Private old age provision and informal networks: A siblings approach

Bettina Lamla

1Munich Center for the Economics of Aging at the Max-Planck-Institute for Social Law and Social Policy, Munich.
Email: lamla@mea.mpisoc.mpg.de

Abstract

The variety of possibilities to provide for old age comes with high search and decision costs. These in turn are more relevant for certain groups of households. (In)formal networks might lead to information advantages and help to reduce transaction costs.

Recent contributions focus on the influence of socio demographic characteristics on the probability of having a Riester contract (see for example Coppola and Gasche, 2011; Pfarr and Schneider, 2010). However, problems arise due to endogenous explanatory variables. There is broad consensus that education plays a key role in understanding the determinants of private old age provision (Browning and Lusardi, 1996). Omitted variable bias might pose a severe problem if cognitive ability, role models and the overall family background influence not only the level of educational attainment (Becker, 1964), but the search and decision costs of Riester contracts as well.

The contribution of this work is two-fold: In order to eliminate omitted variable bias, I construct a sample consisting of siblings, eligible for subsidies under the Riester scheme. If the difference in unobserved characteristics is significantly lower within than between families, subtracting the family-fixed effect should help to assess the determinants of owning a Riester contract. The analysis then focuses on the underlying dynamics. As to study positive network effects, a hazard model is estimated which models the effect of having a sibling with a Riester contract on the duration until an eligible person buys such a contract him-/herself.

Even though there is first evidence of saturation effects (Coppola and Gasche, 2011), the Riester scheme is still relatively new. Since network effects play a decisive role, it might be too early to conclusively evaluate the Riester scheme, as recently done in DIW Wochenbericht (2011), until a steady state has been reached.
Literature


Contact information

Bettina Lamla  
MEA - Munich Center for the Economics of Aging  
Max-Planck-Institute for Social Law and Social Policy  
Amalienstr. 33  
D- 80799 Munich

Email: lamla@mea.mpisoc.mpg.de