

PARENTAL WEALTH AND CHILDREN OUTCOMES IN EARLY ADULTHOOD

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OUTCOMES CONSIDERED

Educational attainment

- Higher education – first or higher degree

Labour market outcomes

- Employment
- Earnings

Wealth Accumulation

- Homeownership

DATA

British Household Panel Survey:

- nationally representative sample of approximately 5,500 households (10,000 individuals) first interviewed in 1991
- since 2010 incorporated into Understanding Society
- rich data on a range of socio-economic characteristics
- housing wealth data
- Waves 5, 10 and 15 (1995, 2000 and 2005)
 - Wealth module data on financial wealth

SAMPLE

Selection criteria

- children aged 12-18 in 1995 (1,107) i.e. when asset holding data first collected
- living with their parents (1,049)
- with non-missing parental wealth (936) (90% of all children)
- who were observed and gave full interviews when aged 25 (495)

WEALTH DEFINITIONS

TW: Total household *net* worth
(*excluding pension wealth and durables*)

THSE: Household housing equity

NFA: Household net financial wealth

METHODOLOGY

Simple regression analysis

- **Binary outcomes**
 - Probit regressions
- **Continuous outcomes**
 - Ordinary least squares regressions

PARENTAL WEALTH - EDUCATION

Model I – parental wealth plus control variables

Model II – ...plus parental education

Model III – ...plus parental income

EDUCATION

SUMMARY OF ESTIMATION RESULTS

- Model I – parental wealth positive and significant. Association stronger below median than above.
- Model II – parental education significant relationship. Reduces influence of wealth. No longer sig above median.
- Model III – parental income positive and significant. Above median wealth increments not significant.

EDUCATION: NET WORTH EFFECTS

Model predictions – wealth effects

		Model I	Model II	Model III
10 th percentile	-£600	5%	7%	8%
25 th percentile	£4,000	7%	8%	10%
50 th percentile	£46,000	39%	38%	37%
75 th percentile	£106,000	42%	40%	38%

Wealth values expressed in 2005 prices

Share gaining first or higher degree in raw data = 29%

PARENTAL WEALTH - EMPLOYMENT

Model I – parental wealth plus control variables

Model II – ...plus parental education and income

Model III – ...plus individuals' education

- Model I - parental wealth small positive but significant.
- Model II – parental education and income not significant. The effect of parental wealth does not change
- Model III – own education significant. Wealth effect reduced in size and significance.

EMPLOYMENT: NET WORTH

Model predictions – wealth effects

		Model I	Model II	Model III
10 th percentile	-£600	77%	77%	78%
25 th percentile	£4,000	87%	87%	86%
50 th percentile	£46,000	88%	88%	88%
75 th percentile	£106,000	89%	89%	89%

Wealth values expressed in 2005 prices

Share gaining first or higher degree in raw data = 29%



PARENTAL WEALTH: EARNINGS

Model I – parental wealth plus control variables

Model II – ...plus parental education and income

Model III – ...plus individuals' education

- Model I - parental wealth positive and significant. Association stronger below median than above.
- Model II – parental education and income not significant. Parental wealth not significant above median.
- Model III – own education significant. Parental wealth effect reduced in size and significance and not significant above median.

EARNINGS NET WORTH EFFECTS

Model predictions – wealth effects

	Model I	Model II	Model III
10 th percentile			
	↓ 4%	↓ 3%	↓ 3%
25 th percentile			
	↓ 8%	↓ 7%	↓ 5%
50 th percentile			
	↓ 3%	↓ 2%	↓ 2%
75 th percentile			

PARENTAL WEALTH: HOMEOWNERSHIP

Model I – parental wealth plus control variables

Model II – ...plus parental education and income

Model III – ...plus individuals' education and earnings

HOMEOWNERSHIP: NET WORTH EFFECTS

Model predictions – wealth effects

		Model I	Model II	Model III
10 th percentile	-£600	19%	17%	18%
25 th percentile	£4,000	26%	27%	27%
50 th percentile	£46,000	30%	30%	30%
75 th percentile	£106,000	31%	31%	31%

Wealth values expressed in 2005 prices

Share of homeowners in raw data = 27%

ARE WEALTH TRANSFERS THE DRIVER? SOME EVIDENCE BASED ON THE DEPOSIT PUT DOWN ON HOUSE PURCHASE

Dependent var. : log of deposit	Model III	
	b	p-value
Parental wealth (ref. bottom quartile)		
2 nd quartile	1.98	(0.13)
3 rd quartile	2.10	(0.13)
Top quartile	3.61	(0.00) ^{***}

Higher parental wealth is positively associated with the size of deposit put down for house purchase

CONCLUSIONS

Education

- Positive effects - stronger below median

Employment

- Positive and significant effects but mainly at lower end to the distribution (low wealth/debt important)
- Effects partly indirect (mediated through education)

Earnings

- Positive and strong especially below median

CONCLUSIONS (CTD...)

Homeownership

- Positive and significant effects
- Stronger below the median
- Evidence based on house of house deposit points out the importance parental wealth transfers

Thanks for your attention!!!

POSSIBLE PATHWAYS OF THE WEALTH EFFECTS

Education

- Catchment areas
- Private education
- Education enhancing activities
- Funds for HE/FE

Employment and Earnings

- Indirect effects (e.g. through education)
- Direct effects
 - longer and more costly job search
 - Social connections and networks
 - Capital for business start up

POSSIBLE PATHWAYS OF THE WEALTH EFFECTS (CTD...)

Homeownership

- Indirect effects (through education and earnings)
- Direct effects
 - Wealth transfers to fund house purchase

ALTERNATIVE EXPLANATIONS FOR THE LINK

EDUCATION: HOME EQUITY

Model predictions – wealth effects

		Model I	Model II	Model III
10 th percentile	£0	7%	9%	11%
25 th percentile	£0	7%	9%	11%
50 th percentile	£42,000	37%	37%	36%
75 th percentile	£86,000	41%	39%	37%

Wealth values expressed in 2005 prices

EDUCATION: NET FINANCIAL

Model predictions – wealth effects

		Model I	Model II	Model III
10 th percentile	-£4,500	24%	24%	23%
25 th percentile	£600	28%	28%	28%
50 th percentile	£1,000	30%	30%	31%
75 th percentile	£13,000	30%	31%	31%

Wealth values expressed in 2005 prices

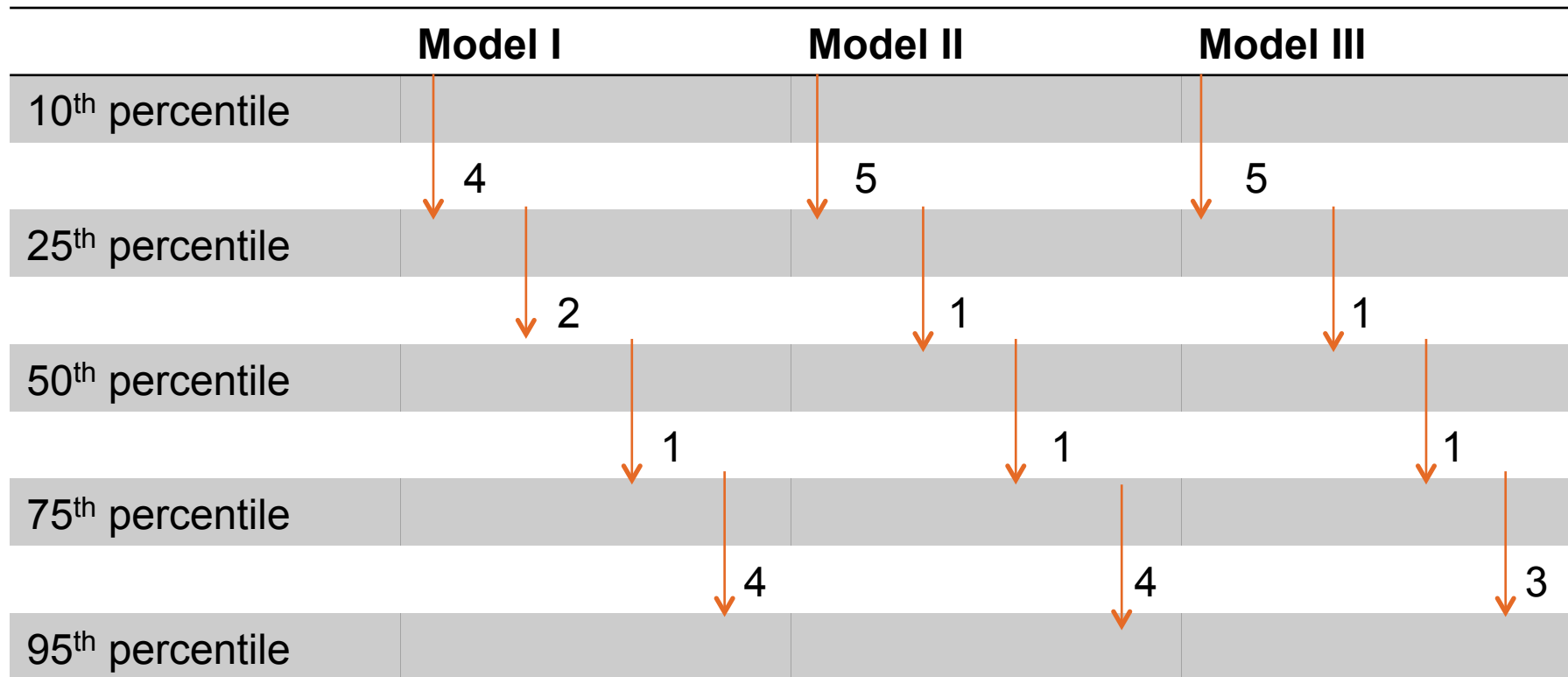
EARNINGS HOME EQUITY

Model predictions – wealth effects

	Model I	Model II	Model III
10 th percentile			
	3	3	2
25 th percentile			
	8	6	5
50 th percentile			
	1	0	1
75 th percentile			
	3	1	0
95 th percentile			

EARNINGS FINANCIAL WEALTH

Model predictions – wealth effects



HOMEOWNERSHIP: HOME EQUITY

Model predictions – wealth effects

		Model I	Model II	Model III
10 th percentile	£0	22%	21%	22%
25 th percentile	£0	22%	21%	22%
50 th percentile	£42,000	29%	30%	29%
75 th percentile	£86,000	30%	30%	30%

Wealth values expressed in 2005 prices

HOMEOWNERSHIP: NET FINANCIAL WEALTH

Model predictions – wealth effects

		Model I	Model II	Model III
10 th percentile	£-4,500	23%	22%	22%
25 th percentile	£600	23%	22%	22%
50 th percentile	£1,000	29%	29%	29%
75 th percentile	£13,000	31%	32%	31%

Wealth values expressed in 2005 prices

EARNINGS NET WORTH EFFECTS

Model predictions – wealth effects

	Model I	Model II	Model III
10 th percentile			
	4%	3%	3%
25 th percentile			
	8%	7%	5%
50 th percentile			
	3%	2%	2%
75 th percentile			
	9%	7%	7%
95 th percentile			