Inter Vivos Health Transfers

Shiko Maruyama
University of New South Wales

Abstract:

Intergenerational coresidence by elderly parents and their adult children are often formed to meet parental care needs and to provide valuable family support to old-age security. However, despite this general notion and despite numerous studies on the coresidence effect conducted in sociology, demography, public health, and gerontology, the empirical literature has yet to reach any general consensus on the effect of coresidence, let alone an understanding of the mechanism.

Is the coresidence effect indeed positive, or negative? Why can it be negative in the first place? To answer these two questions, I propose a simple theory as to why coresidence may affect parental health negatively, and then I provide a new estimate of the treatment effect of coresidence and test the theory implications.

The burden of informal care borne by coresiding children is widely documented. This setup provides parents incentives to reduce their health capital investments to shorten the remaining life, because it alleviates the future burden the coresidence puts on children. Facing the trade-off between additional life years and additional burden on children, parents rationally decide on the utility-maximizing expected remaining life years. When parents expect a large gain from coresidence, they may prefer to live with children compromising with remaining life years for the sake of their children, which I call an *inter vivos health transfer*.

I build on the structural discrete-choice program evaluation framework developed in Aakvik, Heckman, and Vytlacil (2005), which enables this study to address three issues previous studies have failed to address: (1) the sample selection on unobservables, (2) heterogeneous treatment effect, and (3) truncation bias due to death.

An empirical study of Japanese longitudinal data reveals that: (i) the average treatment effect of coresidence on parental survival is unlikely to be effectively positive; (ii) the estimated treatment effect on the treated is, in fact, significantly negative, indicating that the three year mortality rate of elderly parents in coresidence would be 8.8% points lower, if they lived independently; and (iii) vulnerable parents with high care needs and a limited potential to contribute as a resident member of a household, typically older widowed mothers, are most likely to be in coresidence and experience the largest negative impact.