Parents with an Unemployed Adult Child: Labor Supply, Consumption, and Savings Effects

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Aging individuals face several sources of risk, which include health shocks, unemployment shocks, and retirement savings shocks. For some older adults, these risks alone comprise profound retirement savings challenges – how they manifest and how well they are insured against can influence behavior before retirement or change the timing of retirement. For some older parents, however, these risks may be accompanied by unexpected adverse labor market shocks to their children. In this paper, we investigate if the labor market shock of a child is a source of additional risk to the parent.

To study this issue, we use data from the *Panel Study on Income Dynamics* from 1968-2013. We match parents to their children and observe both concurrently. Due to low match rates, fathers are excluded. The longitudinal data allow for identification to come from within-mother variation in having an unemployed adult child. Our basic strategy is to regress mothers' outcomes on the unemployment of a child. We include in our analysis individual, year, and age fixed-effects, which control for unobserved individual, time-period, and life-cycle characteristics of the mothers that could be correlated with the job loss of a child.

The outcomes of interest for the mother fall into four broad categories: transfers, income, consumption, and savings. Simply, we investigate if there is evidence that mothers provide financial support to unemployed children (transfers) and how that support may be financed (from income, consumption, or savings). We divide mothers into three age groups: pre-retired (less than 62 years old); retirement window (62-70 years old); and retired (70 years and older).

From our regressions, we find that, across all three groups of mothers, there is a positive and precisely estimated increase in the dollar amount of money sent to children in the year they have an unemployed child. Further, we find that all three age groups of mothers also report a decrease in their usual food consumption in the year of a child's unemployment spell. For younger, pre-retired mothers, we estimate a concurrent increase in labor force participation on the intensive margin in the year of a child's spell. The estimated coefficient, an increase in the weeks worked per year, is driven by mothers who are already working, rather than joining the labor force. Younger working mothers also report a significant decrease in the share of their salary contributed to a pension in the year of a child's spell. There is no discernible effect on the transition to retirement or Social Security claiming for mothers in the retirement window, though there is evidence that they increase their saving. Older, retired mothers, who are not working and are often on a fixed income, see no change in outcomes outside of the drop in usual food consumption.

Our estimates can be considered causal to the extent that the unemployment spell of an adult child is exogenous to the mother. Through various iterations, we impose restrictions on the child's unemployment – that it must be preceded and followed by employment, that it must not be concurrent with the birth of a new child, that it must be due to a layoff or firm closing – that lend to stronger or weaker causal claims. We also examine the relative situation of the unemployed children: their age, educational attainment, marital status, the presence of children, and the number of siblings. Although the restrictions on the nature of the spell make little difference to our estimates, we find that many of our results are driven by younger, unmarried, childless children.

The upshot of our findings, when all categories of outcomes are combined, is that the observed financial assistance is far less than the observed changes in income, consumption, and savings. This implies that there is assistance we do not observe, that the child's unemployment spell induces behavioral changes beyond financing assistance, or both.