Cross-sectional and Longitudinal Factors Affecting Will and Trust Ownership

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Summary

The propensity for older adults to have estate planning documents has been declining noticeably in recent years, such that a majority of adults age 50 and over now have no will or trust documents. We investigate factors associated with usage of will or trust documents. After reviewing the previous literature regarding factors associated with will or trust documents. After reviewing the previous literature regarding factors associated with will and trust adoption, we explore new behavioral factors that may provide insight into this decision-making process. We first explore the impact of hyperbolic discounting on estate planning decision using the 2014 HRs (Health and Retirement Study) survey. The results indicate that among older adults (age 50 or above), respondents who have relatively longer financial planning horizons are more likely to have a valid will or trust, controlling for demographic, wealth, health, retirement, and education factors. People who demonstrate high future-discounting many tend to procrastinate will and trust adoption despite the need to do so. Next, we explore the relationship of this and other behavioral and demographic variables using all waves of the 1998 to 2014 HRS in a longitudinal analysis in order to expand our knowledge of changed over time within the same people that results in the adoption of estate planning documents. The insight gained can help financial advisors and counselors to encourage this important, and increasingly rare, financial planning activity.

Objective

This study explores whether some behavioral factors, such as hyperbolic time-discounting, have a significant impact on people's estate-planning decisions. The dataset used in this paper is the Health and Retirement Study (HRS). Following the discussion of descriptive statistics, we introduce the theoretical model and the regression techniques employed in this article. Using the time-discounting model and people's financial planning horizon as a proxy, we find that the relationship between people's estate-planning decisions and their time-discounting behavior is positive and significant. After discussing the regression results and interpretations, we tested the robustness of our cross-sectional results with different types of longitudinal analysis.

Significance

Despite the rich literature documenting non-behavioral predictors of will ownership, few studies have explored behavioral finance theories as to what incentivizes people to undertake estate planning. This study contributes to the gap in the literature regarding what behavioral factors may affect people's estate-planning decisions and motivates the application of behavioral theory to promote estate planning in the U.S. The insight gained from this study may provide empirical background and theoretical guidance for the financial planning professionals to promote estate planning.

Methods

This study uses the Health and Retirement Study (HRS), which is nationally representative longitudinal survey, conducted by the Institute for Social Research at the University of Michigan. The theoretical framework implemented in this paper is the quasi-hyperbolic discounting model (Laibson, 1997), a form of the discounting utility model. The financial planning horizon is a strong indicator of people's time preference (Khwaja et al., 2007) and therefore, is used as a proxy in this study. The focus of this paper is

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to examine whether people's financial planning horizons (proxies for their time-discounting factor) have a significant impact on their estate-planning decisions. The dependent variable is dichotomous and indicates if a respondent has a valid will or trust. The fine dummy variables that capture an individual's financial planning horizon are the key explanatory variables. The other control variables include gender, age, race, marital and retirement status, the presence of children, education level, wealth, and various health condition indicators.

Results

The probit regression results for the cross-sectional analysis are indicated in the following Table 1. We observe that time-discounting behavior factor, proxied by the financial planning horizon dummy variables, has a significant impact on will and trust adoption. In addition, among the control variables, male, age, white rice, the presence of children, retirement status, years of education, disability, cancer diagnosis, wealth level and heart condition are also significant.

Table 1 Probit Regression for Factors Affecting Will and Trust Ownership

Variable:	Average Marginal Effects
Do the Respondents have valid will or trust? (Yes = 1; No = 0)	
Male (Male = 1; Female = 0)	-0.043*** (0.009)
Age	0.013*** (0.001)
White Race (White = 1; Else = 0)	0.168*** (0.016)
Married (Married = 1; Else = 0)	0.012 (0.013)
Presence of Children (Have Children = 1; No Children = 0)	0.046* (0.026)
Retired (Retired = 1; Else = 0)	0.054*** (0.012)
Years of Education	0.030*** (0.002)
Disabled (Disabled = 1; Not = 0)	0.047** (0.021)
Cancer (Have Cancer (excluding skin) = 1; Else = 0)	0.044*** (0.015)
Heart Condition (Diagnosed with heart condition = 1; Else = 0)	0.020* (0.012)
Wealth (Natural logarithm of total wealth)	0.071*** (0.004)
Financial Planning Horizons Omitted Category: Next Few Months	
Group 2: Next Year	0.042** (0.021)
Group 3: Next Few Years	0..028 (0.018)
Group 4: Next 5-10 Years	0.048** (0.019)
Group 5: Longer than 10 Years	0.054*** (0.020)

Notes: Number of observation is 11,659. Sample weights are applied. Standard errors are reported in parentheses.

***Statistically significant at 1- percent level.

**Statistically significant at 5 – percent level.
*Statistically significant at 10- percent level.

After confirming the relationship between American adults' financial planning horizon and their estate planning decisions, our next step is to check whether this relationship persists with the same individual over time. Using all waves of the 1998 to 2014 HRS data, we would like to expand our knowledge of what kind of changes over time may prompt an individual to adopt estate planning documents through longitudinal analysis. The results are shown in the following table:

Table 2 Longitudinal Regression for Factors Affecting Will and Trust Ownership

Variable:	Average Marginal Effects				
	OLS		Robit(1)	Logit	
	Random Effects	Fixed Effects	Random Effects	Random Effects	Fixed Effects
Do the Respondents Have Valid Will or trust? (yes = 1; No = 0)					
Retired (Retired = 1; Else = 0)	0.093*** (0.004)	0.060*** (0.005)	0.746*** (0.036)	0.106*** (0.005)	0.023*** (0.008)
Cancer (Have Cancer (excluding skin) = 1; Else = 0)	0.083** (0.008)	0.069*** (0.010)	0.675*** (0.065)	0.096*** (0.009)	0.026*** 0.009
Heart Condition (Diagnosed with heart condition = 1; Else = 0)	0.051*** (0.006)	0.040*** (0.0013)	).405*** (0.052)	0.058*** (0.007)	0.015*** (0.006)
Wealth (Natural logarithm of total wealth)	0.067*** (0.002)	0.020*** (0.002)	0.568*** (0.013)	0.082*** (0.002)	0.007*** (0.002)
Financial Planning Horizons (Short(2) = 1; Else = 0)	-0.14*** (0.004)	0.001 (0.004)	-0.108*** (0.033)	-0.015*** (0.005)	-0.0004 (0.002)

Notes: (1) Probit fixed-effect analysis are not available with our statistical software.
(2) Short financial planning horizon indicates the respondents financial planning horizon is less than or equal to one year in this analysis.
***Statistically significant at 1- percent level.
**Statistically significant at 5 – percent level.
*Statistically significant at 10- percent level.

Conclusion/Relevance

This paper examines the relationship between American adults' financial planning horizons and their estate-planning decisions. Using the Health and Retirement Study data, we find that people who have relatively longer financial planning horizons are on average more likely to have a valid will or trust, controlling for their demographic information, education, health, marital status, wealth, and retirement situations. The findings in this paper also indicate that behavioral factors such as hyperbolic time-discounting are potential reasons for the delay in estate planning by American adults.

The findings of this paper are beneficial to financial planners who are engaging clients in the financial planning industry. Clients who have demonstrated relatively longer financial planning horizons may be more willing to engage in the estate planning advised by their planners. Because peoples' time-discounting behavior is strongly related to their estate-planning decisions, financial planners can utilize difference behavior strategies to encourage and guide their clients to implement estate planning based on their time preferences.

References

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