

5.3 Changes in Financial Transfers: Do Family Events Matter?

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Over the last twenty years, both sociologists and economists have stressed the importance of financial transfers that flow between generations and within families. It has even been suggested that total inter vivos transfers (including material gifts) have become quantitatively more important than bequests. Empirical results from Wave 1 of SHARE have shown that financial transfers are indeed important. Among the selected countries, more than one quarter of the respondents reported making at least one gift of 250 euros or above to their family members or other members of their social networks within the last 12 months, while the rate of financial transfers received was much lower, about 4 per cent (Attias-Donfut et al., 2005; also see Albertini et al., 2007).

A challenging issue is to understand the motives for such transfers. In the economic literature, two main motives have been suggested (see Laferrère and Wolff, 2006). On the one hand, people may be altruistic and account for the well-being of the recipient. They will then give money when they have resources and when recipients are in a needy situation. On the other hand, transfers may be related to an exchange between generations. This will occur for instance if parents decide to give money to their children only when the latter provide them with services and other time transfers. Another situation is where parents make a loan to their children, for example to finance educational expenditures, and receive a repayment with additional interest once the children have grown up.

Interestingly, transfers are expected to strongly depend on the demographic and economic situation of both the recipient and the donor under altruism. Conversely, when transfers are explained by an exchange within the family, then transfers may be given independently of individual situations. Children who have benefitted from parental loans will have to honour their debt whatever their situation. The second wave of the SHARE data provides thus the unique opportunity to study how financial transfers depend on changes in the individual situation of respondents in different European countries.

A Stable Pattern of Financial Transfers

When using a panel of respondents who took part in both waves 1 and 2, we find very similar rates of transfers given over the period. The proportion of respondents having made a gift of at least 250 euros was 29.2 per cent in Wave 1, while it amounts to 30 per cent in Wave 2. Nevertheless, we also note that the range between the lowest and highest rates increased during the period, from 25.9 per cent in 2003 to 40.9 per cent in 2007.

The relative ranking of the European countries in terms of prevalence of transfers has not really changed between the two waves. On the lower part of the distribution, Spain is characterized by the lowest proportions of donors, about 12 per cent, which is 17 points of percentage less than the average rates. In a similar way, Netherlands, France and Belgium are countries with a lower than the average proportion of gifts made to others. At the top, Germany and Sweden have among the highest rankings at both waves (respectively 1st and 3rd for Germany, 2nd and 1st for Sweden). We observe more significant changes in the proportion of gifts made to others in two countries – Greece where the rate of transfer is much lower in 2007 than in 2003 (from 3rd to 7th) and Italy with an opposite pattern (from 6th to 2nd).

The situation is rather similar when turning to transfers received, although the proportion of respondents claiming the benefit of a gift from others is much lower. First, the rate of

transfers received is remarkably stable over the period, 6.1 per cent in 2003 and 6.4 per cent in 2007. Second, the relative ranking in Europe of countries has not changed for almost all countries. For instance, the probability for a respondent to receive money is the highest for Greece (1st rank in both years), and Austria is in the second position in 2003 and third in 2007. In contrast, Spain, the Netherlands, France and Belgium have the fourth worst ranks over the period. Third, albeit the discrepancy remains of small magnitude, it is of interest to note that the countries with the most significant variations are Italy and Greece and that these changes – which need to be examined further in future research – go exactly in the same way as those observed with transfers given.

In the SHARE survey, respondents are asked about the main motives of the transfers. As shown in Figure 1, we note differences in the self-reported motives depending on whether transfers are received or given. When transfers are given and thus essentially benefit younger generations, respondents most often claim that their gifts are related to basic needs (between 20 and 25 per cent) or large expenditures (about 20 per cent), and to a lesser extent to family events (less than 15 per cent) and education (around 8 per cent). In about one-fourth of cases, respondents who receive money from other people quote basic needs, while the proportion of transfers related to large expenditures is much lower for those who are receiving than giving. In one-third of the cases, there is no specific reason provided by the respondent.

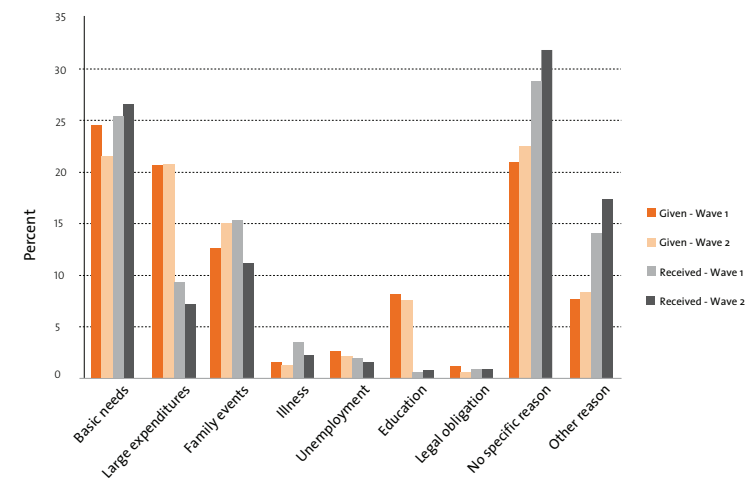


Figure 1 Self-reported motives for transfers given and received

Interestingly, as for the rates of transfers, we observe little change over the period in the pattern of self-reported motivations. Differences are not really significant for transfers received, as the proportion of recipients remains limited. Concerning transfers given, we only observe a decrease of about 3 point of percentage in the ‘basic needs’ explanation, while the frequency related to ‘family events’ is slightly higher. Events that occur later in the life cycle like marriage of children or birth of grandchildren could explain the increasing weight of the ‘family’ events motive.

According to the SHARE data, the bulk of transfers made to others is received by younger generations since about 7 transfers in 10 are made to children and 1 in 10 to grandchildren. Transfers made to children amount to 70.2 per cent in Wave 1 and 69.9 per cent in Wave 2, the same figures being respectively 10 per cent and 9.9 per cent for transfers to grandchildren. Data also exhibit a few differences by country. Transfers are made more often to children in Northern European countries like Sweden, Netherlands and Denmark, where more than 80 per cent of the transfers flow to children. On the opposite, in Southern European countries (Italy, Spain and Greece), the average rate of transfer to children is much lower than the average rate, but there are more gifts made to more distant family members (other than parents, siblings or children).

While the pattern of recipients is remarkably stable for almost all countries and all types of recipients, two exceptions are noteworthy. Both in France and in Switzerland, we observe a shift from transfers to children to transfers to grandchildren. In these two countries, the proportion of gifts to grandchildren increases by about 4 points of percentage from Wave 1 to Wave 2, while the proportion of transfers to children reduces by 9 points in France and 3 points in Switzerland. However, these changes remain somewhat limited. So, a first finding from the SHARE longitudinal data is that on average, there has been little change in the pattern (rates of transfers, self-reported motives, types of recipients) of private inter vivos transfers in the form of money.

Changes in Private Transfers and Family Events

Two explanations are consistent with these constant rates of transfers observed over the period with the SHARE data. While transfers may always concern the same households, it may also be that some respondents who were giving in Wave 1 are no longer giving money in Wave 2. The use of longitudinal data allows us to investigate further whether these are the same households (or not) who are involved in private transfers at both waves. Using the matched sample of respondents who took part in both waves, we construct transition matrices both for transfers given and transfers received. The results for each country are shown in Figures 2 and 3.

When taking all European countries into account, we find that 57.3 per cent of the respondents have never made any gifts to other persons. Among the 43.6 per cent who have at least given once, 38.9 per cent of them have given money both in Wave 1 and Wave 2. The proportions of respondents who have made only one transfer, either in Wave 1 or in Wave 2, is almost equally distributed between the two years (12.7 per cent in Wave 1, 13.4 per cent in Wave 2). Clearly, these are not always the same households who take part in private transfers, and it is therefore of interest to know how changes in individual characteristics may influence the decision to help others.

Nevertheless, there are large differences among the selected countries, see Figure 2. By definition, when the rate of transfers given is low, the probability not to observe any transfers over the period is much higher. It amounts for instance to nearly 80 per cent in Spain. In contrast, in countries like Germany, Sweden or Switzerland, more than half of the respondents participate at least once in such financial transfers. Another difference lies in the persistence of the transfer decision. Among those who have given money, the proportion of respondents having given money at both years is much higher in Greece (52.7 per cent) and to a lesser extent in Sweden in Germany, Sweden and Denmark. In Belgium and in the Netherlands, this proportion is lower than the average proportion (around 33 per cent instead of 39 per cent), but it is in Spain that the financial support is the more versatile.

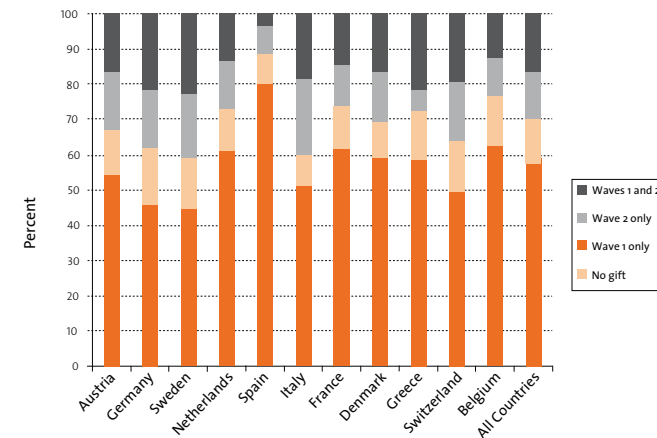


Figure 2 State dependence in transfers given, by country

We obtain very different results when turning to transfers received, see Figure 3. As we have shown that the receipt of transfer was much less frequent than the gift decision, it follows that about 9 households over 10 never benefit from a financial support (89.6 per cent). Among those who are recipients at least once, only 20 per cent of these respondents have received money both in Wave 1 and Wave 2. Again, there are large differences among the selected countries. In the Netherlands, Germany, Spain and Italy, less than 10 per cent of the recipients have been helped at both waves. Conversely, in Greece, the same proportion amounts to 46 per cent.

It is clear from our results that different factors influence the pattern of financial transfers given and received. While decisions to give money are more permanent, the benefit of transfers is certainly more related to negative shocks (like widowhood or health problems) or poor economic circumstances experienced by the households. At the same time, Greece is really an exception in this European comparison, as state dependence is much stronger in this country. An explanation could be the role of family norms of intergenerational support in Greece, so that Greek households have to care both for the younger and older family members by providing them with some money.

We finally attempt to link the changes in the provision of financial support evidenced over the period and changes in the situation of the respondent. We choose to focus on a few events that are related to various aspects of the life-cycle of the respondents, i.e. family situation, grandparenthood, health, job status, and financial situation. Before turning to the role of these events on the transfer pattern, it should be noted that some of them remain scarce. To quote a few figures, 96.3 per cent of the respondents did not change of family situations, while 0.6 per cent has been faced with a separation and 2 per cent with widowhood. In the sample, 70 per cent of the individuals have grandchildren both in Wave 1 and Wave 2, and only 4.7 per cent of them become grandparents during the period. Changes in illness concerned more than 10 per cent of the respondents, and 8.5 per cent of them become inactive. So, as transfers are themselves not so frequent (especially

gifts received), then our results have to be interpreted with caution. Our different results, both for transfers given and received, are reported in Table 1.

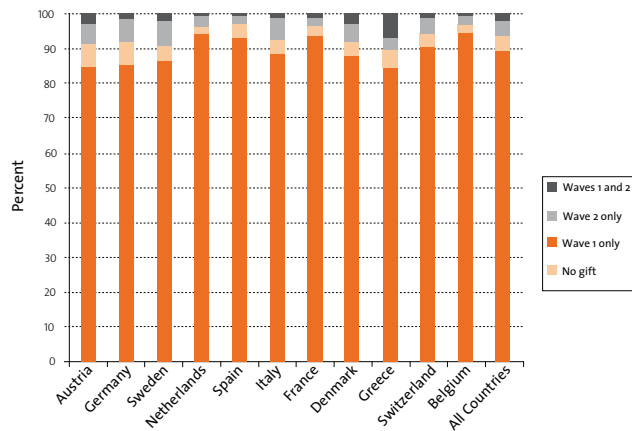


Figure 3 State dependence in transfers received, by country

Happy family events are expected to enhance the propensity to help others. The SHARE data suggest that when the respondent becomes a grandparent, she or he is more likely to make a gift to their children or the grandchildren. In this case, the proportion of those who have made a gift only in Wave 2 is 16.7 per cent, 4 points higher than when respondents have grandchildren over all the period. Negative family events should reduce the capacity of the respondent to give money. Results are not so clear here. On the one hand, those who have experienced a separation or a widowhood between the two waves have a higher propensity to receive money from others. At the same time, we also note that in such situations, the respondent is also more likely to give money. An explanation could be the duty to care for children through alimony in the case of a divorce. Concerning widowhood, the surviving spouse will certainly inherit part of the spousal wealth.

Curiously, we observe little effect of transfers received on changes in health, although those who become disabled or in poor health should a priori be in a more needy position. This finding stems in fact from the trade-off between financial and time transfers. As shown in Attias-Donfut et al., (2005), upstream transfers related to old-age care mainly occur through the provision of time-related services. Our results thus do not indicate that there will be no family support to disabled older persons, but instead that this support will not take a financial form. At the same time, it is important to note that at this stage in the analysis we have not examined respondents who entered into residential or other care homes between waves 1 and 2. Older people who receive formal care are much more likely to receive financial transfers to pay for this care.

Concerning transfers given, Table 1 shows that respondents who become disabled or report a long term illness during the period are more likely to give money in Wave 2 only,

although the differences remain limited. As illness is strongly related to the receipt of informal support (in particular from children), it is plausible to explain these transfers as exchange-motivated, where respondents pay for the services provided by their children.

Variables	Transfers given				Transfers received				in %
	Never	in W1 only	in W2 only	in W1 and W2	Never	in W1 only	in W2 only	in W1 and W2	
Family situation									
New Couple	51.9	17.6	13.0	17.6	91.6	0.8	6.1	1.5	1.2
Separated	61.5	12.3	15.4	10.8	81.5	7.7	9.2	1.5	0.6
Widowed	61.3	11.7	14.4	12.6	90.2	3.1	5.8	0.9	2.0
No change	57.4	12.6	13.3	16.7	89.6	4.1	4.2	2.1	96.3
Grandparent									
Never	48.5	14.5	14.7	22.3	86.8	5.6	4.8	2.7	24.7
In Wave 2 only	47.6	12.6	16.7	23.2	89.6	3.4	4.7	2.4	4.7
In both waves	61.2	12.0	12.7	14.2	90.6	3.5	4.1	1.8	70.6
Become long term ill									
No	57.2	12.8	13.0	17.0	89.5	4.1	4.3	2.2	88.2
Yes	58.9	11.8	15.8	13.5	90.7	3.9	4.3	1.2	11.8
Become disabled									
No	57.4	12.7	13.1	16.9	89.4	4.1	4.3	2.2	86.5
Yes	57.3	12.7	15.2	14.8	90.8	3.8	4.0	1.4	13.5
Job change									
Had a change	65.2	12.6	11.0	11.2	86.4	5.7	6.0	2.0	9.8
No change	56.6	12.7	13.5	17.2	90.0	3.7	4.1	2.2	81.7
Active to inactive	55.7	12.8	15.0	16.5	89.2	5.3	4.5	1.0	8.5
Deterioration in financial situation									
No	57.1	12.2	13.5	17.2	89.5	4.2	4.2	2.2	80.3
Yes	58.6	14.4	12.7	14.3	90.1	3.3	4.9	1.7	19.7
All	57.4	12.7	13.4	16.6	89.6	4.0	4.3	2.1	-

Table 1 Changes in individual situation and financial transfer given

It is difficult a priori to know how the transition from activity to retirement will influence the pattern of private transfers. Since the amount of pension is lower than the earnings under activity, this could negatively influence the decision to help others. On the other hand, people sometimes receive lump sums when retiring. They also have more leisure time to devote to their family, which could increase the opportunity to give money. According to the data, the transition from activity to inactivity is more often accompanied by an increase in the provision of financial support to others. Nonetheless, as for other life events, changes in the private support remains of low magnitude.

Finally, the situation is more clear when taking economic considerations into account, measured here through a self-reported question on financial situation. When respondents benefit from additional resources, they should be able to give more money to others. We find that households whose situation has deteriorated over the period are significantly less

likely to make a transfer in Wave 2. The proportion of those having given money in Wave 2 only or both in Wave 1 and Wave 2 amounts to 30.7 per cent when the respondent reports no deterioration in their financial situation, while the same figure is only 27 per cent otherwise. Additional results show a slight increase in the financial support received when the respondent reports having fallen into poverty over the period.

As they stand, our results show some influence of the changes in the respondent's individual situation on the pattern of financial transfers in Europe. The family situation, demographic events, health as well as economic resources affect the propensity both to give and receive money, although the SHARE data evidence a limited role for all these factors. Several concerns have to be kept in mind when interpreting these results.

First, we have examined changes in transfers during a short period of time. Decisions to give money remain rather infrequent, and the transfers that are recorded in the survey are only recorded in the time period between the two waves. Second, we only focus on the propensity to give or to receive money and not on the amounts transferred. We chose to do that as amounts are much more subject to measurement errors and transitions are much more difficult to study. Of course, it is very likely that family events will also influence the amount of transfers given (or received). Nevertheless, such changes in family support remain difficult to observe in such a short space of time. For instance, a respondent could decide to help each year a child with a limited amount of money, or to postpone her transfer decision during a few years and then make only once a large gift. Clearly, depending on how transfers are measured in the survey, this could have an impact on our interpretation of the results.

Finally, we have only taken into account here the situation of the respondent. The theoretical models of private transfers have shown that transfers were expected to depend not only on the characteristics of the donor, but also on the characteristics of the receiver. While our results suggest that the situation of the recipient is not so important when explaining financial transfers received by older respondents, other studies have reached different conclusions when considering transfers from older adults to younger generations. Financial gifts made to young adults, for example, are most often devoted to those with low incomes, unemployed, or still in education.

Conclusion

These first results from the SHARE longitudinal data on financial transfers point to a number of preliminary findings as well as areas for future research. First, the robustness of the data is confirmed, since overall rates of financial transfers given and received do not vary much between the two waves.

- Older Europeans continue to make gifts of money to their social network as they are ageing. This suggests the high degree of stability in the frequency of transfers.
- Only among very old Europeans is the likelihood of making a financial transfer decreasing.
- Important events in family life do matter, as can be seen not only from the explicit motives for making a financial transfer, but also by the events that occur over time to both older Europeans and their family.
- Older Europeans respond both to crises within the family as well as to 'happy' events, such as the arrival of a grandchild.

In this volume's Chapter 5.2 on social support, it was found that the passage to retirement appears to have a positive impact on the amount of time transfers given to other family members. The importance of retirement is also made evident in transfers of money.

- The move into retirement does not diminish the likelihood of making a gift of money, but on the contrary, the overall trend is rather an increase. Altruistic motives may be at work, especially if retirement is accompanied by one-off lump sum payments from previous employers or insurance policies.
- Many older Europeans contribute in important ways to domestic economics. These first results suggest that their withdrawal from the labour force does not imply a withdrawal from economic processes. Further research needs to be undertaken on the impact of retirement for social and financial support within the family.

These findings have consequences for social policies, in so far as the flow of financial transfers to younger family members depends upon retirees having an adequate income. Pensions of course have a clear role in this domain, and it may be that a significant part of downward financial transfers can be explained by relatively high levels of retirement income. But leaving aside this complex process and the social policy implications of pensions being used to help younger as well as older family members, the SHARE data provide evidence of how families continue to respond to different life events, both 'happy' events and crises. These transfers represent an important financial sum and should not be ignored in the development of policy measures concerning the income and resources of older Europeans.

References

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