

Expected inheritance, labor supply and (dis)saving

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Research Question

- What is the impact of receiving an inheritance on economic decisions such as labour supply and saving/consumption?
- Do subjective expectations of receiving an inheritance affect working and saving attitudes?
- We investigate whether this channel is at work for American households approaching retirement
- Bequests should matter, as wealth does, for labour choices.
- We argue that subjective expectations of future wealth endowments through bequests could also matter in choices on how intensively to participate in the labour market.

Existing Findings

- Brown et al. (2010) found that receiving an inheritance changes working decisions, by advancing retirement. The authors find this effect particularly at work when inheritance is unexpected
- The evidence of the importance of bequests as a ratio of total asset varies widely. Kotlikoff and Summers (1981) estimate it amounts up to 80% in the US while more recent findings (Horioka, 2009) claim that bequests will be around 20% of total wealth.

Expectations and their role

- Subjective expectations play a significant role in shaping financial decisions:
 - Angrisani et al (2013) show that subjective expectations on stock market returns can account for low stock market participation, and help to predict the share of risky assets conditional on participation
- Expectations on housing prices have also been investigated in a recent paper by Niu and Van Soest (2015), however, the literature has not looked yet at the actions following expectation changes

Bequest, Inheritance. Actual Versus Expected

- Horioka et al. (2003) explore the channel linking bequest expectations and saving behaviour
- The higher is the expectation of leaving bequests the lower the asset decumulation pace (life cycle model with bequest).
- On the reverse question -effect of receiving an inheritance-, there is some evidence on the effect of actual inheritance on economic behaviour (Brown et, al 2010), rather than expected one

Contribution of this paper

- Do individuals form their expectations on inheritance and translate them into different attitudes towards working and savings planning?
- The role of expectations in the economic literature has been widely advocated as prominent in shaping economic and financial decisions.
- Expectations, no matter if right or wrong are the basis on which households form their decisions. We claim that expectations on future inheritance could represent an important factor affecting labour outcomes as well as saving choices.

Conceptual Framework

- The traditional model of the life cycle posits that additional wealth, in expected value, will increase consumption and reduce savings.
- On one side: an increase in expected inheritance would act as a wealth increase, thus increasing consumption and reducing savings. Our prediction is thus that an increase in the probability of receiving an inheritance will decrease savings.
- On the other side, leisure, if a normal good, will increase by reducing the number of hours worked and, hence, income.

Data

- Health Retirement Study
- A longitudinal panel study that surveys a representative sample of more than 26,000 Americans over the age of 50 every two years since 1992.
- The survey collects information about income, work, assets, pension plans, health insurance, disability, physical health and cognitive functioning, and health care expenditures.
- Waves from one to ten used for the analysis
- We select those between 55 and 70
- Our sample consists of 3970 working individuals and 8,870 head of households

Empirical Strategy

- We use as dependent variables:
 - working status, working hours, working expectations at age 62/65, expected years to retirement
 - savings -as delta financial wealth
- Estimation Strategy: Fixed Effect Model

Descriptive Statistics

Variable	Mean	S.D
Savings (delta wealth)	9109.8	155255.7
Age	62.23636	3.139841
Married or partnered	.6106385	.4876331
R goodhealth	.8465464	.3604446
S goodhealth	.505841	.4999942
R expects inheritance	18.09334	32.79077
S expects inheritance	13.68062	29.46218
Financial Wealth (log)	10.28674	1.744765
R hours of work	41.05743	12.54438

Regression Results

Dep variable: Working

R expects inheritance	0.0000117	-0.0000197	0.0000457
S expects inheritance	0.0000704	0.0000495	0.0000684
L.logf	-0.0132***	-0.00895**	-0.0177***
L.lognfa	-0.0000510	-0.00114	0.00162
logy	0.0199***	0.0248***	0.00993***

note: no effect on hours, working expectations at 62 and 65

Dep variable: Years before retirement

	All	Female	Male
R expects inheritance	-0.00286	0.00133	-0.00890*
S expects inheritance	-0.000571	-0.00565	0.00492

Dep variable: Savings

	All	Female	Male
R expects inheritance	-183.5	-272.5*	-67.25
S expects inheritance	-286.9**	110.2	-473.1***

note: household heads only

Results. Comments

- Results are mixed
- expected future labour choices on average react less to subjective expectation of receiving a bequest
- Savings reduction facing an increase in the probability of inheritance receipt is more stable
 - the overall effect is driven by female response to expectation, while men do not react significantly
 - men react to subjective expectation of their spouses receiving an inheritance
- Robustness checks. Results hold if we drop those who gave 50% probability as an answer. When subjective values are asked, such as the probability of leaving a bequest, many studies have highlighted a 50-50 answers and other problems as rounding (Kleinjans and Van Soest, 2014). Also, results hold for married people only.

Conclusions

- Expectations on future inheritance have an effect on financial and working decisions
- despite the variable is the probability of receiving a bequest, with no knowledge on the amount, we still find an impact
- (negative) impact is found on savings and on expected working years before retirement