

A Comparative Analysis of Augmented Wealth in Germany and the United States by M. Grabka, T. Boenke, E. Wolff, C. Schröder
Discussion by Tobias Schmidt (Deutsche Bundesbank)

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Motivation and Research Questions

- **Analysis of wealth** inequality and wealth levels **typically** focuses on real and financial assets only and **excludes (public) pension wealth**
- However, **pension wealth of private households is sizeable**
- **Pension systems differ** across countries

⇒ **Compare impact of adding pension wealth to the wealth measures across countries**

- **How sizable** are different types of pension wealth?
- How are **inequality** measures affected by the inclusion of pension wealth?
- How important are **public pensions compared to private pensions** in each country?

Contributions

- Very **little research on augmented wealth** inequality (Frick and Heady, 2009; Frick and Grabka 2010, 2013; Wolff, 2015; Bönke et al., 2016)
- Compare **US and Germany** with distinct **welfare/pension systems**
- Thorough treatment of **widowers' pensions**
- Nice **overview of different pension systems** in Germany and the US

Main Results

- Micro-data from US (SCF) and Germany (GSOEP) shows:
 - **Pension wealth 48% of augmented net wealth in the US and 59% in Germany**
 - Average **public pension wealth is higher in Germany than in the US**, but private pension wealth is lower
 - **Adding pension wealth reduces inequality** in both countries, more so in Germany than in the US
 - Age-wealth profiles show that **German households start to dissave at earlier ages**

Data

- **USA:**
 - dedicated wealth survey - **Survey of Consumer Finance 2013**
 - **representative sample** of household with oversampling of wealthy households
 - net wealth collected at **household level**
- **Germany:**
 - wealth questions - **GSOEP** Panel Study 2012/2013
 - **representative sample** of the population with oversampling of high income individuals
 - net wealth collected at **individual level**
- **Comparability:**
 - **similar wealth concepts covered:** real estate, tangible assets, business assets, financial assets, mortgage debt and consumer debt, public, occupational and private pensions
 - **trim distribution (99.9%)** to address different oversampling strategies
 - euro amounts inflated to 2013 (CPI 1.0015 ?) and in PPP adjusted US-\$ (0.7773)

Methodology

- **Private insurance** contracts (DE) and **DC plans** in US: **surrender value**
- All **other pensions**: calculate gross **present value of future expected pension** entitlements accumulated until 2012

$$PV^p = \sum_{t=0}^T \frac{1}{(1+r)^t} \times \sum_p E_t^p$$

- E_t^p **expected value of pension entitlements** in period t from system p:
 - Retired persons receive pension from period t=0 (2012)
 - Non-retired persons receive pension from t>0, i.e. from official retirement age
 - Expected values taken directly from survey
- $r = 2\%$

Comment: Provide more detail on how expected value of pension entitlements is collected.

Results – Wealth Levels

	Mean	P25	P50	P75	Fraction >0
USA					
Net worth	336,636	0	40,000	198,510	73.07
Public pension wealth	161,475	64,486	124,938	227,458	96.49
Private Pension wealth	153,351	0	13,000	139,877	61.69
Augmented wealth	651,462	85,989	246,531	607,288	95.75
Germany					
Net worth	163,986	0	38,912	221,998	70.77
Public pension wealth	196,968	55,606	144,268	284,156	94.8
Private Pension wealth	39,005	0	6,529	45,418	60
Augmented wealth	399,959	103,664	269,311	544,589	97.65

Source: Grabka et al. Table 3, p.20

Results – Distribution of Wealth by Selected Deciles of Augmented Wealth

Components of augmented wealth (mean) as a share of mean augmented wealth (in %)

	Decile 1	Decile 2	Decile 5	Decile 9	Decile 10	Overall
USA						
Net wealth	352	-15	20	40	68	52
public pension wealth	-229	107	67	29	9	25
private pension wealth	-24	8	13	31	23	24
total pension wealth	-252	115	80	60	32	48
Germany						
Net wealth	851	4	23	44	56	41
public pension wealth	-629	83	68	47	34	49
private pension wealth	-122	13	10	9	10	10
total pension wealth	-751	96	77	56	44	59

Source: Grabka et al. Table 5, p.24

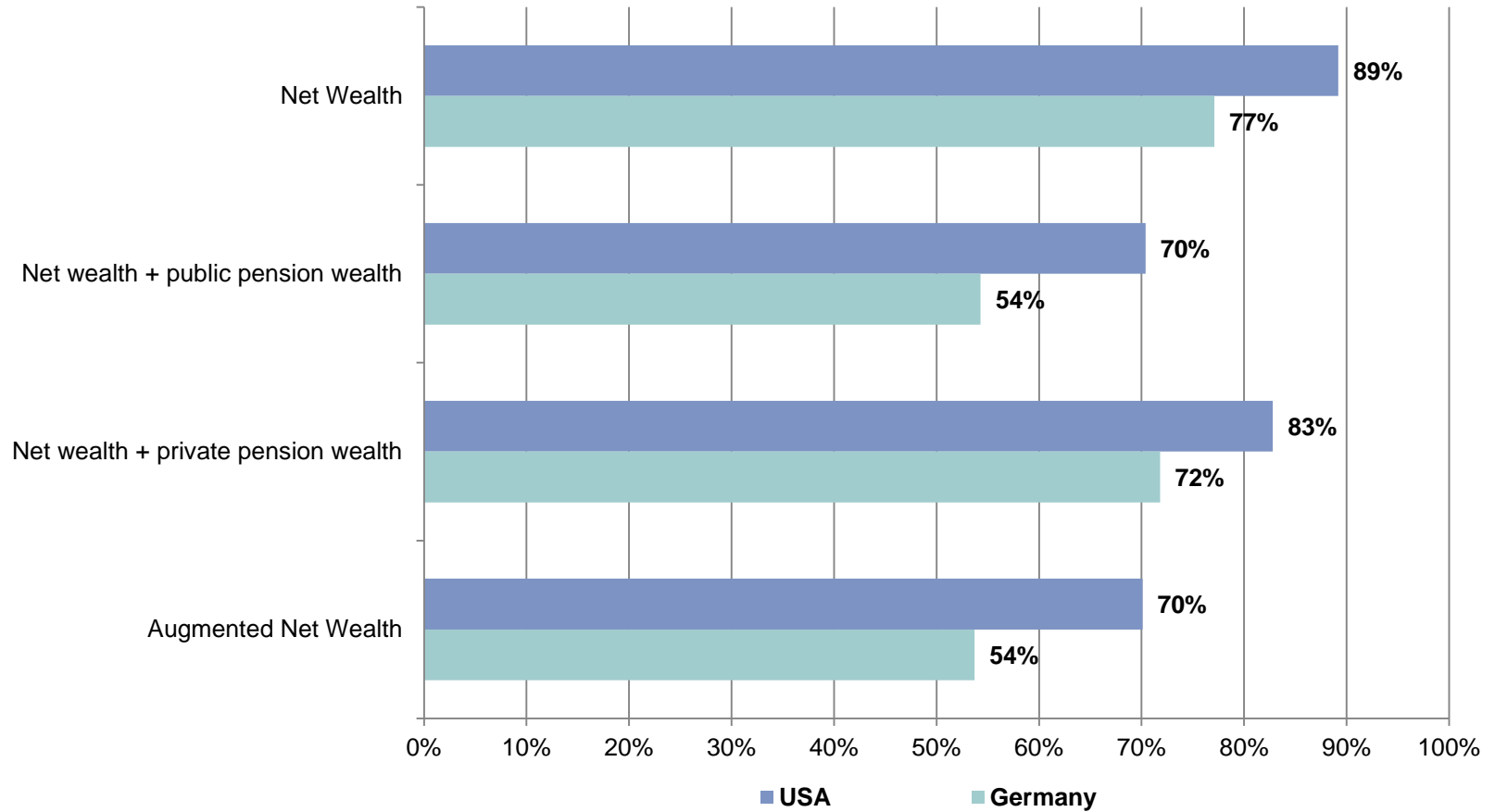
- **Pension wealth is a sizeable part of augmented net wealth** across the distribution
- **Share of pension wealth** in augmented wealth **declines** with increasing wealth
- **Notable differences wrt. public and private pension wealth across the two countries**

Comments:

- Why not use net wealth (excl. pension wealth) to define deciles?
- Pension wealth is linked to (life-time) income, maybe interesting to show (life-time) income deciles?
- Add “total pension wealth” line/column to Table 5 in the paper

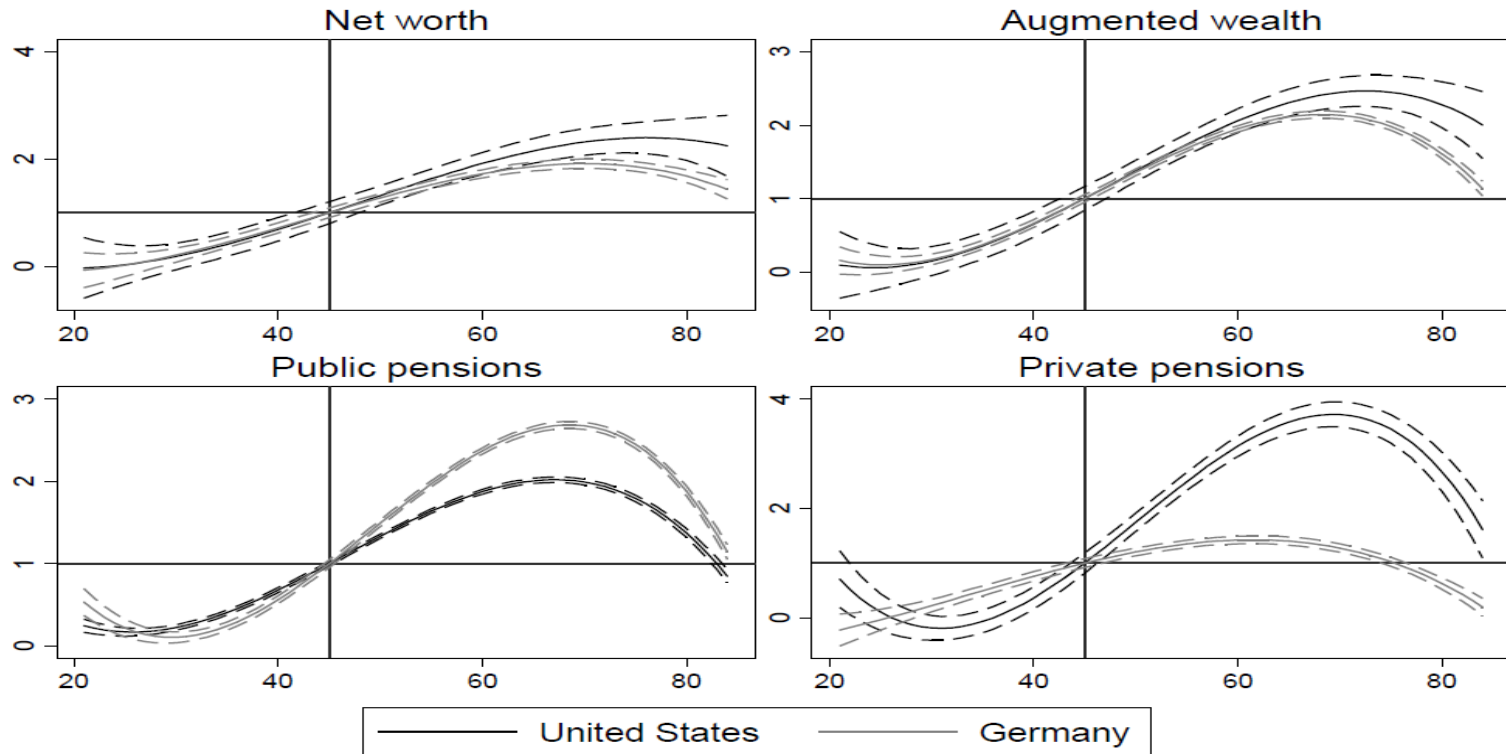
Results - Inequality

Gini-Coefficients for different wealth concepts



Results – Age Profiles

Figure 2. Normalized age-wealth profiles



Note: Sample is top trimmed at 99.9 percent. All results based in multiple imputations. Dashed lines represent 95% confidence bands. Source: SCF 2013 and SOEP v30/v31, own calculations.

Source: Grabka et al. Figure 2, p. 30

Conclusions

- **Pension wealth** makes up a **sizable** proportion of total augmented net wealth of private households
- **Redistributive impact of pension wealth is greater in Germany**: including pension wealth reduces inequality in Germany to a larger degree than in the US
- **Open issues:**
 - How much of the gap in pension wealth between the two countries can be explained by different **mortality rates**?
 - How much would the equalizing effect of pension wealth be reduced if differential **life-expectancy by socio-demographic groups** would be taken into account?
 - How important is the **wealth gap** between East and West Germany for the results?

Additional Comments, Suggestions and Questions

- Provide **more explanation and intuition** for your findings, especially for cross-country differences.
- How stable is the distribution? How many households **change wealth deciles** when going from net wealth to augmented net wealth?
- How **important** is the inclusion of the **widowers' pensions** rights (in each country)?
- Is the **distinction between financial assets and private pensions always clear** for the respondents (e.g. long term whole life-insurance contracts without Riester funding)?
- The **age-wealth profile** analysis is interesting, but **maybe an issue for another paper** (making use of the SOEP panel component).
- Are there any **policy implications** of your findings?

Thank you for your attention !

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