Bailing out the kids

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Abstract

Exploiting transaction-level customer records from a large retail bank in Denmark combined with administrative information from government registers, we study informal insurance within families and in other social networks. We find that parents provide economically significant insurance at the bottom of the child income distribution: as children move from the median to the bottom decile, monthly money transfers from parents increase by around $100 and the prevalence of cohabitation with parents increases by almost four percentage points.

We document that parent insurance covers other adverse events than income losses: family ruptures (i.e. divorce), expenditure shocks (i.e. dentist bills and auto repairs) and financial distress (i.e. overdraft notice from the bank). Parents appear to be the key providers of informal insurance: there is a small amount of insurance provided by siblings and virtually none by others in the social network (i.e. grandparents, school friends, work colleagues and flat mates). Accounting for insurance in cash (i.e. money transfers) and in kind (i.e. cohabitation), we find that parents replace around five cents of the marginal dollar lost by children within the bottom income decile. The replacement rate increases steeply in parent life-time income.