

# WORKING PAPER

## *Executive Summary*

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## DO COUPLES SELF-INSURE? THE EFFECT OF INFORMAL CARE ON A COUPLE'S LABOR SUPPLY

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For elderly parents, adult children are the most common type of informal care providers. Many studies have examined the effect of informal care provision for a parent, that is, assistance provided to the parent with chores or personal care tasks such as bathing, dressing, or eating, on the labor force participation and wages and earnings of the adult child providing the care. Although a general consensus has yet to be reached, most studies have found evidence of a negative correlation between informal care and employment. The previous studies have not considered the labor supply response of his/her spouse to caregiving decisions.

However, caregiving may not only affect the caregiver's labor market decisions, but also those of his/her spouse. It is difficult to tell whether caregiving would have a positive or negative impact on the non-caregiving spouse's labor supply. The spouse could increase work effort to compensate for the caregiver's reduced earnings or early exit from the labor force. This would mean that the previous estimates of the impact of caregiving on household wealth accumulation that focus on individual rather than household behavior are overstated. Alternatively, if the caregiver drops out of the labor force and either cannot or does not wish to return, even after the caregiving episode ends, the spouse may retire earlier in order to satisfy the desire for joint retirement and leisure time. This would indicate that the previous estimates of caregiving on wealth accumulation could be understated.

Another possibility is that informal care might be positively correlated with work behavior, and in particular with hours worked, because the adult child is anticipating having to spend money on eventual nursing home care for the parent. So, whereas one might expect hours of work to decrease by one or both members of a couple to accommodate the time constraint, we may see work time increase and leisure time decrease in anticipation of future long-term care expenses.

In this paper, by considering the effect of caregiving on the labor supply of both members of a married couple, we can more accurately assess the impact of caregiving on household income, wealth accumulation, and retirement timing. In so doing, this paper provides an estimate of the total impact of informal care provision on labor force participation, hours worked, and wages. Given the current level and projected growth of informal care provision, this is an important step for predicting retirement behavior and retirement wealth.

We use data from nine waves of the Health and Retirement Survey (HRS) (1992-2008). The HRS is a biannual survey of the near elderly in the United States with rich informal caregiving, employment, and wealth data. Sample members were age 50 to 61 initially, thus, their parents were between 70 and 100, prime candidates to be care recipients. The HRS collects detailed information not only about the respondents and their spouses, but also important information about siblings and parents. We selected a sub-sample of individuals who have been married or partnered for at least two years and have a parent or in-law alive in the previous two survey waves.

We find that providing personal care to elderly parents reduces a married man's chance of working by 3.2 percentage points, but providing such care does not affect a wife's chance of working. A spouse's informal care behavior does not affect the chance of the wife or husband working. Considering the informal care provided by both members of a couple causes very little change in the intensive work margins.

In the few models in which caregiving significantly affected work—hours of work for women—the net effect in families in which both the woman and man provided some caregiving led to no reductions in the average number of hours women worked, even though there were countervailing changes to a woman's work in response to her own versus her spouse's caregiving. Working married women are responsive to caregiving, just not in the direction suggested by a self-insurance motive. Instead of working less, working women increase their hours per week if they provide care and decrease hours if their husbands provide care. The finding of significant effects on hours of work for both the wife's and the husband's caregiving suggests that models that do not consider the caregiving behavior of one's spouse may lead to incorrect measurement of the effect of caregiving on work for married individuals. If both the husband and wife are caregiving, a common scenario observed in the data, the wife is able to maintain her usual hours of work per week. One possible explanation is that these couples anticipate the future long-term care needs of the parent and they adjust their respective caregiving efforts to accommodate each individual's work schedule and maintain their income.

We also find in this paper that evidence of endogeneity of caregiving with respect to labor market outcomes differs for men and women, controlling for permanent features of individuals (through use of 'fixed effects'). Furthermore, since the instrumental variables that have been empirically strong for models of individual caregiving's effect on work are also strong in this application, considering fixed effects and instrumental variables estimation may be appropriate in other efforts to test for self-insurance in caregiving.

Our approach in this paper suggests that future caregiving and work models need to be estimated separately by marital status and include spousal caregiving directly in the model for married individuals. Even among single adult children, future efforts may want to include the additional caregiving provided by others, because it is not clear whether our results arise from the intra-household bargaining between spouses or whether it is simply the presence of an additional caregiver that allows an individual caregiver to maintain his or her work behavior.

Overall, for adult children with elderly parents who are married, there is considerable joint caregiving, and this joint caregiving dampens the negative effect of caregiving on work that has been observed in other studies. Finally, we find little evidence of couples self-insuring.

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