How public subsidy programs are associated with intergenerational money transfers.

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Abstract
Intergenerational transfers are conditioned by both availability of kin, and Welfare State policies aimed to the elderly. This paper explores the association between changes in the amount of subsidies given to the elderly and the amount of money transfers given and received by them. Analyses are based on data from CRELES, a longitudinal study of aging in Costa Rica. The analyses work with the advantage of having a sort of natural experiment design, given that the Costa Rican Government raised the amount of public subsidies for the poor in 100% before July 2007, and 200% after that date. Using tobit models, we find that, after the increase, non-contribution pension earners significantly received on average less money and gave on average more money than other groups. Results suggest that intergenerational transfers can be affected by Welfare policies, and money transfers towards the elderly might be used to compensate for economic need.

Introduction

Money transfers constitute one of the most important variables to study intergenerational transfers and social support to the elderly. Compared to younger people, the elderly are more likely to have more difficulties in earning their own money for subsistence due to health problems associated with aging and imperfections in labor markets. In traditional societies, money given by kin to the elderly was the basic means of support during old age (Caldwell, 1976). Hence, money transfers were a symbol of how strong intergenerational relations were. The probability of receiving money and the amount of money received are a function of the number of available family members, socio-

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economic status SES, and marital status (Dowd, 1980; Eggebeen & Hogan, 1990; Hoyert, 1991; Saad, 2003).

However, money transfers can be determined by Welfare State policies. Retirement pension systems, special health insurance programs for the elderly, and public subsidies to elderly in need have made the elderly to be less dependent on private transfers from family members. Some of these policies –particularly, the generous retirement pension systems– have even ameliorated the economic situation of senior citizens to the degree that they are on average better-off than younger generations, increasing the frequency of transfers from elderly parents to their adult children (Attias-Donfut & Lapierre, 2000; Kohli, 1999).

Inspired by the European model, some Latin American governments built complex Welfare States during the 20th century, partially financed by the economic growth of the mid-century. The Welfare State policies were more successful in countries where emergent middle classes exerted pressure on relatively more democratic regimes: Argentina, Chile, Uruguay, and Costa Rica (Mesa-Lago and Müller, 2002; Mesa-Lago, 1999, 2004). Not coincidentally, these same countries are leaders in the region's demographic transition, with fast fertility and mortality declines and –in some cases– with population aging processes as advanced as in Europe or North America (this is particularly the case of Uruguay). The countries in the so-called Welfare state-protectionist regime (Martinez-Franzoni, 2007) have traditionally had effective social

policy institutions that covered a high proportion of the population (like education, health insurance and retirement pension systems).

Retirement Pension and Health Insurance Benefits in Costa Rica.

The Welfare State in Costa Rica started to become consolidated in the decades of 1940 and 1950 with the promulgation of laws such as the Labor Code and the Constitutional Chapter on Social Rights and Obligations, the abolishment of the army, and the creation of public institutions for building physical infrastructure and for providing benefits to populations in need (Barahona-Montero, 1999). One of the key institutions of the Costa Rican Welfare State is the Caja Costarricense del Seguro Social (CCSS, the Costa Rican Social Security Fund), founded in 1941. It administers and pays retirement pensions for all workers who have made mandatory contributions to the main pension fund through payroll deductions. This institution also runs the public health care system of clinics and hospitals and administers the public health insurance which is funded also from mandatory payroll deductions and contributions from employers and the State.

During the 1950s and 1960s, the Social Security System (which covers both retirement pensions and health insurance) had a limited coverage given that a relatively large proportion of the labor force was working in agriculture or in the informal sector. In 1970, the State implemented the universalization of the System, and started to cover poor groups who could not be covered otherwise (Barahona-Montero, 1999; Durán-Valverde, 2002). Poor populations can either have a non-contribution pension, which is a public

subsidy that the State pays to them and entitles them to health insurance too, or a "State-provided" health insurance. People with the last benefit are entitled to receive free health care, but they do not receive any money (Durán-Valverde, 2002). The new Arias Sanchez administration (2006-2010) decided to raise the amount of money paid through the non-contribution pension system. A couple of months after the presidential inauguration, the subsidies were raised from 17000 colones (US$34) per month to 30000 colones (US$60) per month: close to a 100% increase. The subsidies were raised again to 50000 colones (US$100) after July 2007: almost 200% increase when compared to the period before Arias Sanchez administration.

Welfare state coverage in Costa Rica is not as high as in the Latin American leaders (Argentina, Chile, and Uruguay) although pension coverage is higher than in countries that started similar pension systems at roughly the same time (like Mexico or Colombia). Among the reasons for this relatively higher coverage, some authors mention: Costa Rica's small territory (Mesa-Lago, 1992), a smaller prevalence of informal jobs because of an earlier mercantilization or proletarization of the workforce (Barahona-Montero, 1999), and the stable democratic regime characterized by an alternation in power of two main political parties that have tried to provide benefits to their electorates (Barahona-Montero, 1999; Huber et al., 2006).

Objectives.

The general goal of this paper is to study how Welfare policies can alter money transfers to the elderly and from them. More specifically, the main objective is to determine whether a substantial raise in public subsidies to poor elderly in Costa Rica:

a) decreased the amount of money transferred to the elderly

b) increased the amount of money transferred by the elderly to other people.

Data

We use the dataset from CRELES, the "Costa Rican Study on Longevity and Healthy Aging". It is an on-going longitudinal study of a nationally representative sample of 2,827 adults born in 1945 or before (ages 60 and over at the first interview) and residing in Costa Rica by the year 2000, with over-sampling of the older old. For this analysis we use the data for the first wave of interviews, conducted from November 2004 through September 2006. This sample size was obtained from a two-step procedure. First, an original sample of 9,600 individuals was randomly selected from the 2000 census database with stratification by 5-year age groups. Sampling fractions ranged from 1.1% among those born in 1941-45 to 100% for those born before 1905. Next, for the in-depth longitudinal study we are analyzing here, a sub-sample of 60 "health areas" (out of 102 for the whole country) was taken with probability proportional to the population ages 60 and over. This sub-sample included near 5,300 individuals. The sub-sample, which covers 59% of Costa Rican territory, yielded the following non-response rates for the first wave: 19% deceased by the contact date; 18% non-found in the field; 2% moved to other addresses; 2% rejected the interview; 2% pendant interviews after several visits (likely rejections). Among those interviewed, 24% required a proxy to answer the questionnaire.

All field data were collected using Personal Digital Assistants (PDAs), also known as palm computers, with software applications developed by CCP for this study.

The main dependent variables are the amount of intergenerational money transfers received and given by the elderly. This information is self-reported by the interviewee during the two waves of CRELES.

Methods.

We use descriptive statistics to introduce the characteristics of the population and the patterns in intergenerational money transfers. A random-effects left-censored tobit regression model is used to test the association between Social Security status and the amount of money given and received by the elderly. We choose a tobit model given taht the amount of transfers can be subdivided into two components: the amount of money among those that do receive or give money, and a certain amount of zeroes among those who do not receive or give money. A tobit model takes into account this number of zeroes by considering those individuals as having "censored" information about the continuous variables (the amount of money transferred). We use a random-effects model given that we have observations from two waves, therefore the random-effects model allows us to control for the within-individuals correlation by introducing a random component for each individual. Longitudinal statistical techniques, such as fixed and random effects models, are well fit for controlling for the effect of unobserved covariates, considered as fixed.

Three variables are incorporated to test the effect of the raise in public subsidies: a dummy variable on whether the individual was interviewed before or after July 2006, and two interaction variables between this dummy variable and being a contribution pension-earner and a non-contribution pension earner. These three variables allow considering the differential raise in the public subsidy as a sort of natural experiment, given that roughly half of the people entitled to the subsidies –those interviewed before July 2007– got the 100% increase in their subsidies, while the other half –those interviewed after July 2007– received the 200%. Notice that the "quasi-natural" experimental design derives from particular coincidences between the welfare policies schedule and CRELES fieldwork: The first increase in the subsidy program occurred almost in the middle between the end of the first wave and the beginning of the second wave, while the second increase happened roughly in the middle of the second wave. Therefore, roughly half of interviewees benefiting from non-contribution pensions got a 100% increase in their subsidies between the first and the second interview, while the other half experienced the 200% increase. With such operationalization and under the assumption of a natural experiment, the treatment group is composed of individuals receiving subsidies after July 2006, while the first control group is composed of individuals receiving subsidies before July 2006. This is the rationale behind the interaction variable of the temporal dummy variable and the non-contribution pension earners. The second control group would be the retirement pension-earners, given that their pensions were not raised as much as the non-contribution pensions. This is the rationale for the other interaction variable. Finally, the rest of the Costa Rican elderly population, the people that are entitled to no pension at all are considered as the third control group. Therefore, if the temporal

dummy variable has the same direction as any of the interaction variable, we can argue that an increase or decrease in intergenerational money transfers is due to a contextual effect that affected the whole elderly population during the inter-wave period, rather than just the raise in pensions that benefited the people receiving public subsidies.

Equations also control for sex, age, number of children living in and out of household, marital status ("married or cohabiting", "widowed", "others not in union"), urban residence, metropolitan residence, education (less than 6 years of education, and 6 years of education and more), self-report of regular or bad economic situation, having at least one functional limitation (operationalized using standard questions about Activities of Daily Living ADL and Instrumental Activities of Daily Living). All of these variables are common determinants of intergenerational transfers (Saad, 2003). Separate equations are estimated for received money and money given. We use a significance level of 0.10.

Results

Among the 2827 individuals interviewed during the first wave, 2360 had information in both waves. This implies a total rate of attrition of 16.5%%: 9.5% due to death and 7% due to non-response. Table 1 summarizes Costa Rican elderly characteristics only for those who respond in the two waves. These characteristics are associated with intergenerational money transfers. Costa Rican elderly are characterized by attributes that are directly related with intergenerational money transfers: a large number of alive children (more than 5 on average), a moderate percentage of elderly who do not live in any marital union (widowed, separated, divorced, or never married), a relatively low

education level, and high percentages of older people reporting to have a bad economic situation or experiencing functional limitations.

On the other hand, as stated before, well-structured welfare policies might decrease the probability of receiving money transfers, and might increase the probability of being the source of money transfers. In the Latin American context, Costa Rica is one of the countries with the most extended Welfare State Regime. As explained before, one of the keystones of Costa Rica's Welfare State is the CCSS. This institution is in charge of managing the public health care provision services and administering the Social Security Funds for retirement and non-retirement pensions. According to Table 2, less than 5% of the elderly population in Costa Rica is classified as uninsured. In wave 1, 38% of Costa Rican population age 60 and over earn retirement pension either because they contributed to the system while working or because they inherited from a family member (typically, the spouse) who died. Additionally, 15% earn the so-called non-contribution pension, which is basically the public subsidy aimed to destitute families.

The monthly median contribution pension was 80,000 colones (around US$160) during the first wave, and 109,000 colones (around US$218) during the second wave. The median contribution pension for those that inherited the entitlement is a little smaller. The most important figure to observe is the increase in the amount of the non-contribution pension. The median subsidy was 16,000 colones (US$32) during the first wave, 35,000 colones (US$70) during the second wave but before July 2007, and 50,000 colones (US$100) after July 2007. This means that for some poor elderly, the

Government doubled their subsidy, and for the other, they more than tripled it. Notice that the median subsidy during the first wave is approximately equivalent to one of the standard poverty lines ($1 per day).

Among those who do not receive any pension yet, 12% might receive it in the future because they are still working or contributing to the system. Almost a quarter of the elderly population has health insurance through family members, most through their spouses, although some members of this population segment might have problems in getting a pension in the future. Finally, around 5% of this population gets health insurance "by the State". This means that they are insured by the Government, usually because they are poor, but they do not qualify for a monetary subsidy.

Around 23% of the elderly received money transfers during the first wave (2004-2006), this percentage increased considerably to 39% during the second wave. The median amount of money transferred to the elderly during the last 12 month is around 240.000 colones (US$480) during the first wave, 250.000 colones ($US500) during the first part of the second wave, and 300.000 colones ($US600) during the second part of the second wave. In terms of money transfers from the elderly, around one fifth gave money to other people both in wave 1 and wave 2. The median amount of money transferred to the elderly during the last 12 months is around 100.000 colones (US$200). Notice that non-contribution pension earners are more likely to receive money than the average, and are less likely to give money. Given the link between non-contribution pension and socio-economic status (SES), this pattern was expected.

Notice also that there is no clear pattern of an increase or decrease in the probability of transferring money or in the amount of money transferred, controlling by Social Security status. Among non-contribution pension earners, the probabilities of receiving or giving more money among those interviewed before July 2007 and after that month are very similar to each other.

Random-effects left-censored tobit models are estimated in order to understand whether there are significant differences across groups in the amount of money received and given. In the first model for amount of received money transfers, people with non-contribution subsidies receive on average the same amount of money than those insured by labor, but elderly that are already getting a retirement pension receive on average less money. However, people with subsidies interviewed after July 2006 receive on average less money transfers than those interviewed before that month. Retirement pension earners interviewed after that month seem to be receiving less money too, although the tobit coefficient is not significant. The rest of the elderly population reports to be getting more money when interviewed after July 2006.

Regarding the tobit model for giving money to other people, people entitled to subsidies give less money on average than people insured by labor, while those getting retirement money do not. There is no apparent change in the amount of money transferred by the elderly before or after July 2006, except among people with subsidies. The tobit coefficient is positive and significant, which means that –after controlling for other

factors–, non-contribution pension-earners who experienced the larger increase in their subsidies give more money than those who experienced the smaller increase.

Discussion.

According to these results, older people who experience a large increase in their income receive less intergenerational transfer money, and provide more money to others, even if they are among the poorest segments of the population. This large increase was due to an increase in subsidies given by the Government to poor elderly. These results imply that the dynamics of intergenerational transfers of money are conditioned not only by primary social networks (number of children, for example) or elderly needs (having functional limitations), but also by Welfare State policies.

Retirement pensions and subsidy means-tested programs in both developed and developing countries have been developed as mechanisms to protect the elderly against their socio-economic vulnerability due to health reasons or labor market limitations in absorbing older workers. The most structured Welfare State policies are found in industrialized countries (especially in Europe), but several developing countries have extended welfare policies in favor of the elderly and destitute households. In Latin America, the Governments in Costa Rica, Brazil, Cuba, and the South-Cone countries (Chile, Argentina, and Uruguay) built Welfare institutions throughout the 20th century. If the patterns found in Costa Rica apply to these other countries, this article's results suggest that these institutions have a great impact on inter-vivo transfers.

This assertion can lead to several meanings. First, this might mean that Welfare institutions are successfully replacing the alleged role of the family in supporting the elderly in need. Therefore, the population aging process can greatly affect the sustainability of these institutions if a great proportion of the elderly are relying on these resources.

Second, it has been argued that Latin American living arrangements grow from typical of familist cultures. However, if money transfers to poor seniors decrease when these people get more money from the Government, then money transfers might happen not because of familistic cultural patterns but because families feel obliged to support elderly in need.

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Tables.

Table 1. Costa Rica. Characteristics of persons born before 1945 in wave 1 (2004-2006) and wave 2 (2006-2008). (Weighted estimates)

Characteristics (unweighted n=2360)	Wave 1		Wave 2	
Quantitative variables (mean ± s.d.)				
Age	70.0	(7.8)	71.8	(7.8)
Children in hh	0.9	(1.1)	0.9	(1.1)
Children living out of hh	4.3	(3.0)	4.2	(3.0)
Categorical variables (%)				
% Married or cohabiting	60.0		58.6	
% Widowed	20.8		22.9	
% Others not in union	18.2		18.5	
% Urban	61.3		61.3	
% in Metropolitan Area	51.0		51.0	
% less than 6 y of education	49.4		49.4	
% regular/bad self-reported econ. situation	59.0		51.2	
% with at least one limitation in ADL or IADL.[2] (Disability)	64.4		66.4	

Note:
1. Computed only among respondents or respondents' spouses with income.
2. ADL=Activities of Daily Living; IADL=Instrumental Activities of Daily Living.

Table 2. Costa Rica. Social Security status of persons born before 1945 in wave 1 (2004-2006) and wave 2 (2006-2008) (Weighted estimates)

Social Security Status	%		Median pension income[1]	
	Wave1	Wave2	Wave1	Wave2
(unweighted n=2311)				
No pension				
-Uninsured	4.5	4.1		
-Insured by contribution	12.3	9.0		
-Family of insured by contribution	25.7	24.1		
-Insured by the State	4.6	3.3		
Pension earners				
-Retired by contribution	32.1	36.3	80.0	109.0
-Inherited from contribution	6.2	7.3	42.0	57.0
-Non-contribution pension	14.6	15.9	16.0	45.0
---Before July 2007		8.1		35.0
---After July 2007		7.8		50.0

Note:
1. In current colones. (500 colones ≈ US$ 1.00), among those earning pension income
2. ADL=Activities of Daily Living; IADL=Instrumental Activities of Daily Living.

Table 3. Costa Rica. Percentage of persons receiving and giving money transfers, and amount of money transfers, by Social Security status, in wave 1 (2004-2006), and in wave 2 before and after Augusts 2006. (Weighted estimates)[1]

Social Security Status	%				Median money transfer during last 12 months[2,3]		
	Wave1	Wave2		p-value	Wave1	Wave2	
		Before Aug-06	After Aug-06	for wave 2 only		Before Aug-06	After Aug-06
(unweighted n=2311)							
Receiving money transfer: TOTAL	22.9	37.2	40.2	0.228	240.0	250.0	300.0
No pension							
-Uninsured	21.7	29.3	40.6	0.364	250.0	100.0	500.0
-Insured by contribution or other	13.7	36.3	28.9	0.417	300.0	250.0	384.0
-Family of insured by contribution	33.8	52.9	58.3	0.308	240.0	400.0	350.0
-Insured by the State	20.5	34.6	33.7	0.945	140.0	300.0	480.0
Pension earners							
-Retired by contribution, or other	14.4	24.3	29.1	0.204	250.0	240.0	240.0
-Family of retired by contribution	28.9	47.8	49.9	0.801	150.0	300.0	300.0
-Non-contribution pension	28.0	41.3	38.7	0.582	120.0	240.0	200.0
Giving money transfer: TOTAL	18.6	21.3	20.5	0.773	100.0	100.0	100.0
No pension							
-Uninsured	23.1	13.5	19.0	0.602	100.0	400.0	120.0
-Insured by contribution	30.4	31.9	28.0	0.677	150.0	70.0	120.0
-Family of insured by contribution	15.6	17.0	13.6	0.414	50.0	50.0	40.0
-Insured by the State	4.7	0.0	4.3	0.330	300.0	-	-
Pension earners							
-Retired by contribution	26.5	19.7	32.3	0.540	100.0	150.0	150.0
-Family of retired by contribution	22.0	19.3	15.0	0.504	30.0	96.0	50.0
-Non-contribution pension	3.5	9.0	8.3	0.805	25.0	60.0	36.0

Note:
1. Exclude persons who died between waves 1 and 2, and attrition
2. In current colones. (500 colones ≈ US$ 1.00)
3. Computed only among those receiving or giving money transfers.

Table 4. Costa Rica. Random-effects linear left-censored tobit regression models for received money transfer. (n=2696, include respondents with one and two observations over time).

Variables	Coeff	(SE)	p-value
Social Security status			
(Ref: Insured by labor)			
-Uninsured	-5.8	(129)	
-Family of insured	123.8	(85)	
-Insured by the State	-4.8	(124)	
-Contribution pension-earner	-253.9	(86)	***
-Non-contrib. pension-earner	-1.3	(91)	
Interviewed after Aug-06	378.6	(55)	***
(Ref: Interviewed bef Aug-06)			
Interaction: After Aug-06 and			
-Non-contribution pension-earner	-209.6	(93)	**
-Contribution pension-earner	-113.0	(90)	
Males (Ref: Females)	-113.3	(46)	**
Age	0.1	(2)	
Children in hh	47.9	(18)	***
Children living out of hh	37.5	(6)	***
	74.5	(48)	
-Widowed			
-Others not in union	29.4	(56)	
(Ref: Married or cohabiting)	85.8	(46)	*
Urban			
(Ref: Rural)			
Metropolitan Area	-26.3	(44)	
(Ref: living elsewhere)			
	112.8	(46)	**
Less than 6 y of education			
(Ref: 6 or more years of educ)			
Regular/bad self-reported econ situation	-88.8	(37)	**
(Ref: Excellent-to-good econ. situation)			
At least 1 ADL or IADL limitation[2]	-77.7	(43)	*
(Disability)			
(Ref: no limitation)			
Constant	-863.1	(179)	***
Within-individual variance	489.6	(30)	***
Error variance	727.2	(21)	***

Note: *:p<0.10; **:p<0.05; ***:p<0.01

Table 5. Costa Rica. Random-effects linear left-censored tobit regression models for money transfers from the elderly to other people (n=2747, include respondents with one and two observations over time).

Variables	Coeff	(SE)	p-value
Social Security status			
(Ref: Insured by labor)			
-Uninsured	-441.6	(256)	*
-Family of insured	-628.3	(163)	***
-Insured by the State	-1344.7	(360)	***
-Contribution pension-earner	-170.4	(152)	
-Non-contrib. pension-earner	-1237.1	(208)	***
Interviewed after Aug-06	-161.6	(144)	
(Ref: Interviewed bef Aug-06)			
Interaction: After Aug-06 and			
-Non-contribution pension-earner	607.4	(278)	**
-Contribution pension-earner	301.9	(193)	
-Males (Ref: Females)	130.8	(99)	
-Age	-28.9	(6)	***
-Children in hh	-156.4	(43)	***
-Children living out of hh	9.9	(14)	
	80.4	(107)	
-Widowed			
-Others not in union	81.6	(117)	
(Ref: Married or cohabiting)	-48.0	(102)	
Urban			
(Ref: Rural)			
Metropolitan Area	150.1	(95)	
(Ref: living elsewhere)			
	397.0	(92)	***
Less than 6 y of education			
(Ref: 6 or more years of educ)			
Regular/bad self-reported econ situation	-577.5	(84)	***
(Ref: Excellent-to-good econ. situation)			
At least 1 ADL or IADL limitation[2]	-284.1	(88)	***
(Disability)			
(Ref: no limitation)			
Constant	965.4	(400)	**
Within-individual variance	718.5	(83)	***
Error variance	1312.2	(54)	***

Note: *:p<0.10; **:p<0.05; ***:p<0.01