

Wealth at the End of Life: Evidence on Estate Planning and Bequests

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Abstract

In this paper we contribute to the literature by empirically identifying the presence of a bequest motive for saving using administrative data for the Netherlands. Building upon and expanding the previous work by Kopczuk (2007), we identify the bequest motive by studying how terminally ill individuals manage their estate in the last instances of their life. We regress net financial wealth at the end of life on length of terminal illness, while controlling for age, lifetime income, gender, and marital status. We hypothesize that a negative relationship reflects a decrease in net worth due to transfers resulting from estate planning triggered by the onset of a terminal illness. Employing quantile regression, we find that having a terminal illness of above ten years has a negative impact on net financial wealth at death. The effect is only significant however for married males, and especially for those who are at the top of the wealth distribution. Among this group, we find that the effect is especially strong for younger individuals (below 65 years), and for individuals with children who are below the 75th percentile of the lifetime income distribution. Following Kopczuk, we conclude that the effects we find reflect the presence of an underlying bequest motive for saving.