

# MOTIVES FOR BEQUESTS WITHIN THE MIDDLE CLASS

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This paper studies the prevalence and nature of middle-class bequests in the US using data from the Health and Retirement Study (HRS). The literature on private intergenerational transfers distinguishes two general types of bequests on the basis of donors' motives: intentional bequests and accidental bequests. We approach the data with the perspective that both types of bequests may well be present, and we try to assess their relative importance in practice. On the basis of our HRS data, we find more support for the model in which bequests are primarily accidental.

Intentional bequests have received the most attention in the literature. Intentional bequests can affect the distribution of wealth and provide insurance within lines of descent (in the sense of redistributing resources from high to low earners). Intentional inter-generational transfers may substitute, to some extent, for public assistance in providing resources to both young and old adults. Households that lack links to relatives may face greater risk of poverty than those with extensive networks of family connections.

Accidental bequests occur when individuals die without spending all their net worth, unintentionally leaving money or property to heirs. This type of bequest seems likely to be smaller on average and to occur unpredictably – depending on precautionary saving in an environment with imperfect annuity insurance instruments.

We first examine the degree to which mating is assortative in terms of spouses tending to come from similar economic backgrounds in the HRS. The degree to which mating is assortative on backgrounds has a bearing on the remainder of our analysis: if parents and parents-in-law tend to have similar circumstances, we would not be surprised to observe child households either receiving no inheritance at all or inheritances from both sets of parents. We find some support of assortative mating on parental resources. However, upon more detailed examination, the degree of assortativity is fairly limited: the correlation coefficient for parent-relative-to-child lifetime resources within couples is only about 0.20.

Next we present a model of household behavior that incorporates both intentional and accidental bequests. In other words, we develop a model nesting both common theories of bequest behavior. We argue that a hallmark of intentional bequests is dependence on the relative lifetime resource ratio of donors versus beneficiaries, and the model clearly illustrates this pattern.

We then use the HRS to derive a five-part summary of parent-to-child relative resources. With altruistic, intentional bequests, parents with higher resources relative to their children should be more likely to leave

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bequests. Although we find some support for intentional bequest theories in that a higher ratio of parent-to-child lifetime resources does seem positively associated with a higher frequency of parental bequests, the evidence is limited.

On the other hand, we find fairly strong evidence of a reduction in bequest activity at the very lowest parent-to-child resource ratios. We suggest that accidental bequest behavior may provide the explanation. Although parents are life-cycle savers, they prepare not only for routine consumption in retirement but also for health emergencies. Households with low income may make modest preparations in the latter regard, planning to rely upon Social Security, SSI, Medicare, Medicaid, and help from their children and other relatives. These households, consequently, will tend to have low and infrequent accidental bequests. Remaining households will have accidental bequests if their medical expenses are low and their longevity short.

We find several additional types of support for the modified accidental model of bequests. First, as stated, correlations of economic background between spouses seem positive but hardly exact. Frameworks in which intentional bequests are very important also tend to suggest that marital patterns should be highly assortative. Frameworks with accidental bequests are less demanding in this respect, and, thus, it may provide a better fit with the evidence.

Second, the HRS enables us to distinguish which financial respondents report that their spouses have received inheritances. Other work by the authors shows that the frequency of own inheritance is double, conditional on reporting an inheritance for one's spouse. This might seem to point to a combination of strongly assortative mating and intentional bequest behavior. However, we argue that an accidental bequest model that is more sophisticated than the simplest variants may provide a better explanation. We provide illustrative calculations.

## Conclusion

We study data on the private intergenerational transfers of respondents in the original HRS cohort. We set up a model that includes both intentional (altruistic) and accidental bequests. We argue that looking for one type of bequest behavior in isolation may be futile, as the two could easily be intermixed in practice.

We find some evidence of altruistic bequest behavior, but the support seems limited. The strongest pattern evident in the data is a rather steep increase in bequests for parents beyond the very lowest income group. This suggests to us an accidental-bequest model in which the lowest income parents rely on support in their final end-of-life expenses from public programs or their grown children, but other parents carry enough resources that they may leave an estate in certain circumstances.

The HRS enables us to trace the origin of individual inheritances, and earlier work suggested that there are anomalously many paired inheritances for both spouses within couples. The present paper suggests that a model of accidental bequests may be able to account for that as well.

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