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

By E. Suari-i-Andreu, R. van Ooijen, R. Alessie, V. Angelini

A Discussion by

Michael Haliassos, Goethe University Frankfurt, NETSPAR, and CEPR

The paper's objective

- Key objective: Establish the presence of a bequest motive as an important determinant of net wealth
  - Separately from other motives, e.g., precautionary
- Key insight: exploit exogenous shock of terminal illness, establish effects on net worth at (or near) death, and assign this to early transfer of wealth to descendants/ beneficiaries
- Recipients of liquidations are not observed directly
  - Link partly established by showing relevance of the economic condition of children (although presence of children themselves fails to be significant)

Key findings

- Paper augments the analysis of Kopczuk (2007) for the US and exploits superior institutional (insurance) aspects and data (links) in the Netherlands.
- Length of terminal illness lowers net worth (near to the) end of life but only for married males and (almost solely) for terminal illness longer than 10 years
- Effect especially strong for those
  - at the top of the net worth distribution
  - younger (less than 65 years)
  - with children with lowest incomes
- The presence or number of children do not matter
- Excellent data, careful application, useful extension, interesting results

The key challenge

- Show that effects of the length of terminal illness on net worth at (or near) death are not due to other factors
- Candidate factors:
  - Health expenditures (rely on insurance in NL)
  - Shock to income/earning ability (rely on disability benefits in NL)
  - Shortening of horizon
    - Even without bequests, they should accelerate liquidations
    - The very rich are maximally dependent on assets for future consumption and thus maximally affected by the change in horizon

The key challenge (ctd)

- Preference shift in favor of liquidation
  - e.g., joint vacations (it takes two!); or optional treatments
    - Can the authors exploit variation according to medical condition and ability to do this?

- Saving motives other than bequests
  - Saving for an objective: abandonment of previous goals rendered infeasible
  - Precautionary saving: with terminal illness they qualify for health insurance payments and entitlements and State takes over part of what they would have had to provide for themselves
    - Reduced reliance on children and greater ability to spend more on their own, possibly in addition to giving to children
    - Control over precautionary assets can be passed on to children:
      - Precautionary wealth becomes bequest
      - Dual purpose of assets: switchover rather than decomposition

A new motive?

- Introduction of bequest motive that did not exist before
  - Would it be there without the illness?
  - Two findings support this:
    - Effect is stronger for younger people
    - Effect is stronger for people at the lower end of the wealth distribution (those previously "ineligible" for bequests)
  - The relationship to the kids' economic condition is important, although one cannot rule out that they "discovered" their kids because of the shock.
  - Is there evidence of previous engagement with the kids? Or altruistic behavior?

Further points

- Quantile regression: effects stronger at the higher end of the wealth distribution
  - Is this because these are the most likely to leave a bequest
  - Or because these are the least likely to have transferred assets prior to the onset of the terminal condition?
  - Or because these are more likely to have access to a financial advisor alerting them to the possibility?
- The presence and number of children do not matter but their condition does
  - Puzzling: how to reconcile? Only conditional?
  - Is there some independent evidence of altruism (e.g., charity work)?