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Issues of Who is Helped and Why**

PSC Research Report

**Report No. 01-485**

*September 2001*

**PSC** POPULATION STUDIES CENTER  
AT THE INSTITUTE FOR SOCIAL RESEARCH  

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UNIVERSITY OF MICHIGAN

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## **Financial Transfers from Parents to Adult Children: Issues of Who is Helped and Why**

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## **Financial Transfers from Parents to Adult Children: Issues of Who is Helped and Why**

### **ABSTRACT**

To what extent can young adult children rely on their parents for financial support? Despite the critical role parents have in supporting their children, parental motives for financial support remain unclear. Findings using two waves of data from the Health and Retirement Study that control for the needs of children and the resources of parents suggest that parents give more *inter vivos* financial assistance to their more disadvantaged children rather than focusing on children most able to give them financial help in return. Assistance is unevenly distributed among children in the direction favoring the most financially needy, supporting altruism as a motivation. Other measures of child well being besides income, including home ownership, education, parental status, and marital status, also suggest that parents help needy children more. Living near by, an indicator of a child's potential helpfulness, results in receiving more, a finding consistent with exchange motives. Neither altruism nor exchange theories, however, address the finding that stepchildren receive substantially less support than naturally born or adopted children. An alternative explanation incorporating this finding suggests that giving of support is mediated by the degree to which parents feel a child is their dependent. Findings are robust upon allowing for unobserved differences across families by estimating fixed effect models.

#### **Datasets used:**

*Health and Retirement Study (HRS): U.S., 1992 (wave-1), 1994 (wave-2)*

## INTRODUCTION

The family is the key unit that makes decisions about how to invest in member's human capital and distribute resources between generations. Financial assistance from parents to their adult children is the most prevalent of all potential supports across generations, providing a direct means through which parents can transmit their wealth to children (Gale and Scholz, 1994; Lillard and Willis, 1997). Family financial transfers to children also influence the effectiveness of government redistribution policies (Barro, 1974; Becker, 1974; Cox and Jakubson, 1995; Rosenzweig and Wolpin, 1994; Schoeni, 1992) and inequality across generations (Becker and Tomes, 1979; Menchik, 1988; Tomes, 1981; Wilhelm, 1996).

Money transfers to children are of two types--made either as *inter vivos* transfers while the parent is alive, or as bequests. This paper focuses on *inter vivos* transfers. *Inter vivos* assistance to children in the U.S., like bequests, vary significantly across the population due to differences in parental resources, needs of children, family structure, and cultural factors (Soldo and Hill, 1993). Though parents are a critical source of financial support to young adult children, only data collected within the last decade has begun to address limitations previously obscuring the nature of parental motives. It is important to understand how parents allocate support to their children both as a basic social scientific question and from a policy perspective of which children tend to benefit least from private family assistance.

Observed patterns of giving can be informative about parental motives for giving. The relationship between transfers and the recipient's income is at the forefront of a long-standing debate on the motivation behind such transfers. One theory hypothesizes an altruistic motive wherein donors care about the well being of the potential recipients and hence try to maximize well being among children (Barro, 1974; Becker, 1974). The primary competing hypothesis argues that transfers are a form of exchange and represent payments to the recipient for the provision of services (Cox, 1987). These competing explanations are described in detail in the next section. Suffice it to say at this point that tests of the importance of these motives have rested on the effect of child's income on receipt of assistance. This study extends research in this vein in four main ways.

First, panel data both help minimize endogeneity and more accurately assess the extent to which children are given equal support over time. Most prior studies that examine transfers are severely limited by the cross sectional nature of the data. Rather than the predictor variables being measured at the same time period as the transfers, predictor variables in this study are measured prior to transfers, thus more closely reflecting the conditions when parents made the decision to give support. Transfer measures over two time points also minimize the extent to which circumstances unique to one time point might distort an assessment of whether children in a family receive equally. For instance, a child may receive more assistance in a given period if they had a child, purchased a home, recently moved away from home, or began college (Cooney and Uhlenberg, 1992). Such period effects do not as much distort assessments of whether children in a family receive equally when transfers are measured at two time points.

Second, previous studies largely fail to adjust for parental and child factors that may bias the estimated effect of child's income on transfers. This set of potential confounders

includes measures of the needs and resources of adult children and their parents. Besides lessening omitted variable bias, including these measures further clarifies parental motives because they are themselves indicators of child's well being and potential as helpers. Measures of child well being besides income include single parent status, home ownership, education, and work status. A child's potential to help is reflected in measures of geographic proximity, work status, and whether they have children of their own.

Third, previous studies pool unrelated children, failing to control for unobserved heterogeneity at the family level. The Health and Retirement Study (henceforth HRS) provides a complete roster of information for all children in a family, enabling within family estimates that compare related siblings rather than unrelated children. Within-family estimates obtained from fixed-effects models better isolate family based motivations as well as unmeasured resources that influence the allocation of resources.

Fourth, tests for whether altruism or exchange is relevant have focused on the effects of children's income on the amount of assistance given. But measures of children's income obtained from parents have large amounts of missing data (Soldo and Hill, 1995). Care was taken both in the collection of the data and by the author in assembling the data to adjust for this missing data via imputation procedures.

## BACKGROUND

What motivates parents to provide financial support to young adult children? Economists' interest in the proper specification of the parents' utility function has led discussion of this issue to focus on two distinct types of motivation—altruism and exchange—and to focus on them as competing, with one or the other relevant, but not both. With altruism it is concern about the overall well being of their children that drives parents' actions (Becker, 1974; 1991). Exchange, on the other hand, involves underlying expectations for assistance being reciprocated over time (Cox, 1987).

The relationship between the size of the transfer and the recipients and donor's income has been examined before in an effort to shed light on the appropriateness of models of transfer behavior. The altruistic theory predicts that the recipient's income is negatively related to transfers (Barro, 1974; Becker, 1974). More specifically, as a child's income increases, other things being equal, the amount of support they receive will decrease. Exchange theories, on the other hand, assert that transfers are a form of exchange and represent payments to the recipient for the potential reciprocal provision of services (Cox, 1987). The amount of transfers received may be either positively or negatively related to the recipient's income (or other proxies for "well-being"). Thus the exchange model cannot be easily rejected in the way the altruism model can be by failing to observe a negative relationship between child's income and transfers.

Ambiguity in the exchange model about the relationship between transfers and child's income is the result of two uncertainties. First, though it is true that those children with little or no potential to provide help are less likely to receive help from their parents in exchange, we do not know what type of reciprocal support parents most desire from children. Do parents primarily desire financial support in return or the kind of emotional support, care, and non-monetary services that low-income children may be equally as able to provide (net of all other factors)? Realistically, parents may be expecting a combination of both monetary

and non-monetary support. Parents' giving more as a response to a child's increasing income, all else being equal, is consistent with the exchange model if the parent desires in return the financial assistance that high-income children are more able to provide. But if a parent seeks only non-monetary help in return, the assistance they give to children would not be expected to change in response to changes in the child's income because a child's ability to provide this kind of help is largely independent of their income.

Second, the direction of the relationship predicted by the exchange model depends on how much a recipient's demand or ability (present or future) to supply help, whether monetary or otherwise, changes in relation to the donor's demand or ability to supply help (McGarry and Schoeni, 1996). A child with increasing income may actually receive less because that child may demand a higher "price" per unit of whatever reciprocal help he or she provides to the parent in return. This demand for a greater compensation (higher transfers) by the child may cause the parent to "purchase" less assistance from that child. At the higher "price" per unit of assistance, the total amount the parent spends on the child (amount of transfer) may increase or decrease.

Given the uncertainty over the type of reciprocal support parents desire and the elasticities of supply and demand for services, the exchange model does not predict what the relationship will be between child's income and amount of transfers. However, the relationship of other child characteristics to transfers, net of other factors, do better test parental motivations for exchange. Living close to parents can be considered a child resource because proximity enables children to more easily assist their parents should they need it. Net of other factors, children who do not work or do not have children may have greater time resources to assist parents that other children do not have. These favorable structural circumstances of some adult children may lead parents to give them more financial assistance because they view them as more likely to reciprocate in the future (Rossi and Rossi, 1990; Mancini and Blieszner, 1989). If children with these proximity and time resources receive more support, net of other factors, then that is evidence consistent with the exchange model.

This study examines how financial transfers to a particular child depend on the observed and unobserved characteristics of the child-parent dyad. These linked characteristics include resources like parent's financial wealth, children's well being, family structure, differing potentials of children, and the macroeconomic environment (Soldo and Hill, 1995). For multiple child families, a particular parent's characteristics are represented in multiple dyads, but any child's characteristics are represented in only one dyad. High parental resources may act as a "push" factor influencing assistance. Low child well being may act as a "pull" factor that encourages receipt of assistance. The altruism and exchange models make different predictions about the expected relationship of these factors to receipt of transfers. Net of other factors, the altruism model predicts that children who are more financially needy will receive more. The exchange model predicts that children who are more able to provide reciprocal support to parents will receive more, provided that we can adequately control for factors that influence the child's elasticity to demand higher compensation for that support.

Another important determinant of support in addition to characteristics of the child recipient and parent donor is the well being and potential helpfulness of other children. When deciding how much to help, a parent may consider the well being of a particular child relative to both other children in the family and non-related children in the population. Likewise, parents conceivably consider the potential helpfulness of their children relative to both the

potential helpfulness of the other children in the family and the cost of help purchased from the private sector.

Findings from previous work that examines the relationship between transfers and income of the recipient child differ depending on whether the focus was on *inter-vivos* transfers or bequests. Contrary to the expectation of altruism that parents should leave more to their least well off children, studies testing the motivation for transfers by examining bequests largely find that parents give relatively similarly sized bequests to their children (Wilhelm, 1996; Menchik, 1988; Tomes, 1981; 1988). Studies examining *inter vivos* transfers are less consistent. Earlier work by Cox (1987) and Cox and Rank (1992) found evidence of parents giving more to better-off children. More recent work, however, suggests that *inter vivos* transfers disproportionately help children who are least well off (Altonji et al., 1992; 1997; Dunn, 1997; Lee, Parish, and Willis, 1994; McGarry and Schoeni, 1995). McGarry (1999) gives a possible reason for these discrepancies by suggesting that *inter vivos* transfers are more tied to the current incomes of children because they are directly made in response to liquidity constraints. Bequests, however, are only indirectly related to the current incomes of children because parents have imperfect knowledge of their children's permanent income.

One limitation of previous studies is that most fail to consider unmeasured factors associated with transfers, such as family closeness, parents' emphasis on earning money, and children's aptitudes for achieving financial success, which might also be correlated with a child's income and well being. Arguably many of these important factors are fixed at the family level, with children being equally exposed to them. For example, parents who take a keener interest in their children's success might be more likely to both give financial assistance and help them launch a successful career that leads to above average income. Omitted family-level variables, whether they are positively or negatively associated with child's income, bias regression estimates of income's coefficient. This study estimates longitudinal models that adjust for both unobserved heterogeneity at the family level and a broad set of child and parent characteristics, enabling a better assessment of whether the altruism and exchange theories cover the full ground in explaining parental motivations for supporting their children.

## DATA AND MEASURES

The Health and Retirement Study (HRS) is a nationally representative panel study of individuals born between January 1, 1931, and December 31, 1941 and their spouses or partners. The survey respondents are the parents of the child recipients, providing all the information about both the children and assistance provided. Extensive information about various types of transfers between these respondents, their parents, and their children was collected in interviews averaging one hour in length. HRS is an ideal data set for this study because retirement-aged parents represent the most important sources of family support to their children (Hill et al., 1993, Soldo and Hill, 1995).

Wave-1 and wave-2 were fielded in 1992 and 1994, collecting information on 25,189 and 22,537 adult children coming from 7,547 and 6,710 respondent households, respectively. In both waves most children live outside the household (95 to 98%) and are between the ages of 18 and 40, with a mean age of 29 (86 to 95% are 18 or older). Analyses

are restricted to non-resident children 18 and over because questions about transfers pertained only to them. This restriction also conceptually limits our focus to inter-household exchanges rather than exchanges between coresident family members. With these restrictions, the eligible sample consists of 21,741 wave-1 and 20,807 wave-2 child-parent dyads coming from 6,926 and 5,928 households, respectively.

*Outcome Variables: Incidence and Amount of Money Transfers*

Families with at least one living child, regardless of age or coresidence, were asked if any child had been given financial assistance totaling 500 dollars or more in the last 12 months. In wave-2 the threshold for this question was lowered to 100 dollars to address concern that the 500 dollar threshold excluded many transfers, particularly in low-income families (Soldo and Hill, 1996). Analyses in this paper are restricted to the wave-2 measure because it is more inclusive and enables estimation of longitudinal models.

Financial assistance was defined to include “*support, gifts, or loans for specific expenses such as a down payment on a house or medical care or insurance as well as unrestricted contributions that might be used for any purpose including paying bills or living expenses.*” Costs of shared housing or food were excluded. Respondents who reported giving financial assistance were then routed into a sequence of questions asking which child or children had received assistance, how much was given to each, and if the assistance was for school expenses or home buying. For married couples, the questions were administered to the female partner, based on the assumption that women are more knowledgeable about the children. Respondents who were unable to recall the amount of transfer were routed to a series of bracketing items. Responses to these bracketing questions were used together with demographic characteristics to impute transfer amounts. The author used a hot-deck imputation method based on bracketed responses (<500, 500-1000, <5000, >1000, >500 dollars) and a matrix containing household head’s education, race, income, and marital status. These imputed data are not yet available in the wave-2 public release of HRS. The author can provide details of the imputation procedures upon request. See Freedman and Wolf (1995) for more on methods of imputation.

Table 1 examines the within-family allocation of assistance to children. Reported results use the more inclusive wave-2 transfer measure (100 dollar threshold), but results using the 500 dollars threshold (not shown) showed similar patterns. Statistics are reported by number of adult children in the family, where an adult child is defined as aged 18 or over and not living with parents. Rows two through seven of the top panel report the distribution of families by the number of children they give to, given the overall number of children in the family. The proportion of families giving to no adult children varied little with number of adult children in the family. Regardless of family size, about 3 out of 5 families give no transfers of 100 dollars or more to adult children during the course of a single year. This means that 2 out of 5 do give to adult children, but they do not give to them equally. Most families giving to adult children give to only one. A result of this is that adult children from larger families stand a lower chance of receiving. Children from larger families also stand to receive a smaller amount. The average dollar amount of support declines significantly with family size, from an average family total of 3,427 dollars for families with one child to a family total of 2,594 dollars for families with six or more adult children.

[Table 1 About Here]

Some studies have found transfer amounts to be quite similar among children, but here there is little evidence of similarly sized transfer amounts. The last two rows in the middle panel report two proportions assessing equality of transfer amounts among adult children in multiple-child families. First is the proportion of families giving identical amounts to all adult children. Overall only seven percent of donor families with multiple children give identical amounts to all adult children. Just one percent of families with six or more adult children give identical amounts to all adult children.

The proportion in the last row of the middle panel addresses the concern that children may receive *approximately equal* amounts. Allowing a child recipient's transfer amount to range one standard deviation above or below their actual amount produces the proportion reported. If the ranged values for all children intersect, then the family is judged to give *approximately equal* amounts to all children. Sensitivity analysis consisting of adjusting the range to include values up to plus or minus two standard deviations did not yield significant differences in the reported proportions. These proportions still suggest that few families give approximately equal amounts to all children, with values that range from 2 to 16 percent. This observation is inconsistent with prior analyses of bequests that point to inheritances given equally among children (Menchik, 1988; Wilhelm, 1996).

Results in the bottom panel of Table 1 report the proportion of families in which multiple children who do receive, receive equally. Families giving to multiple children comprise 13 percent of all families. Across these families, only 29 percent give identical amounts to those children receiving something, and only a marginally higher 37 percent give *approximately equal* amounts. These percentages giving equal or approximately equal amounts are considerably lower in families with 3 or more potential recipients.

The significant within-family variation in amounts given to children *may* suggest that parents allocate assistance depending on need. Selective giving is consistent with an altruistic motive wherein parents are more likely to give (and give more) to some children than others. However, whether need is the most salient factor influencing support requires examining the direction of the variation. This task is pursued in the remaining sections.

Table 2 reports patterns of transfers at the level of the individual child. It lists, separately for waves 1 and 2, the number of eligible children, the proportion receiving, and the mean amount of assistance for those receiving transfers over the course of the year. The proportion receiving 100 dollars or more is only marginally greater than the proportion receiving 500 dollars or more (18.6 vs. 16.0 %), but the average amount of assistance for those receiving in wave-2 is substantially smaller (2,485 vs. 3,486 dollars). It should be emphasized, however, that the vast majority of children receive no assistance. The remaining tables shift the unit of analysis to the child-parent dyad.

[Table 2 About Here]

### *Characteristics of Respondents and their Children by Transfer Status*

Table 3 reports descriptive statistics for the child-parent dyads, reporting the mean values, standard deviations, and the percentage receiving assistance for the variables used in the subsequent multivariate analysis. Families with multiple children contribute multiple observations. For example, parents with three eligible adult children contribute three observations to the sample. As noted above, children younger than 18 or living in the household were excluded from the analysis because information obtained about them is limited (only age, sex, and relationship to the parent were recorded for coresident children) and because the interpretation of intra-household assistance is ambiguous.

Child characteristics likely to influence whether and how much financial assistance is received include income, age, gender, marital status, parental status, education, work status, current school enrollment, and proximity to parents. Non-response rates were low for all the items describing the respondent's children except reports of child's income, for which imputed income brackets were substituted. This item asked respondents to categorize a child's income into three broad ranges (less than \$10,000, \$10,000-\$25,000, more than \$25,000). About 20 percent of the respondents were unable to give the income range for one or more children, and 60 percent of those respondents could not give the income range for multiple children (Soldo and Hill, 1996).

[Table 3 About Here]

Parental or family level characteristics likely to impact financial assistance to children include age, race, education, income, marital status, and health. Age, race, and education are of the male partner in a couple; income and net worth are household level measures; number of living parents is for both respondents in a couple. Self-rated health is represented as a dichotomous indicator equal to one if health of either spouse is reported to be fair or poor. Controlling for characteristics of both spouses separately (not shown) did not change the results. Models also adjust for parent characteristics and variables reflecting potential competing interests for financial resources: the number of family members living in the respondent's household, total number of children, and whether parents are still alive or residing near by. The rationale behind including these factors is that parents may offer less help to children if they have living parents or other children to assist, or they may offer less assistance if grandparents are transferring resources to children (Soldo and Hill, 1993). Models also adjust for whether any child in the family receives time or coresident support. Time support refers to whether the respondent helps with any grandchildren while coresident support indicates whether any child lives in the household. Including these broader support indicators as covariates puts financial assistance in the context of other support provided to children.

Descriptive statistics in Table 3 support the expected relationship between the recipient's income and the likelihood of a transfer as predicted by the altruistic model. Children earning less than 10,000 dollars per year are more likely to receive help while children making more than 25,000 dollars income are less likely to receive help. Other child characteristics in also suggest that children receiving assistance may be more needy: they tend to be younger, more often in school, unmarried, not currently working, and less likely to be homeowners.

The cross sectional descriptive statistics presented in Table 3 provide tentative evidence that parents base their support decisions on child’s need. Events in children’s lives like schooling, marriage, and home buying impact the timing of transfers. Parents may give different amounts to different children in any given year, yet compensate over time to equalize amounts given to children. In attempt to correct for this potential problem, Tables 2 and 3 were duplicated pooling both wave-1 and wave-2 transfers. Wave-1 and wave-2 values were pooled after imposing the constraint of including only wave-2 transfers greater than or equal to 500 dollars. This was done because the minimum wave-1 transfer threshold was set at 500 dollars. These results (not shown) are nearly equivalent to the ones presented in Table 2 and 3.

*Determinants of Support: Multivariate Results*

This section examines the relationship between financial assistance and characteristics of the adult children and their donor parents by estimating multivariate models that adjust for observed and unobserved factors. Regression results report robust standard errors that take into account the parent-clustered nature of the data. Standard errors were obtained using the GENMOD clustering procedure in SAS (Version 6.12), which specifies that observations be independent across groups but not necessarily independent within groups. This procedure, used here grouping by families, produces robust standard errors.

Columns 1-2 of Table 4 estimate the receipt of transfers in wave-2 with the following equation,

$$MTC = \begin{cases} 1 & \text{if } \mathbf{a}'_{mte} \mathbf{x} + v_{mte} > 0 \\ 0 & \text{otherwise} \end{cases}$$

where MTC (money to child) is a dichotomous indicator for whether the child received assistance,  $\alpha'_{mte}$  is a vector of estimated coefficients corresponding to a vector  $\mathbf{x}$  of child and parent characteristics, and  $v_{mte}$  is a vector of residual errors with a standard normal distribution. Though Heckman’s sample selection model estimates a probit as a first stage model, we present the substantively equivalent logistic estimates in Table 4 for receipt of support because of the ease of interpretation.

Conditional on a transfer being made, the (natural log) amount of financial assistance to a child,  $\ln A_{mte}$ , is estimated in Columns 3-4 with the following equation,

$$\ln A_{mte} = \mathbf{b}'_{mte} \mathbf{x} + \mathbf{m}_{mte}$$

where  $\mathbf{b}'_{mte}$  is a vector of estimated coefficients corresponding to the vector  $\mathbf{x}$  of covariates, and  $\mathbf{m}_{mte}$  is an error term characterized by an independently identically distributed random variable with mean zero and variance  $\mathbf{s}^2_m$ . Because the residual in the “any transfer” equation may be correlated with the residual in the “amount” equation, ignoring self-selection can lead to biased estimates in the amount equation. To adjust for this potential self-selection into positive transfers, models include as a covariate the correlation between the family’s propensity to give and its amount of giving (Heckman, 1979). The positive correlation of 0.46 ( $\mathbf{s}_{mte}$ ) indicates that families who give also give larger amounts.

After controlling for observed characteristics of the parent-child pair (such as parent's income), the better off a child is financially, the less likely he or she received a transfer. We interpret the log-odds coefficients in Table 4 for receipt of support through exponentiation. Children making 25,000 or more dollars annually in wave-1 (1992) were 32 percent less likely to receive a transfer in wave-2 ( $\exp(-0.39)=0.677$ ). Parents are only weakly more likely to give assistance to the lowest income children than to middle income children. However, if we consider home ownership as a proxy for child's financial well being, then parents are substantially less likely (30 percent) to give to children who are better off.

[Table 4 About Here]

Besides child's income and home ownership, other indicators of child well being also suggest that assistance disproportionately goes to the more needy. Children who are themselves single parents, arguably the most economically vulnerable marital status- parenthood combination, are 38 percent more likely to get help compared to the omitted single without children group. Conversely, children who are married and childless, perhaps the most self-sufficient combination, are 14 percent less likely to receive a transfer. Parents are significantly more likely to give to children in school, a group less able to provide for themselves yet potentially more helpful in the future. This parallels the higher likelihood that children with some college will get help. Children who are under-employed also benefit--part time workers (fewer than 30 hours per week) and non-workers are more likely to receive help. Children who live near their parents are 23 percent more likely to get help, possibly reflecting a greater potential to reciprocate.

Estimates from the "amount" model in columns 3-4 concurs with other recent studies in suggesting a pattern of giving more to needy children as predicted by the altruism model--children in the highest income group (greater than \$25,000) receive on average 15 percent less than children in the middle income reference group (\$10,000 to 24,999). Somewhat surprisingly, parents give no more to the lowest income children relative to the middle-income reference group. The significance and direction of other indicators of child well being concur with the logistic model estimates, suggesting that needy children receive more assistance on average--unmarried children with kids receive 17 percent more than the single-childless reference group; unemployed children receive 25 percent more than full time workers.

However, there is also some evidence consistent with the exchange theory. Namely, children who live within ten miles, a possible indicator of their potential to help if needed, receive 17 percent more. Other notable results indicate investment in schooling--children currently enrolled and those with education beyond the high school level, on average, receive 55 and 27 percent more dollars of assistance than those not enrolled and high school graduates, respectively. Children over age 30 receive 19 percent less and children younger than 25 receive 51 percent more than children aged 25 to 30.

Despite finding that needy children receive more, neither altruism nor exchange theories give insight into why stepchildren receive substantially less support than naturally born and adoptive children. Stepchildren receive 44 percent less than children born to or adopted by both parents (there were no statistically significant distinctions between naturally born and adopted children when separate indicators were included) and are 28 percent less

likely to receive anything. This finding may reflect differences in the degree of responsibility parents feel for their welfare. Parental sense of responsibility is likely to vary both with the child's status as an independent full-fledged adult (indicated by his or her age and self-sufficiency) and with the parents' relationship to the child. Parents may well feel less responsible for a child who is not their offspring. Stepchildren, like more self-sufficient children, may be more removed from being classified as dependents. This alternative interpretation is more consistent with the findings. As a predictor of transfers, being a stepchild operated in the same direction as factors such as having high income, working full time, owning a home, being married, being older, or being out of school. These factors all lowered chances of receiving a transfer and amount received. A child having children, being in school, being in college, or living close to parents were factors operating in the opposite direction. The finding that parents give no more to the lowest income children relative to the middle-income reference group may suggest that the \$25,000 threshold serves as a general indicator of the child being financially independent. This finding fits with parents' sense of responsibility being an important factor motivating transfers.

#### *Fixed-effects Estimates*

Regression estimates in Table 4 are limited in that they fail to adjust for unobserved differences between families. Unmeasured factors associated with transfers, such as family closeness, their emphasis on earning money, and their aptitudes for achieving financial success, may be correlated with a child's income and well being. Arguably many of these important factors are fixed at the family level and children are equally exposed to them. For example, parents who take a keener interest in their children's success might be more likely to both give them financial assistance and help them to launch a career that results in higher earnings. These omitted family-level variables associated with child's income bias estimates of income's coefficient. The fixed-effects model is an appropriate analytic model for adjusting for these unmeasured factors given the complete transfers data for all eligible children within a family (Hsiao, 1990). The fixed-effects model controls for any characteristic that is invariant across family members. Fixed-effects models also have the benefit of removing systematic biases that may exist in measurements of income. Juster and Stafford (1991) find that retrospective data, like that in the HRS, systematically underestimates measures of income. Here, assuming that reports of children's income are systematically biased, the effects will not be distorted by this bias. The log amount of assistance received in wave-2 by the  $c^{\text{th}}$  unordered child in the  $i^{\text{th}}$  family is estimated as

$$\ln A_{ic} = \delta_i^* + \mathbf{b}'\mathbf{x}_{ic} + \mathbf{m}_{ic},$$

where  $\delta_i^*$  is a fixed family-specific effect and  $\mathbf{b}'$  is a vector of estimated coefficients corresponding to the vector  $\mathbf{x}$  of covariates. The error term,  $\mathbf{m}_{ic}$ , represents the effects of the omitted variables that are peculiar to both the families and children and is characterized by an independently identically distributed random variable with mean zero and variance  $\mathbf{s}_m^2$ . Because the  $\delta_i^*$  term represents all fixed differences between siblings in a family, the effect of constant  $\mathbf{x}$  variables (e.g. parent's age) are absorbed into  $\delta_i^*$ . This specification adjusts for unobserved family characteristics that do not vary across children, because the fixed effect

$\delta_i^*$  drops out; only the effects of  $x$  variables that vary across children are estimated. Models include families with two or more non-resident children age 18 or older. This restriction is necessary in order to compute within family estimates.

[Table 5 About Here]

As in the previous estimates, children who make \$25,000 or more receive less than lower income siblings. However, the magnitude of the effect is substantially larger--Children making \$25,000 or more receive 44 percent less than siblings making \$10,000 to \$25,000 compared to 15 percent less in Table 4 estimates. Also as before, families give no more assistance to the poorest children (less than \$10,000) relative to middle-income siblings (\$10,000 to \$24,999).

Contrary to the estimates in Table 4 showing children with some college receiving 27 percent more, the fixed-effects estimates in Table 5 report that college graduate children receive 35 percent less than their siblings who are only high school graduates. This change in the coefficient reflects that, net of other factors, college graduate children receive more relative to the entire sample of high school educated children, but receive less relative to their high school educated siblings. However, it should be noted that only families with both college and high school educated adult children contribute to this estimated coefficient.

Other indicators of child's need largely concur with previous estimates—relative to single children without kids, families on average give 23 percent more to single parent children and 12 percent less to married children who are childless. Families give 55 percent more to children in school. Families give 12 percent less to homeowners than non-homeowners, 24 percent more to children who are part time workers, and 25 percent more to children not working.

Despite this evidence that parents give more to financially needy children, there is also evidence suggestive of motivations for exchange and as well as evidence that can neither be attributed to exchange or altruistic motives. Children who live within 10 miles receive an average of 15 percent more than those who live further away, a result that is consistent with exchange hypothesis. Stepchildren receive 65 percent less than natural and adoptive children. This estimated coefficient for stepchild status is substantially larger than the finding in Table 4 and more powerful than any other predictor, including child's income and enrollment in school. This finding suggests that the relative needs of children and their potential to reciprocate may be only two of several major factors that parents weigh when deciding whether to give support.

If these families of varying sizes differ in their transfer behavior for unobserved reasons related to their size, then pooling all family sizes into one model would bias parameter estimates. Using this rationale, models were estimated separately by family size--for families with 2-3 children and 4 or more children. These separate estimates by family size do not significantly vary from the above estimates, so they are not reported.

## SUMMARY AND CONCLUSION

This examination of the determinants of parent to child *inter vivos* money transfers shows some clear patterns and also some divergent findings. First, all model specifications suggest that parents tend to transfer least to highest income children, a pattern working towards equalizing children's outcomes. Such behavior is evidence of altruistic parental motives. Second, other indicators of children's need and well being in addition to income, including homeownership, single parent status, work status, and school enrollment, also give evidence of altruistic motives of parents. However, the finding that parents give more to children who live close by is consistent with the exchange hypothesis if parents view proximate children as having greater potential to reciprocate help. All findings are robust for both the incidence and amount of transfers as well as models specified to allow for unobserved differences across families. Contrary to findings from recent research on bequests and some findings on *inter vivos* transfers, this analysis finds that few families give similar amounts of *inter vivos* assistance to their adult children.

Despite the support for both the altruistic and exchange models, the finding that stepchildren receive substantially lower levels of support suggests that the relative needs of children may be only one of several major factors that parents weigh when deciding whether to give support. Future research seeking to understand parental motives for assisting children should examine how the degree of parent's perceived responsibility for children varies by the level of the child's independence and biological relatedness. Emphasis in the past on altruism and exchange as competing, with one or the other relevant, but not both, may have discouraged the development of broader explanations incorporating elements of multiple explanations. Aside from the theoretical implications, this finding for stepchildren suggests that more scrutiny should be given to the increasingly common step relations between aging parents and adult children (Eggebeen, 1992).

Several aspects of the data and analytic approach represent a contribution to the literature on transfers. First, examining transfers of a lower threshold of 100 dollars captures a broader range of assistance and addresses previous criticisms of thresholds set at 500 or 1000 dollars. Second, models estimate the two-year lagged effect of covariates on the receipt of assistance, an approach not previously possible. Third, measures of transfers over two time points better reflect the extent to which children are given to equally over time, minimizing the extent to which circumstances unique to one measure might distort that assessment. Fourth, the availability of data for all adult children in a family enabled estimation of fixed-effects models that allow for unobserved differences between families. Finally, models impute missing data on children's income and adjust for an expanded set of covariates reflecting the needs and resources of parents and children. This improves estimates of income's relationship to receipt of support and also aids in hypothesis testing by broadening the definition of children's well being to include other factors besides their income.

These results are reassuring in that they suggest that families compensate their most needy children more. However, future research needs to better understand the varying strategies adopted for allocating assistance across families of different economic resource levels and family structures. For instance, do poorer families with multiple needy children pick winners or combine financial assistance with other forms of in-kind support? How do these strategies for allocation vary along axes of socioeconomic status and racial-ethnic identification? We leave to future work further investigation on these points.

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**Table 1: Family-Level Patterns of Interhousehold Financial Support to Adult Children<sup>1</sup>**

	<i>Number of Adult Children in the Family</i>						Overall
	1	2	3	4	5	6+	
Number of families	834	1675	1308	869	523	719	5928
Proportion of families giving to:							
No Adult Children	0.61	0.58	0.57	0.59	0.62	0.65	0.597
1 Adult Child	0.39	0.26	0.28	0.25	0.24	0.20	0.272
2 Adult Children		0.16	0.09	0.09	0.07	0.08	0.094
3 Adult Children			0.07	0.03	0.03	0.03	0.025
4 Adult Children				0.04	0.00	0.01	0.007
5 Adult Children					0.02	0.01	0.002
6+ Adult Children						0.02	0.002
<b><i>Of those families giving to at least one adult child:</i></b>							
Proportion of children receiving in the family	--	0.69	0.51	0.41	0.32	0.27	0.50 *
Total amount given to adult children <sup>2</sup>	\$ 3,427	\$ 4,485	\$ 3,817	\$ 3,300	\$ 2,318	\$ 2,594	\$ 3,634
Proportion giving <i>identical</i> amounts to all adult children	--	0.14	0.05	0.02	0.004	0.01	0.07 *
Proportion giving <i>approximately equal</i> amounts <sup>4</sup> to all adult children	--	0.16	0.06	0.04	0.02	0.02	0.08 *
<b><i>Of those families giving to at least two children:</i></b>							
Proportion giving <i>identical</i> amounts <sup>3</sup> to those adult children who receive	--	0.37	0.28	0.24	0.25	0.17	0.29 *
Proportion giving <i>approximately equal</i> amounts <sup>3,4</sup> to those adult children who receive	--	0.42	0.35	0.31	0.40	0.31	0.37 *

Note: these results examine wave-2 transfer amounts (\$100 threshold).

\* These overall statistics exclude single child families.

<sup>1</sup> Adult children are defined as age 18 or older and not living at home.

<sup>2</sup> Mean total amount given per family, including only families giving to one or more children.

<sup>3</sup> These overall statistics include families with two or more children receiving gifts.

<sup>4</sup> Families are judged to give *approximately equal* amounts if the transfer amounts, expanded to range from minus to plus one standard deviation, all intersected each other.

**Table 2. Child-Level Patterns of Interhousehold Financial Support<sup>1</sup>**

<i>Wave-1: Threshold of \$500 or more</i>				<i>Wave-2: Threshold of \$100 or more</i>			
Number of Adult children	Proportion receiving	Mean Amount <sup>2</sup>	Standard Error	Number of Adult children	Proportion receiving	Mean Amount <sup>2</sup>	Standard Error
21,741	0.160	\$ 3,486	109	20,807	0.186	\$ 2,485	76

<sup>1</sup> Adult children are defined as age 18 or older and not living at home.

<sup>2</sup> Mean Amount given in the last 12 months

**Table 3. Characteristics of Child-Parent Dyads and Proportion of Adult Children<sup>1</sup> Receiving Assistance**

<i>Child Characteristics:</i>	Standard % of Children			<i>Parent Characteristics:</i>	Standard % of Children		
	Mean	Deviation	Receiving		Mean	Deviation	Receiving
Income < \$10,000	0.15	0.36	19.0	Age < 51	0.18	0.38	24.9
Income \$10,000 - 25,000	0.30	0.46	16.1	Age 51-53	0.21	0.41	17.8
Income > \$25,000	0.42	0.49	12.1	Age 54-56	0.24	0.42	16.1
Income Missing	0.12	0.32	34.2	Age 57-59	0.22	0.41	13.8
				Age 60+	0.15	0.35	13.0
Age > 25	0.19	0.38	34.0				
Age 25-29	0.28	0.44	17.1	White	0.79	0.4	18.6
Age 30+	0.54	0.49	11.1	Black	0.12	0.32	10.0
				Hispanic	0.07	0.26	11.3
Male	0.51	0.49	17.6				
Female	0.49	0.49	16.5	Education Less than high school	0.30	0.45	8.6
				High School	0.39	0.48	16.0
Married with Children	0.44	0.49	11.5	Some College	0.19	0.39	21.8
Single, no children	0.32	0.46	26.8	College Graduate	0.12	0.33	33.3
Not married, with Children	0.12	0.33	14.5				
Married, no Children	0.12	0.32	14.1	Income: Lowest 20%	0.20	0.4	6.4
				2nd 20%	0.22	0.41	11.0
Education Less than high school	0.12	0.33	8.8	3rd 20%	0.21	0.4	16.0
High School	0.44	0.49	13.3	4th 20%	0.18	0.38	20.3
Some College	0.22	0.41	25.2	Highest 20%	0.19	0.39	33.2
College Graduate	0.22	0.41	21.2				
				Married	0.74	0.43	18.2
Working Full time	0.71	0.45	14.6	Widowed	0.08	0.27	11.8
Works fewer than 30 hrs per week	0.10	0.29	30.3	Never Married	0.01	0.08	8.3
Not Working/Missing	0.19	0.39	19.2				
Currently in School	0.12	0.32	41.6	Health Fair/Poor (either spouse)	0.48	0.49	12.6
				Health Excellent, Very Good, or Good	0.52	0.49	21.1
Does not Own Home	0.58	0.49	20.7				
Homeowner	0.42	0.49	11.9	1-2 Family members in Household	0.59	0.49	15.7
				3 Family members in Household	0.21	0.41	18.2
Live within 10 miles of parents	0.35	0.47	15.4	4+ Family members in Household	0.20	0.39	19.8
Lives further than 10 miles	0.65	0.47	17.9				
				1-2 Children	0.18	0.38	29.7
Not a Step Child	0.74	0.44	18.6	3-4 Children	0.41	0.49	18.9
Step Child	0.26	0.44	12.5	5 or more Children	0.41	0.49	9.6
				No Living Parents (both spouses)	0.35	0.47	14.3
				One Living Parent	0.36	0.48	16.3
				Two or more Living Parent	0.28	0.45	21.4
				Lives further than 10 miles from parents	0.43	0.74	19.3
				Lives within 10 miles of parents	0.57	0.75	17.8
				Gives Time help to Children	0.51	0.5	19.0
				Does Not give Time help to children	0.49	0.49	14.9
				Gives Coresident help to Children	0.30	0.46	17.3
				Does Not give Coresidence help	0.70	0.45	16.9
				Number of Observations	19498		

<sup>1</sup> Adult children are aged 18 or over and not living with parents  
Source: explanatory variables, 1992 HRS (wave-1); transfer status, 1994 HRS (wave-2).  
Restricted to HRS respondents with at least one adult child (non-coresident and 18 years or older). Race-ethnicity corresponds to that declared by the HRS respondent parents; the question was not asked with respect to the children.  
Total percentages are weighted to account for oversampling of Blacks and Hispanics in the HRS

**Table 4: Predictors of Receiving a Transfer and Log Amount Received by Adult Children<sup>1</sup>**

<i>Child Characteristics</i>	Whether Received		Log Amount Received		<i>Parent Characteristics</i>	Whether Received		Log Amount Received	
	Coef	SE <sup>2</sup>	Coef	SE <sup>2</sup>		Coef	SE <sup>2</sup>	Coef	SE <sup>2</sup>
Income < \$10,000	0.10 +	0.06	0.05	0.06	Age	0.00	0.00	0.01	0.00
Income \$10,000-25000 (omitted)					Black	-0.14 *	0.05	-0.41 ***	0.06
Income > \$25,000	-0.39 ***	0.05	-0.15 **	0.05	Hispanic	-0.09	0.08	-0.17 *	0.08
Income missing	0.19 *	0.07	0.35 ***	0.07	Highest grade completed (Head)	0.11 ***	0.01	0.11 ***	0.01
Age < 25	0.46 ***	0.05	0.51 ***	0.06	Income (log)	0.10 ***	0.01	0.10 ***	0.01
Age 25-30 (omitted)					Net Worth (log)	0.06 ***	0.01	0.08 ***	0.01
Age > 30	-0.28 ***	0.05	-0.19 ***	0.05	Currently Married	0.17 **	0.06	0.31 ***	0.05
Male	-0.02	0.04	0.05	0.04	Retired	0.28 ***	0.08	0.23 **	0.08
Married with Children	0.00	0.05	-0.08	0.05	Working	0.15 ***	0.04	0.10 *	0.05
Single, no Children (omitted)					Disabled	-0.19 *	0.09	-0.08	0.10
Not Married, with Children	0.32 ***	0.06	0.17 *	0.07	Health Fair/Poor (either spouse)	-0.04	0.04	-0.19 ***	0.04
Married, no Children	-0.14 *	0.07	-0.12 +	0.07	Family members in household	0.03 +	0.02	-0.01	0.02
Education Less than High School	0.00	0.06	-0.09	0.06	Number of Kids	-0.22 ***	0.01	-0.20 ***	0.02
High School (omitted)					Parents Still Alive	0.04	0.02	0.02	0.02
Some College	0.16 ***	0.05	0.27 ***	0.05	Live within 10 miles of parents	-0.06 *	0.03	-0.05 +	0.03
College Graduate	0.05	0.05	0.27 ***	0.05	Gives time support to children	0.52 ***	0.04	0.35 ***	0.05
Working Part Time	0.32 ***	0.06	0.24 ***	0.06	Gives coresidence sup to child	-0.21 ***	0.05	-0.23 ***	0.05
Working Full Time (omitted)					$\Sigma m_{inc}$			0.46 ***	0.06
Not Working/missing	0.31 ***	0.05	0.25 ***	0.05	intercept	-5.57 ***	0.30	2.56 ***	0.46
In School	0.57 ***	0.06	0.55 ***	0.06	- 2 Log Likelihood	4321.4***			
Homeowner	-0.35 ***	0.05	-0.12 *	0.05	df	38			
Lives within 10 miles of parents	0.21 ***	0.04	0.17 ***	0.04	F-statistic (model)			35.769***	
Step Child	-0.28 ***	0.05	-0.44 ***	0.05	R-squared			0.22	
					Number of Observations	19493		19493	

Source: explanatory variables, 1992 HRS (wave-1); transfer status, 1994 HRS (wave-2).

+, \*, \*\*, and \*\*\* denote significance at the 0.10, 0.05, 0.01, and 0.001 level, respectively.

<sup>1</sup> Adult Children are defined as 18 years or older and not living with parents.

<sup>2</sup> results report robust standard errors that take into account the parent-clustered nature of the data.

**Table 5: Family Fixed-Effects Estimates of the Log Amount Received by Adult Child<sup>1</sup>**

<i>Child Characteristics</i>	Coef	SE
Income < \$10,000	0.07	0.06
Income \$10,000-25000 (omitted)		
Income > \$25,000	-0.44 ***	0.05
Income missing	0.53 ***	0.09
Age < 25	0.21 ***	0.06
Age 25-30 (omitted)		
Age > 30	-0.14 **	0.05
Male	-0.06 +	0.04
Married with Children	0.12 *	0.05
Single, no Children (omitted)		
Not Married, with Children	0.23 ***	0.06
Married, no Children	-0.12 +	0.07
Education Less than High School	-0.01	0.06
High School (omitted)		
Some College	-0.05	0.06
College Graduate	-0.35 ***	0.06
Part Time	0.21 **	0.07
Not Working	0.21 ***	0.05
In School	0.51 ***	0.07
Own's Home	-0.22 ***	0.05
Lives within 10 miles	0.15 ***	0.04
Step Child	-0.65 ***	0.12
F-statistic (model)	2.97***	
R-squared	0.576	
Number of Observations	18612	
Mean of dependent variable	0	

Source: explanatory variables, 1992 HRS (wave-1); transfer status, 1994 HRS (wave-2).

Analyses exclude one-child families. +, \*, \*\*, and \*\*\* denote significance at the 0.10, 0.05, 0.01, and 0.001 level, respectively.

<sup>1</sup> Adult Children are defined as 18 years or older and not living with parents.

The dependent variable is the natural log of financial assistance to child reported in wave-2; the threshold for this measure was \$100.