Extended Abstract: Immigrant Old-Age Poverty, Social Security Reforms and Intergenerational Transfers

Irina Popova*

December 13, 2024

1 Overview

In this paper, I analyze Social Security reforms from a dynastic perspective, which considers how policies targeting one generation affect the outcomes of subsequent generations through endogenous intergenerational decisions. I focus on the first-generation immigrant population in the US, as this group, on the one hand, is characterized by distinct retirement and Social Security claiming patterns (Lopez and Slavov (2019)), and on the other hand, second- and third-generation immigrants exhibit higher intergenerational mobility rates relative to comparable native population (Abramitzky et al. (2021)). Thus, migration decisions can partially be seen as human capital investments in descendant generations - costs are borne by the parents, while the benefits are shared by the child and grandchild generations. Furthermore, immigrants are more likely to live in extended family settings, where intergenerational transfers are more prevalent on average and thus more significant for the lifetime outcomes of descendant generations (Pew Research Center (2021)). Additionally, first-generation immigrants on average tend to have more children than the native-born population, further magnifying the importance of these intergenerational links (Pew Research Center (2014) and Pew Research Center (2022)).

Existing literature on the fiscal costs of immigration has frequently suggested expanding the discussion beyond the net lifetime contributions of first-generation immigrants to also include the second and third generations (e.g. Nowrasteh et al. (2023)). However, none of the existing work has considered the role of endogenous intergenerational decisions when evaluating immigration policies. In other words, one conceptual novelty of this project is that the fiscal equation of first-generation immigrants is allowed to affect the fiscal equations of second and third generations via endogenous intergenerational linkages.

*University of Bonn, Institute of Macroeconomics and Econometrics. Email: ipopova@uni-bonn.de.

Likewise, there has been both empirical (e.g. Mukherjee (2022) and Fetter et al. (2024)) and structural model based literature (e.g. Altig and Davis (1993), Fuster et al. (2003) and Fuster et al. (2007)) on the analysis of Social Security reforms in the presence of intergenerational altruism. But none of this existing research has explicitly considered the immigrant population in this context. Additionally, in terms of the existing structural models for the average population, to the best of my knowledge aggregate responses in those models have not been disciplined with empirically estimated micro elasticities.

This project proceeds in two stages. First, I conduct an empirical analysis using data from the Health and Retirement Study (HRS), leveraging its longitudinal dimension to examine intergenerational transfer patterns - both in terms of wealth and caregiving time - among first- and second-generation immigrants over the lifecycle. I compare these patterns to those of the native-born population. Additionally, I document retirement behavior and Social Security benefit claiming patterns among immigrants. Preliminary findings indicate that the generosity of Social Security benefits and retirement wealth is positively correlated with wealth transfers from parents to children and negatively correlated with upstream transfers (from children to parents). Notably, these correlations are stronger within immigrant families compared to native-born households. This finding aligns with the widely held view that the immigrant population tends to exhibit higher levels of intergenerational altruism.

Upstream transfers from children to parents play an important role in determining the economic situation and poverty risk of elderly first-generation immigrants; likewise, downstream transfers from parents to children can be of crucial importance for the lifetime economic outcomes of second and third generations. The hypothesis that I further test using a structural model is that substantial upstream transfers from second-generation immigrants to their parents, coupled with limited downstream transfers from first-generation immigrants, disproportionately hinder the economic mobility of second and third generations.

Given the already high baseline intergenerational mobility levels of second and third generation immigrants, in the second step of the project I quantitatively assess how much productive economic potential of second and third generation immigrants can be unlocked via relaxing respective intergenerational constraints. To do so, I build and estimate a structural lifecycle model with two-sided intergenerational altruism and rich cross-sectional heterogeneity.

Through the lens of the model, I quantify the contribution of the empirically documented differences in the intergenerational transfer patterns between the first-generation immigrants and the rest of the population to the differences in intergenerational mobility rates between children of first-generation immigrants and comparable native population documented in the literature (Abramitzky et al. (2021)).

Finally, I also use the model as a quantitative laboratory to study a number of Social Security reforms targeted at first-generation immigrants and evaluate their effects on the outcomes of subsequent generations and the aggregate Social Security finances. Given that first-generation immigrants are a very specific population group that is characterized by distinct retirement and benefit claiming patterns, along with a higher prevalence of intergenerational transfers compared to the US-born population, it might be more efficient to achieve certain redistributive goals concerned mainly with improving outcomes of their descendants (for example, reducing student loan debt burden for children of first-generation immigrants) via targeting the first-generation immigrants instead.

Thus, the contribution of this project is to a) analyze Social Security reforms in the presence of endogenous intergenerational linkages using a structural lifecycle model, while b) disciplining the model-implied policy elasticities using my own empirical estimates obtained from the longitudinal HRS sample, and c) focusing on the first-generation immigrant population and their children and grandchildren.

2 Data

The paper uses data from the Health and Retirement Study (HRS): RAND HRS 1992-2020 longitudinal file, RAND HRS Exist/Post-Exit Interview Files 2020 and the restricted use HRS datasets with administrative Social Security linkages.

3 Model Outline

The model is a lifecycle model with two-sided intergenerational altruism, in the spirit of Laitner (1992) and Fuster et al. (2003). It is a partial equilibrium setting with three cohorts: parents (for immigrant population, these are first-generation immigrants), children and grandchildren. Unlike existing literature on Social Security and intergenerational altruism, my model incorporates not only financial intergenerational transfers but also endogenous decisions regarding college education and human capital investments[1]. Furthermore, the focus is on modeling differences in intergenerational transfer behavior—including financial transfers, caregiving, and human capital investments—between the native-born and immigrant populations.

Thus, the model enables an analysis that goes beyond the short-term effects of Social Security reforms on current retiree generations, providing a longer-term evaluation of their

[1]Intergenerational human capital accumulation process is modelled as a simplified version of the process considered in Krueger et al. (2024).

impact on the average productivity of future generations, as well as the potentially significant distributional effects on those descendant generations.

3.1 Preliminary Results

3.1.1 Relation b/w Social Security Benefits and Intergenerational Transfers

Data: HRS 1992-2010.

Table 1: Relation between Social Security Benefits and Monetary Intergenerational Transfers

	Parent-to-child				Child-to-parent	
	Any transfer?	Amount	Plan bequest $> 10K$?	Plan bequest $> 100K$?	Any transfer?	Amount
Natives	0.021	0.286	0.039	0.046	-0.004	-0.052
Immigrants	0.034	0.433	0.068	0.095	-0.023	-0.293

Notes: The table shows the coefficient on Social Security benefits for separate regressions in each column. All dollar amounts are shown in $10,000. The dependent variable in columns 3 and 4 is a number between 0 and 1. Columns 1 and 5 report mean marginal effects from probit models, columns 3 and 4 report OLS estimates, and columns 2 and 6 report mean marginal effects from tobit models. Robust standard errors are clustered at the household level and shown in parentheses.

Table 2: Relation between Social Security Benefits and Time Intergenerational Transfers

	Parent-to-child		Child-to-parent		
	Any childcare?	Hours	Any help?	Days	Hours
Natives	0.009	6.206	-0.007	-2.002	-12.857
Immigrants	0.035	29.864	-0.026	-8.837	-63.827

Notes: The table shows the coefficient on Social Security benefits for separate regressions in each column. All dollar amounts are shown in $10,000. Columns 1 and 3 report mean marginal effects from probit models and columns 2, 4, and 5 report mean marginal effects from tobit models. Robust standard errors are clustered at the household level and shown in parentheses.

Upshot:

- More generous Social Security benefits are associated with more frequent and larger inter-vivos transfers from parents to children, and with less frequent and smaller upstream transfers from children to parents.
- These correlations are stronger in absolute terms for immigrants than for natives.

References

Abramitzky, R., L. Boustan, E. Jacome, and S. Perez (2021, February). Intergenerational mobility of immigrants in the united states over two centuries. *American Economic Review 111*(2), 580–608.

Altig, D. and S. J. Davis (1993, May). Borrowing constraints and two-sided altruism with an application to social security. *Journal of Economic Dynamics and Control 17*(3), 467–494.

Fetter, D. K., L. M. Lockwood, and P. Mohnen (2024). Long-Run Intergenerational Effects of Social Security. Technical report.

Fuster, L., A. İmrohoroğlu, and S. İmrohoroğlu (2003). A welfare analysis of social security in a dynastic framework. *International Economic Review 44*(4), 1247–1274.

Fuster, L., A. İmrohoroğlu, and S. İmrohoroğlu (2007). Elimination of Social Security in a Dynastic Framework. *The Review of Economic Studies 74*(1), 113–145.

Krueger, D., A. Ludwig, and I. Popova (2024, May). Shaping inequality and intergenerational persistence of poverty: Free college or better schools. Working Paper 32467, National Bureau of Economic Research.

Laitner, J. (1992, December). Random earnings differences, lifetime liquidity constraints, and altruistic intergenerational transfers. *Journal of Economic Theory 58*(2), 135–170.

Lopez, M. J. and S. Slavov (2019, January). Do immigrants delay retirement and social security claiming? Working Paper 25518, National Bureau of Economic Research.

Mukherjee, A. (2022). Intergenerational Altruism and Retirement Transfers: Evidence from the Social Security Notch. *Journal of Human Resources 57*(5), 1466–1497.

Nowrasteh, A., S. Eckhardt, and M. Howard (2023, March 21). The fiscal impact of immigration in the united states. White paper, Cato Institute, Washington, DC.

Pew Research Center (2014). 5 facts about immigrant mothers and u.s. fertility trends. Accessed: 2024-09-10.

Pew Research Center (2021). Demographics of multigenerational households. Accessed: 2024-09-10.

Pew Research Center (2022). Key findings about u.s. immigrants. Accessed: 2024-09-10.