (2007)
  • Of the 78% of net wealth that is estimated to be bequeathed by single households aged 70 and older, 53% is accounted for by a bequest motive
(Pure) Altruism

• Individuals care directly about the wellbeing of their heir
  • Empirical test: bequests are decreasing in the income of the recipient

• Overall, evidence of a purely altruistic bequest motive is weak

• Wilhelm (1996)
  • Neither within- nor between-family analysis reveals a significant relationship between child earnings and bequest levels

• Laitner and Ohlsson (2001)
  • Inheritances are negatively related to heirs' earning potentials but with marginally significant coefficients

• Kopczuk and Lupton (2007)
  • Financial and demographic characteristics of children have insignificant effects on the probability of having a bequest motive.
Warm glow
a.k.a. impure altruism or the egoistic bequest motive

• Individuals are motivated by a desire to have positive net worth upon death, but don’t care about the recipient’s utility

• Hurd (1989)
  • Finds a statistically significant but economically trivial bequest motive

• Kopczuk and Lupton (1997)
  • 75% of the elderly population has a bequest motive
  • Of the 78% of net wealth that is estimated to be bequeathed by single households aged 70 and older, 53% is accounted for by a bequest motive
Strategic/exchange motive

• Motivated by a desire to manipulate the behavior of the recipient

• Bernheim et al. (1985)
  • Higher bequests are associated with more attention (phone calls and visits) from children to parents
  • As hypothesized, this relationship holds only for families with multiple children

• Perozek (1998)
  • When controls for family and child characteristics are included in the specification, the effect of bequeathable wealth on attention becomes negligible and insignificant
The retirement savings puzzle...

• ...is not a puzzle!

• Some good reasons why people do not significantly draw down their wealth during retirement:
  • Uncertainty – about lifetime and medical expenditures
  • Bequests and inter vivos gifts
  • Suari-Andreu et al. (2018)
    • Older households do not usually withdraw housing equity during retirement
    • Homeownership may be closely linked to a bequest motive, either altruistic or strategic, and housing may be a commitment device for saving
Interest rates and wealth inequality

• Long run effect of an interest rate rise
  • Asset holdings would shift away from real estate towards financial assets
  • Housing equity is usually more significant in the asset portfolios of less wealthy households, so wealth inequality may increase
  • But if the luxury housing market is important enough to the portfolios of wealthy households, wealth inequality may actually decrease

• O’Farrell et al. (2016)
  • If assets and liabilities are distributed in the same way then the asset price change has no effect on the net wealth distribution.
Bibliography


