

# The intergenerational transmission of future-orientedness

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## Abstract

Understanding heterogeneity in intertemporal preferences is fundamental to comprehending heterogeneity in retirement income. Knowles and Postlewaite (2023) develop an index of “future-orientedness” based on respondents’ reported attitudes in the 1970s to predict wealth many years later. They show that variation in planning matters more for future net worth than discount rates. We find that their index has statistically significant effects on offspring savings and on nonfinancial choices. We extend their work on transmission of parental intertemporal choices to offspring. We show that the index they construct affects predictions of wealth accumulation not only to offspring, but also to grandchildren. We also identify several channels through which household future-orientedness affects grandchildren’s future-orientedness.

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## Introduction

We explore the concept of future-orientedness as a key determinant in wealth accumulation and the intergenerational transmission of future-orientedness. We analyze the effects of parental attitudes on savings and how these attitudes are passed down to children and grandchildren.

We loosely define *future-orientedness* as a collection of personality traits that influence variations in savings behavior across households and, ultimately, wealth inequality. We focus on heterogeneity in future-orientedness among individuals and show how it helps understand why some people save more and accumulate more wealth over their lifetimes compared to others.

To measure future-orientedness, we use data from the Panel Study of Income Dynamics (PSID), going back to the 1970s, in which respondents were asked questions about their attitudes toward the future. These questions capture key aspects of future-orientedness, such as the preference for saving over spending, and the tendency to plan for the future. The responses from both husbands and wives in these households provide valuable insights into how these attitudes differ between spouses and how they influence savings behavior.

Moreover, we highlight the importance of examining not only how future-orientedness affects individuals' wealth but also how these attitudes are transmitted to the next generation. The study seeks to determine whether children inherit their parents' future-orientedness and whether this has a long-term effect on their wealth accumulation.

## Related literature

Previous research has shown that wealth inequality can persist across generations, with wealthy parents often having wealthy children. However, the mechanisms behind this transmission of wealth are complex, involving both financial factors (such as income and investments) and nonfinancial factors (such as attitudes toward saving and planning).

Studies in family economics have emphasized the role of parents in shaping their children's financial behavior. Parents' attitudes toward saving, investment decisions and financial discipline can directly influence their children's approach to managing money. Furthermore, research in psychology has shown that personality traits—such as conscientiousness and self-control—are linked to better financial outcomes. These traits are often passed from parents to children, either through genetics or by observing parental behavior.

We add to this literature by focusing on the specific trait of future-orientedness and its impact on wealth transmission. It builds on previous work by using longitudinal data from the PSID to track wealth outcomes across generations. By

examining both financial and nonfinancial outcomes we provide a more comprehensive understanding of how future-orientedness shapes not only wealth accumulation but also other life choices, such as marriage, education and religious participation.

## PSID attitude survey

The PSID is a nationally representative longitudinal study that tracks the economic and demographic characteristics of American households. Since its inception in 1968, the PSID has collected detailed information on income, wealth, family structure and other variables.

In the early 1970s, the PSID included a set of questions designed to measure attitudes toward the future. These questions are crucial for constructing our index of future-orientedness, which is used to predict wealth accumulation over time. The survey asked respondents about their preferences for saving versus spending, their tendency to plan, and their general outlook on life. Examples of these questions include:

- Would you rather save more for the future or spend your money and enjoy life today?
- Are you the kind of person who plans their life ahead all the time, or do you live more from day to day?

The responses to these questions are used to create an index of future-orientedness for both husbands and wives. We then examine how these attitudes correlate with wealth accumulation in later years, long after the attitudes were elicited. Additionally, since PSID includes the children and grandchildren of the original respondents in the analysis, we can explore the intergenerational transmission of future-orientedness.

We take into account demographic and socioeconomic factors that may influence savings behavior—such as income, education and family structure. By controlling for these variables, we isolate the effect of future-orientedness on wealth accumulation and its transmission to future generations.

## Methodology

We analyze data collected over a long period from the Child Development Survey, a part of the Panel Study of Income Dynamics (PSID). This dataset tracks families and their descendants, providing information on income, wealth, education and attitudes over decades. This study focuses specifically on developing a measurement for “future-orientedness” through people's attitudes, particularly their tendency to plan for the future versus living more spontaneously.

To analyze future-orientedness, we use specific survey questions, such as whether respondents prefer saving for the future over spending for the present. These questions were asked to individuals and their spouses. Using these responses, we create an index to measure how future-oriented individuals are. This index is used to analyze how it affects household wealth and savings decisions over time.

The key idea in the methodology is to predict long-term financial behaviors based on attitudes, rather than traditional financial indicators. We hypothesize that people who are more future-oriented, as measured by our constructed index, tend to accumulate more wealth given their income and demographic characteristics.

Those high on the future-orientedness index tend to have higher wealth relative to their income, measured through the wealth-to-income (W/Y) ratio.

## Transmission of wealth and attitudes

The main question we address is the transmission of future-orientedness from parents to their children. The data reveal that parents' attitudes toward saving and planning significantly affect their children's financial behaviors as adults. Specifically, children of parents who are highly future-oriented are more likely to adopt similar attitudes and behavior. Among other things, they accumulate greater wealth, again, controlling for demographics.

This transmission of attitudes goes beyond just financial behavior. Our research shows that children of future-oriented parents tend to have more stable life outcomes, such as lower rates of teenage marriage and a lower likelihood of having children before the age of 21. These children are also less likely to divorce later in life. This suggests that future-orientedness influences a wide range of life decisions, not just financial ones. It's likely that some of these behaviors have a cumulative impact on the distribution of wealth.

We push beyond our investigation of the effect of future-orientedness on offspring to the effect on grandchildren. To explore the mechanism of this transmission, we examine the link between parent-child interactions in the 1997 Childhood Development Survey, a subpart of the PSID, and the projected wealth of their adult grandchildren in middle age. Ideally, we could deal with this in the same way we dealt with the effect of parents' index on their children.

There's an important difference, however, between estimating the effect of parents' index on children and the effect on grandchildren. With parents' offspring, we had their realized wealth accumulation in middle age. We used that to estimate the relationship between saving and parental future-orientedness index. The grandchildren, however, are too young to mimic this approach.

Instead of estimating grandchildren's wealth, as we did with the direct offspring, we *predict* grandchildren middle-age wealth and ask how that prediction is affected by grandparents' future-orientedness. We do this by estimating grandchildren's wealth accumulation as if they behaved similarly to an earlier PSID cohort. The estimation showed that grandparent's future-orientedness had a strong and significant effect on predicted grandchildren middle-age wealth.

This approach allows us to go beyond estimating grandparent future-orientedness effect on grandchild wealth accumulation. We "unpack" the grandparent effect to see whether different activities and environments grandchildren face when growing up is involved in the effect. In addition to the attitude questions we describe above, PSID asks about grandchildren's activities. We consider several activities that intuitively might have the effect of being associated with increased wealth accumulation, including "Play in School Sports" and "Attends Religious Services." Both activities are associated with higher wealth accumulation.

We ask whether such activities might be the channel through which grandparent future-orientedness affects grandchildren outcomes. That is, do more future-oriented grandparents steer their grandchildren toward these activities? The answer is different for the two activities mentioned. The grandchildren of more future-oriented grandparents are no more likely to play school sports than those of less future-oriented grandparents. School sports may matter, but grandparents aren't part of the reason.

The case of attending religious services is very different. As with sports, it's associated with high predicted grandchild wealth, but here grandparents make a difference. Grandchildren of grandparents who are more future-oriented are significantly more likely to attend religious services.

## Results

The findings strongly suggest that heterogeneity in wealth is not solely passed down through financial inheritance or genetic traits. Instead, they emphasize the cultural and behavioral transmission of intrafamilial future-oriented attitudes, which play a critical role in shaping financial and life outcomes across generations. Genetics may play an important role, but we show a marked difference in the influence of grandmothers and grandfathers in the effect of some of the mediating variables. This is at odds with the standard genetic model.

## About the authors

**John Knowles** is a professor of economics at Simon Fraser University in Vancouver, Canada. His main field of research is macro-economics, broadly defined. Knowles specialize in developing equilibrium models to analyze micro-level data sets, usually in the field of family economics, but including also some early work on racial profiling. Before joining SFU in 2014, he was a professor in the Economics Department at the University of Southampton, in the U.K. Prior to that he was an assistant professor at the University of Pennsylvania, from 1999 to 2008. Knowles completed his Ph.D. at the University of Rochester, N.Y. in 1999. Published articles based on his research may be found in a number of international academic journals, including the *Economic Journal*, the *Journal of Political Economy*, *The International Economic Review*, the *Review of Economic Dynamics* and *The Quarterly Journal of Economics*.

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