Working Paper
Executive Summary

DECEMBER 2010, WP# 2010-23

CENTER FOR RETIREMENT RESEARCH at BOSTON COLLEGE

EFFECT OF INFORMAL CARE ON WORK, WAGES, AND WEALTH

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Adult children are the most common type of informal care providers for their parents. Given that a typical adult child caregiver is in his or her late 50s or early 60s, the effect of caregiving on labor market decisions is an important policy issue.

Caregiving could affect work behavior on the extensive margin, the intensive margin, or both. Changes in the extensive margin include temporarily or permanently quitting work. Changes in the intensive margin include reducing work hours, taking on fewer responsibilities, or forgoing a promotion to fulfill caregiving obligations. Both margins are important, with implications for current earnings and potentially longer-term impacts on retirement income that could affect quality of life long after the caregiving episode ends.

Although there is substantial literature trying to estimate the causal relationship between caregiving and work, it suffers from three main problems. First, there are significant methodological concerns about whether there is an endogeneity problem leading to biased estimates of the causal effect of informal care on work. Second, much of the longitudinal literature has focused on Europe, leaving it an open question as to how informal care affects work in the United States over time. The United States varies substantially in terms of generosity of the public safety net, pension coverage, health insurance, and the job market from Europe generally, which may lead to very different effects of informal care on work. Third, the literature has been relatively piecemeal and has yet to reach a consensus, making it difficult to pool estimates across papers to have a comprehensive and cohesive picture of the impact caregiving has on work and wealth.

This paper identifies the relationship between informal care and labor force participation using data from nine waves of the *Health and Retirement Study* (HRS) (1992-2008). The HRS is a nationally representative sample of the near elderly in the United States, with rich informal caregiving, labor force, and wealth data. We examine men and women separately, given their different attachments to the labor force. We examine both the intensive and extensive margins of work and whether there are wage penalties from informal care, and carefully test for endogeneity and control for time-invariant individual heterogeneity. Lastly, we explore the effects across stage and duration of informal care separately for men and women, and we use our results to examine retirement wealth effects.

We find that despite the different labor force attachment patterns in general, the magnitude of the effects on labor force participation of providing any informal care is similar for men and for women. Our findings, of a 1.2 to 2.4 percentage-point drop in labor force participation for women and 1.7 to 2.3 percentage-point drop for men, is near the lower end of the range found in the international literature. We also find no change in the intensive work margin. The lower response in the United States. may be due to the relatively less generous social safety net in the United States compared to Europe.

We find that longer-duration female caregivers face significant but modest risks of exiting the labor force; that the negative effect on work for male caregivers occurs right away; and that neither male nor female caregivers who stop caregiving are not significantly more likely to be working. We also find modest wage penalties among female caregivers when measuring caregiving discretely, around $0.40 per hour in wages. Wage penalties become more pronounced for long-duration caregivers, upward of $3,000 for one year of work among caregivers who had cared for four or more waves. We find a wage premium among male caregivers who recently initiated caregiving and who recently ended caregiving, compared to non-caregivers. This result may have to do with joint-caregiving decisions in the household, in which the caregiving responsibility falls primarily upon the wife, or that lower-wage caregiving men drop out of the labor force, and higher-paid men are still in the labor market, so the average wage increases among workers.

Using the results from the labor force participation estimations, we estimate that the ramifications for a caregiver's future Social Security benefits are miniscule, mostly driven by the lack of movement in working behavior that informal care is found to induce. The counterfactual exercise shows that only a very small proportion of caregivers would have experienced higher Social Security benefits (2.4 percent) if they had never become caregivers.

Our approach has allowed us to learn about three important features that should be considered in future work: (1) We do not find evidence of endogeneity across any of the specifications explored in this paper, despite theoretically and empirically strong instruments. We conclude from this that selection bias may not be a major concern in this line of research once one controls for individual heterogeneity with fixed-effects. (3) Overall there are not major work disruptions or large negative wage effects of caregiving except in special cases, such as for long-duration caregivers. Not measuring caregiving in terms of stage and duration would have missed these important effects. Finally, (4) it is important to model separately the effects of caregiving on men and women. Whereas the women and men look very similar to each other in the labor-force participation equations, male caregivers tend to experience work effects immediately upon caregiving, whereas for women caregivers, there is a lagged effect. In addition, men experience a wage premium from caregiving, whereas women experience a wage penalty in several cases.

It is likely that labor-market effects of caregiving occur that we did not measure. We do not model the joint labor supply changes of a couple in the face of caregiving. Given that decisions about caregiving for one's parents or in-laws is likely a household decision, there may be minimal effects in our current paper because a non-working spouse can take up the slack. Extending this work to considering joint-labor market effects and joint-caregiving will enlighten us about the importance of this phenomenon.

 The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Retirement Research Consortium (RRC). The opinions and conclusions expressed are solely those of the authors and do not represent the views of SSA, any agency of the federal government, the RRC, Duke University, or Boston College.

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