Giving With a Warm Hand: Evidence on Estate Planning and Bequests

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Outline

1. Introduction
2. Kopczuk (2007)
3. Data
4. Methodology
5. Results
6. Conclusion

Introduction

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2. De Nardi et al. (2010 JPE) find that in the US precautionary saving explain a fair share of the wealth distribution of retirees. However, it does not fully account for the saving of the wealthiest.

3. In countries where out of pocket medical expenditures are not relevant (e.g. the Netherlands), we still observe the retirement-savings puzzle (van Ooijen et al., 2015 DE).

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- We contribute to the literature by empirically studying the presence of a bequest motive using administrative data for the Netherlands.

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- Studying the bequest motive is specially relevant nowadays since the ratio of inherited to aggregate wealth has increased considerably during the last decades (Piketty and Zucman, 2014 CEPR).
- We contribute to the literature by empirically studying the presence of a bequest motive using administrative data for the Netherlands.
- To that end, we build on and expand the previous work by Kopczuk (2007 QJE).

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- Given a bequest motive, individuals may engage in early bequests due to tax reasons and/or to exert control over how a bequest is spent/invested (McGarry, 2013 AER).

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- He finds an effect for married males. However, there are two relevant concerns he cannot fully account for:
  - Medical Expenditures
  - Income Shocks

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- We expand Kopczuk's work in four different directions:
  - We observe the whole net worth distribution and thus we are able to apply quantile regression.
  - We can generate a more refined measure for length of terminal illness.
  - The Dutch institutional context prevents any issue caused by medical expenditures and/or income shocks.
  - We can connect every individual in our sample with his/her children.

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- We start with 10 thousand deaths occurred in the Netherlands between 2006 and 2010. After merging, we are left with 9523 observations.

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- By subtracting liabilities from assets we obtain net worth. Data are given at the household level.
- Splitting the sample into gender-marital status groups, we see that all distributions are highly skewed as expected.

Data - Net Worth at the End of Life

Table 1 Net Worth at the End of Life by Gender and Marital Status

	Avg	p10	p25	p50	p75	p90	p99	Obs
Single Females	158	0	5	22	170	429	1592	2559
Single Males	161	0	4	24	215	455	1342	1313
Married Females	241	2	19	130	325	579	1719	1759
Married Males	282	3	20	142	349	590	2142	3892
All	224	1	11	64	288	543	1701	9523

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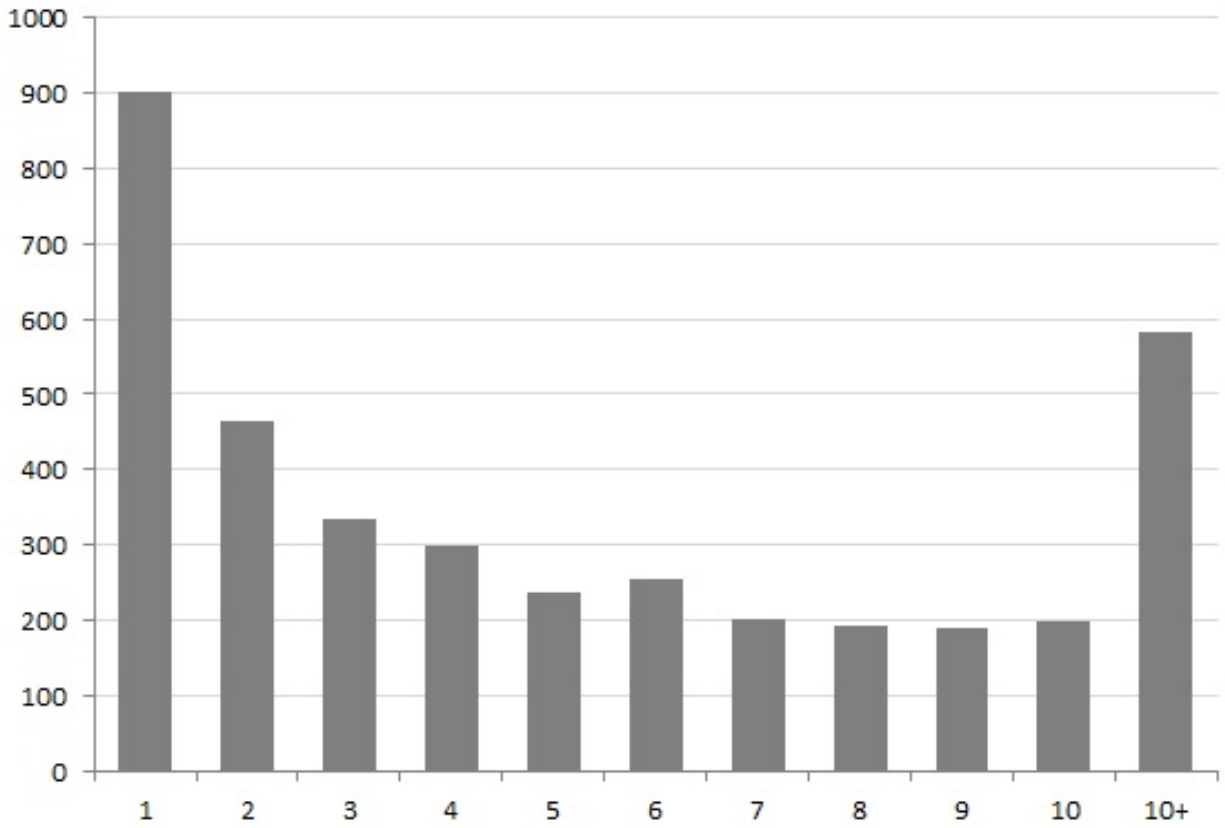
- LoTI $= [31^{st}$ Dec year $(t-1)] - [$date 1st COD-related intake$]$.

Data - Length of Terminal Illness (LoTI)

Figure 1 Histogram Length of Terminal Illness in Years



Note: Zeros are excluded from the figure. Their frequency is 5661.

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Methodology

- We estimate the following regression equation:

$$NW_i = \beta_0 + \mathbf{D}_i'\boldsymbol{\beta}_1 + \mathbf{X}_{1i}'\boldsymbol{\beta}_2 + \mathbf{X}_{2i}'\boldsymbol{\beta}_3 + \mathbf{t}_i'\boldsymbol{\beta}_4 + \varepsilon_i.$$

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- We thus have three binary treatments and one discrete treatment.

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  - It allows differentiating the effect according to net worth level.
- The second aspect is specially pertinent, since we expect estate planning to be particularly relevant among the rich.

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- For p75 D_{4i} has a negative effect of **46 K €** ** (**13%**), at p95 of **76 K €** (**12%**) and at p99 of **477 K €** *** (**22%**).

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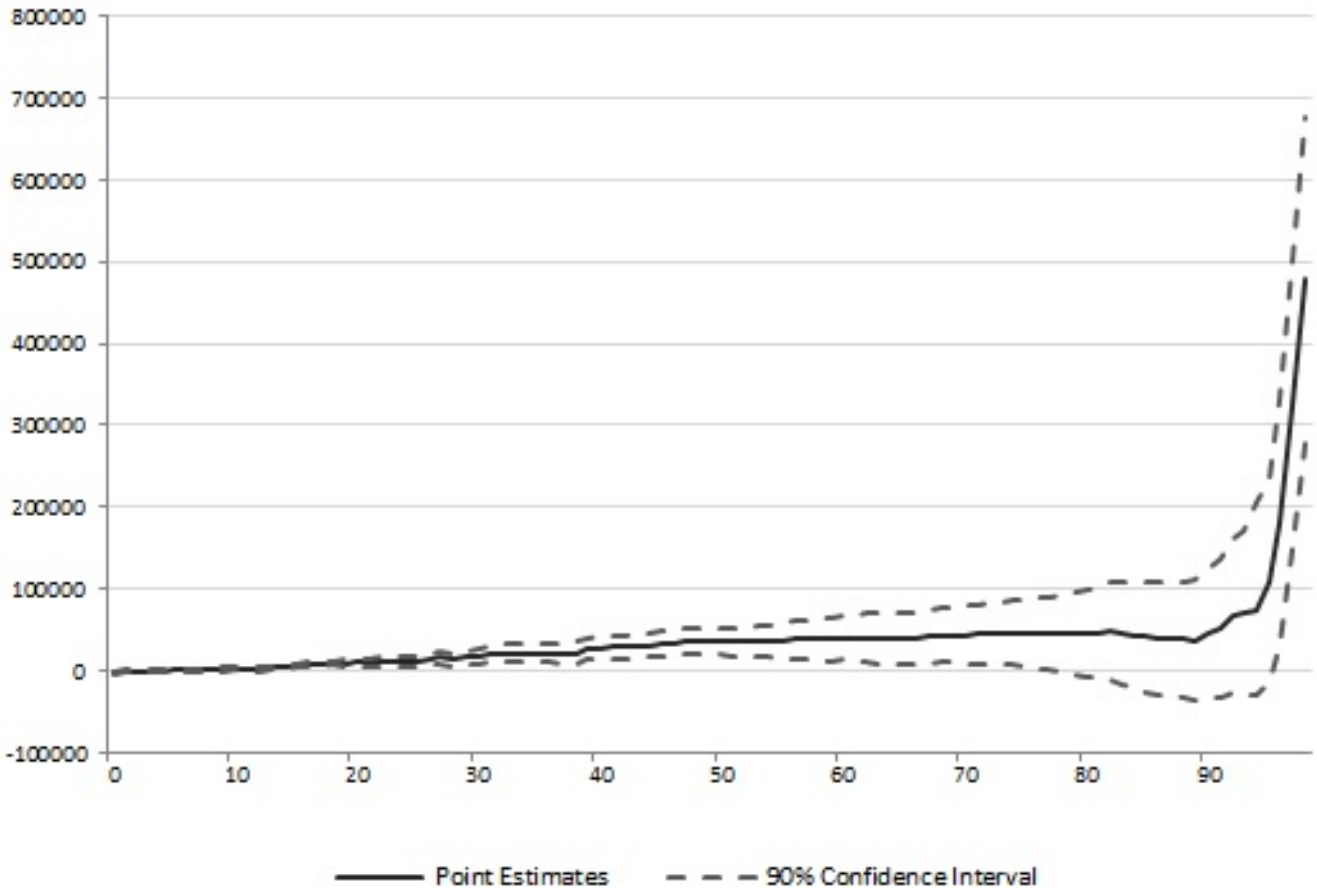
Figure 2 QR Estimates D_{4i} for Married Males



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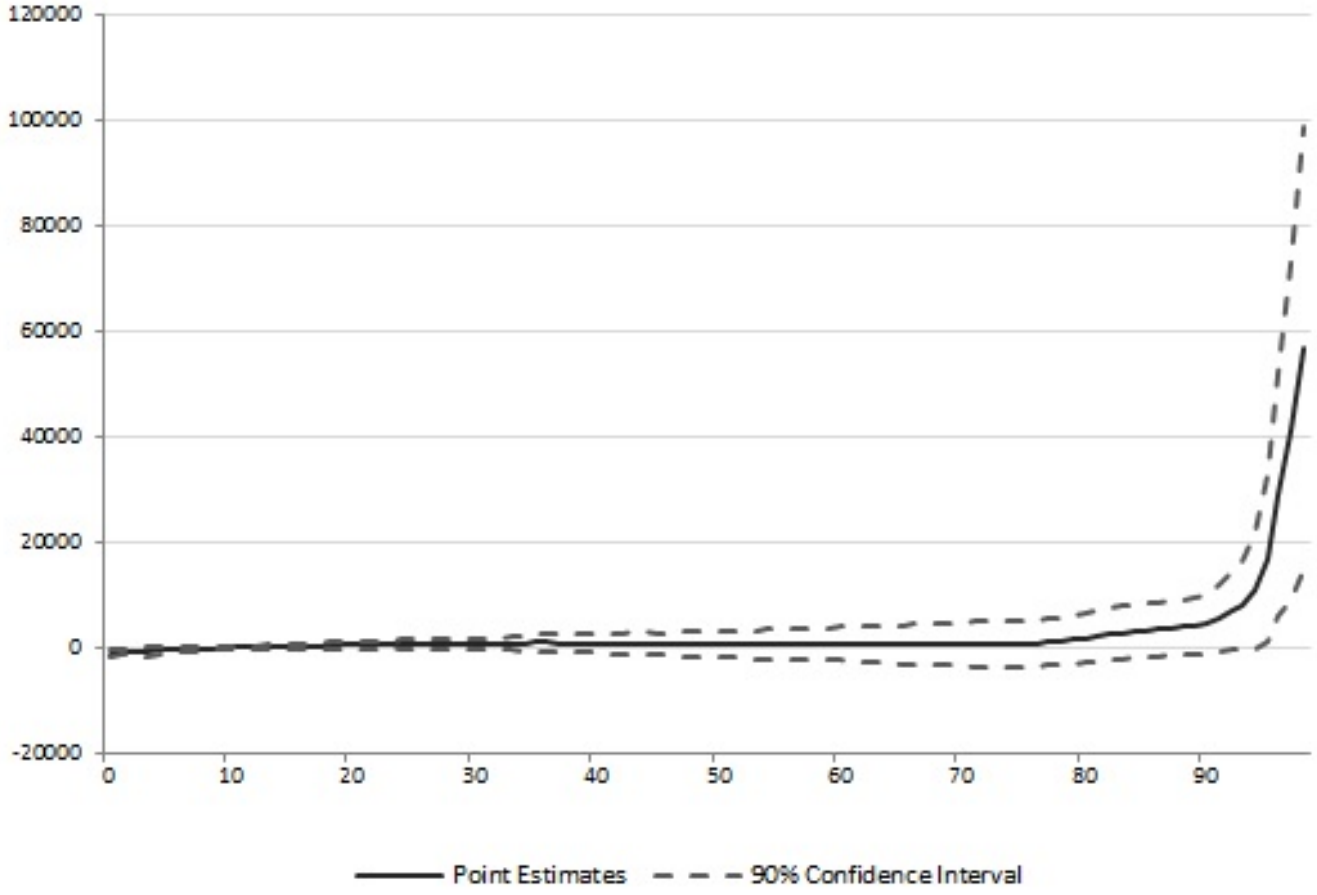

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- When introducing the children variables (i.e. $\mathbf{X}_{2i}$), we find that the β_1 estimates become slightly smaller.
- Interaction with the number of children is not significant.
- Conditional on children>0, we find a stronger effect for those with children in the 1st income quartile (**10.9 M €** ***), compared to the 2nd (**201 K €** **), the 3rd (**359 K €** *), and the 4th (**99 K €**).

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- However, it is only clearly significant for married males at the top of the NW distribution, and for illnesses above ten years long.
- Most single individuals in our sample are widowed or divorced, while most married individuals are males.
- These results are compatible with Kopczuk's since he finds also a clear effect only for married males, and for illnesses longer than one month.

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- Additionally, the effect is clearly stronger for those whose children are at the 1st quartile of the lifetime income distribution.
- Following Kopczuk, we interpret these result as early bequests that result from estate planning triggered by the onset of a terminal illness.
- We thus conclude that **the bequest motive is a very promising explanation for the fact that Dutch individuals do not withdraw their wealth during retirement**, as shown by van Ooijen et al. (2015).

THANKS FOR YOUR ATTENTION