

Title: The Career Costs of Elderly Parent Care

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Abstract:

Informal care for elderly parents is borne disproportionately by middle-aged women and constitutes a critical, yet understudied, episode of the female life cycle. I develop and estimate a discrete-continuous dynamic life-cycle model in which women make joint labor supply, caregiving, and consumption-savings decisions from age 30 through retirement. Estimated on panel data from the SOEP and SHARE, the model captures the institutional details of the German pension, tax-benefit, and long-term care insurance systems, together with stochastic parental care demand, own health, job arrival and destruction, and partner dynamics.

The model reveals that informal caregiving reduces the net present value of lifetime labor and pension income by 37 percent for ever-caregivers relative to a no-care-demand counterfactual. Existing public transfers cushion this loss to 15 percent, yet a substantial uncompensated residual remains. Using the estimated model, I evaluate two main counterfactual policy scenarios from the current debate: a caregiving leave, akin to parental leave policy, with an earnings-replacement scheme at 65 percent, and a full insurance leave with 100 percent replacement of prior wages, with and without an unconditional flat-rate cash component. Three findings stand out. First, leave policies primarily reallocate the mode of care provision, shifting use from formal, nursing home care, toward informal and combination care arrangements. Second, the 65 percent replacement scheme achieves nearly the same behavioral response as full replacement at approximately one-tenth the fiscal cost, because the job-retention guarantee embedded in the leave entitlement, not the replacement rate itself, is the margin that prevents permanent labor force exit. Third, one quarter of individuals who become caregivers are not employed at the onset of parental care need, rendering this group ineligible for earnings-related benefits. These findings motivate a two-tier policy architecture that combines earnings-related leave for employed caregivers with a flat-rate component for those outside the labor force.