

Session Number: Session 8B
Time: Friday, August 29, PM

*Paper Prepared for the 30th General Conference of
The International Association for Research in Income and Wealth*

Portoroz, Slovenia, August 24-30, 2008

The Income-Wealth Paradox: Connections Between Realized Income and Wealth Among
America's Aging Top Wealth-holders

Barry Johnson, Statistics of Income, IRS
Kevin Moore, Federal Reserve Board
Lisa Schreiber, Statistics of Income, IRS

For additional information please contact:

Name: Kevin Moore
Affiliation: Federal Reserve Board
Full mailing address: Mail stop 153, 20th and C Streets NW Washington DC 20551
Email address: kevin.b.moore@frb.gov

This paper is posted on the following website: <http://www.iariw.org>

Introduction

Meaningful measures of individual economic well-being are essential for the equitable administration of government social and economic policies. Implicit in any discussion of economic well-being is an attempt at quantifying one's ability to consume over a given period of time. Realized income, which includes both wage and property income, is a frequently cited measure of both economic well-being and inequality, chiefly because wage income, the largest component for most households, is relatively easy to observe and measure (Steuerle, 1985). Some researchers, however, have argued that the “stock dimension” of asset ownership provides economic advantages, such as economic security, political privilege and power that should also be considered in any study of well-being (Wolfe and Zacharias, 2006).

Recent studies using cross sectional administrative or survey data have found that income has become more concentrated in the hands of fewer households in recent decades (see for example Piketty and Saez, 2003). In fact, it is generally agreed that while average economic well-being in the U.S. has increased considerably over the past three decades, “the degree of inequality in economic outcomes has increased as well,” (Bernanke, 2007).¹ However, at least two studies using panel data from U.S. federal income tax returns have shown that, while the distribution of income may have become more concentrated, the composition of the top income groups changes dramatically over time (Frenze, 1992; U.S. Treasury, 2007). The U.S. Treasury Department study found, for example, that fewer than half of those in the top 1 percent of the income distribution in 1996 were still in the top 1 percent in 2005. This volatility increased at the very top of

¹ There are researchers who disagree, saying that the measures of income used to draw this conclusion are incomplete, generally ignoring government transfer payments, which, by design, offset much of the inequality observed on income tax returns (see for example, Reynolds 2006).

the distribution, so that only about 25 percent of the individuals in the top 1/100th percent in 1996 remained in the top 1/100th percent in 2005. Likewise, a U.S. Congressional Joint Committee on Taxation report found that “the notion of a quintile [of the income distribution] as a fixed economic class or social reality is a statistical mirage,” (Frenze, 1992). The Treasury report concluded that the income of many of the highest-income taxpayers is transitory and generally declines over time, but to a level well above average,” (U.S. Treasury 2007).

The transitory composition of income quintiles over time can be partially attributed to decreases in wage income for individuals above retirement age. For wealthier individuals, return on capital becomes an increasingly important source of income. For the very wealthy, however, income from capital can be particularly susceptible to manipulation to minimize tax liability, distorting measures of well-being based solely on realized income. For example, it has been shown that rates of return on investments decline as wealth increases among the very wealthy (see Steuerle, 1985; Wahl & Johnson, 2004). If this is the case, then for these very wealthy individuals, measures of well-being that focus solely on realized income will understate their economic status.

This paper is intended to add to the understanding of the ways in which income from various sources changes with age for the very wealthy. It makes use of a special longitudinal panel of U.S. income tax data linked to wealth data reported on U.S. estate tax returns filed for wealthy decedents. The relatively high estate tax filing threshold places these individuals at the top of the U.S. wealth distribution. Combined income and wealth data in the Statistics of Income Family Panel Decedent Dataset (FPDD) allow us

to investigate changes in the composition of realized income over time and also provide insights into asset management strategies employed by this elite group. In addition, we investigate the relationship between income and end-of-life wealth through the use of the portfolio data reported on the estate tax returns. Due to the limitations of the tax data, we incorporate data from the U.S. Survey of Consumer Finances to estimate these panel members' place in the overall U.S. distributions of income and wealth. Ultimately, this research will provide new information about the income, wealth and well-being of an important and growing segment of the U.S. population.

Tax Return Data

The Statistics of Income Division (SOI) of the United States Internal Revenue Service collects statistical data from most major Federal tax and information returns. These data are used by both the U.S. Congress and the Executive Branch of the Government to evaluate and develop tax and economic policy. Among these are annual studies of U.S. Individual Income Tax Returns (Form 1040) and United States Estate (and Generation-Skipping Transfer) Tax Returns (Form 706).

Form 1040 is filed annually by individuals or married couples to report income, including wages, interest, dividends, capital gains, and some types of business income. In 1987, SOI incorporated a panel component, the Family Panel, into its annual cross-sectional samples in order to include all members of a tax family (primary and secondary filers and their dependents) in a panel that represented the cohort of tax families filing returns in 1988 for Tax Year 1987 (Schirm and Czajka, 1991). For the initial year, the Family Panel included 89,755 returns, not counting returns filed by dependents.

A Federal Estate Tax Return, Form 706, must be filed for every U.S. decedent whose gross estate, valued on the date of death, combined with certain lifetime gifts made by the decedent, equals or exceeds the filing threshold applicable for the decedent's year of death.² The return must be filed within 9 months of a decedent's death, although a 6-month extension is frequently granted. All of a decedent's assets, as well as the decedent's share of jointly owned and community property assets, are reported on Form 706. Also reported are most life insurance proceeds, property over which the decedent possessed a general power of appointment, and certain transfers made during life.

Assets are valued on the day of the decedent's death, although an estate is also allowed to value assets on a date up to 6 months after a decedent's death if market values decline. Special valuation rules and a tax deferral plan are available to an estate that is primarily composed of a small business or farm. Expenses and losses incurred in the administration of the estate, funeral costs, the decedent's debts, bequests to a surviving spouse, and bequests to qualified charities are all allowed as deductions against the estate for the purpose of calculating the tax liability.

The Tax Family Concept

The unit of observation for the SOI 1987 Family Panel was defined as a tax family, which included a taxpayer, spouse, and all dependents (not limited to children) claimed by either. Thus, a tax family could represent single filers, as well as married filers and their dependents.³ An interesting complication of the tax family concept is the

² The filing thresholds for 1994-2003 are listed in Table 1.

³ Dependents did not need to live in the same household as the parent to be included in the tax family; however, information on dependents whose incomes fell below the filing threshold was generally not available unless reported on the parent's return. Co-resident family members who were not claimed as dependents were not included in the tax family. No dependents are included in the analysis presented in this paper.

treatment of married couples who, for various reasons, elected to file separately. For the purposes of the follow-up in the later years of the panel, only a partner whose separately filed return was selected into the 1987 panel sample was permanently included in the panel; the only way for both spouses of a married couple filing separately in 1988 to have been permanently included in the Family Panel was for returns filed by each spouse to have been independently selected. Thus, the tax family differs significantly from the more common “household” measure used by many national surveys (Czajka and Schirm, 1993).

Survey of Consumer Finances

The Survey of Consumer Finances (SCF) is a survey of household balance sheets conducted by the Board of Governors of the Federal Reserve System in cooperation with the SOI division of the IRS. Besides collecting information on assets and liabilities, the SCF collects information on household demographics, income, relationships with financial institutions, attitudes toward risk and credit, current and past employment, and pensions (For more details on the SCF, see Bucks, Kennickell, and Moore, 2006).

The SCF uses a dual frame sample design to provide adequate representation of the financial behavior of all households in the United States. One part of the sample is a standard multi-stage national area probability sample (Tourangeau et al., 1993), while the list sample uses the SOI individual income tax data file to over sample wealthy households (Kennickell, 2001). Wealth data from the SCF are widely regarded as the most comprehensive data available for the United States. Sample weights constructed for the SCF allow aggregation of estimates to the U.S. household population level in a given survey year (Kennickell and Woodburn, 1999; Kennickell, 1999).

The Data

Starting in 1994, the sample for SOI's annual estate tax studies included any Form 706 filed for a deceased 1987 Family Panel member. The Family Panel Decedent Dataset (FPDD) is a combination of these estate tax returns and their corresponding individual income tax return data. Individual income tax data were collected by SOI for the 1987 Family Panel from Tax Year 1987 through Tax Year 1996. The data available consist of both the set of data items that are collected for administrative processing of the Form 1040 together with all related attachments, as well as many more detailed data items required for statistical and economic analysis of taxpayer behavior. For tax years after 1996, a somewhat reduced set of data items was available from administrative files that were not subject to the edit review that is routinely part of SOI data collection (see Johnson and Schreiber, 2006). A total of 72,373 income tax returns filed for Tax Years 1987 through 2003 were available for the members of FPDD.

For 98.2 percent of decedents captured in the FPDD, income tax data were available for each tax year between 1987 and the last full year prior to death. For an additional 1.3 percent of all decedents, only one return was missing from this time series, leaving only a handful of decedents for whom more than one return was missing from the panel.⁴

The design of the FPDD poses several analytical challenges. Longitudinality introduces problems with the tax family concept because, over time, a filing unit may change composition, and this change is usually accompanied by changes in filing status

⁴ Missing returns can occur either because a taxpayer was not required to file in a given year, or because of an error in reporting a taxpayer's SSN (a unique personal identifier used by the tax administration). The latter occurred mainly in the case of secondary SSNs in the 1987 panel. After the period covered by this study, the IRS implemented processing improvements that greatly reduced the chances of SSN errors in the data.

(Czajka and Shirm, 1993). In addition, the selection criteria for inclusion in the FPDD changed during the sample period due to changes in the estate tax filing threshold.

Another important consideration is that an estate tax return includes only a decedent's share of a married couple's assets, while income tax returns for married couples who file jointly report income attributable to both partners. For the income tax data from tax year 1987 to 1996 and for income tax data from tax year 1997 to 2003, there are variations in the available data items from different tax years, subtle differences in data definitions, and differences in data quality. Finally, with a few exceptions, such as tax-exempt interest income, only income subject to taxation is reported on a tax return, and that reported income may be subject to both accidental and intentional misreporting by the taxpayer.

There were 5,559 estate tax returns identified as having been filed for 1987 individual members of the Family Panel members who died between 1994 and 2003.^{5,6} Table 1 presents the distribution of decedents by year of death, along with the applicable estate tax filing threshold. The rightmost column shows only those 5,164 decedents whose gross estates at the time of death were at least \$1 million in constant 2003 dollars and for whom a Form 1040 was filed in the last year prior to death.

Although the filing status reported for members of the FPDD was much more stable over time than that of the general population, changes are inevitable. In particular, married persons may divorce, single persons may marry, couples who customarily file jointly may elect to file separately or vice versa, or one or both spouses of a married

⁵ An additional 755 Estate tax returns were filed for decedents who died prior to 1994, the date that SOI began collecting these data for panel members, so these decedents are excluded from this analysis.

⁶ Visitors to the panel (individuals who were married to existing panel members for periods after 1987) were not included in the final dataset since income data were only available for those years that they were associated with an original panel member. Dependents are also excluded.

couple may die. The longer the time series is carried forward, the greater the possibility for one of these events to occur. Table 2 shows panel members for whom a tax return was filed in the last year prior to death and compares each panel member's filing status in the year prior to death with that reported for earlier tax periods; filers are grouped into two broad categories, single filers and joint filers.⁷ Using this classification, filing status was constant for 67.6 percent of all panel members over the 9 years preceding death. Individuals who were single filers at death were much more likely to have changed filing status in the years preceding death than those who were joint filers. Only 45.9 percent of all individuals who were single filers in the year prior to death had been single over at least the 9 years examined; this result is influenced by couples for whom one spouse died and those who divorced or separated during the period. Of individuals who were joint filers at death, 78.2 percent had been married for at least the previous 9 years. Filing status was significantly more static over the 7 years preceding death for both groups, with no change for 85.2 of all filers, 63.5 percent of single filers and 95.8 percent of joint filers. For this paper, we focus on filers with constant filing status for the 7 years prior to death and at least \$1 million (in 2003 dollars) in wealth as reported in estate tax filings.

Income Components

The filers in the sample used in the analysis are a very selective slice of all taxpayers in any given year. All members of the sample have a high level of total income, but it is difficult to gauge where these filers fall in the overall distribution of income since the FPDD is not representative of that distribution. One possibility is to compare median total income by year in the FPDD to the distribution of a comparable

⁷ The category "single" includes filers who were unmarried, widowed, and married individuals who elected to file separately since the data on these returns should reflect income attributable to one individual.

total income measure constructed from SCF data. The comparison reveals that median total income by year from the FPDD is above the 95th percentile of the SCF income distribution in each year in which the two data sources overlap (1988, 1991, 1994, 1997, 2000 and 2003 tax years).

Table 3 provides some basic information on the types of income and median values conditional on having that type of income, by the number years prior to death. All dollar values in the tables are in 2003 dollars. The most striking point to note from this table is the extremely high incidence of income derived from assets, regardless of filing status or the number of years prior to death. Over 98 percent of both types of filer have taxable interest and dividend income, and about two-thirds have tax-exempt interest income. About 65 percent of single filers and 85 percent of joint filers also receive income from non-corporate businesses. For single filers, about 80 percent have net capital gains or losses; over 88 percent of joint filers report this type of income. Given that the average age at death in the sample is 77, it is not surprising that taxable Social Security, pension and annuity income is common among both groups of filers, while wage income is the least common type of income received.

The (conditional) median values of the income components show that income derived from assets is extremely important to the sample, especially taxable interest and dividend income and tax-exempt interest income. Median wage income is also fairly high in the sample, but given the lower incidence of this type of income, it is not as important to most filers as income generated by assets.

Changes in Income and Wealth at the End of Life

The panel aspect of the FPDD provides insight into how total income and various components change as filers age and approach death. Since the data also contain information on estate tax filings, we can examine how changes in income prior to death are related to wealth at the end of life.

As a first pass, Table 4 shows the share of single and joint filers that experienced a positive change in income in the years leading up to their death. The analysis is limited to examining the change over two point-to-point periods: between 4 years prior to death and 1 year prior to death, and between 7 years prior to death and 1 year prior to death, by filing status.⁸ Filers are grouped by three categories of the absolute value of the percentage change in their income: a change in total income of less than 50 percent, 50 to less than 100 percent, or 100 percent or more over the specified period.

The results are very similar regardless of filing status or the time period. For filers with an absolute value of the percentage change in total income that was less than 50 percent, about 40 percent experienced an increase in total income. The fraction of filers in the second income change category with a positive change is only about 25 to 30 percent, while about 70 percent of filers with the largest changes in total income experienced a positive change. These results show that total income is not always declining as filers near death. In fact, those filers experiencing the largest changes in total income are the most likely to have a positive change. Results by wealth group reveal a similar pattern to the overall results (not shown). In fact, when looking at year to year changes in total income for all members of the FPDD, there does not seem to be any

⁸ 1 year prior to death is used because income data for a decedent's year of death would represent income earned during less than a full 12 month period in almost all cases.

clear pattern of either increases or decreases as individuals approach the end of their lives (not shown).

Given the volatility of total income shown in Table 4 and the fact that there does not seem to be a strong pattern of either increases or decreases in income as individuals approach death, the rest of this analysis focuses on the absolute value of the percentage change in total income, using the three categories defined previously.

Figures 1a and 1b examine the fraction of filers in each of the three income change categories, by three end-of-life wealth categories: less than \$10 million, \$10 to \$20 million, and \$20 million or more. Figure 1a focuses on the absolute percentage change in total income for single filers in the three wealth categories. The three leftmost bars show that over the period 4 years to 1 year prior to death, the majority of single filers in each wealth group had an absolute percentage change in total income of less than 50 percent. Single filers in the top two wealth categories were slightly more likely to have had an absolute percentage change in total income of between 50 and 100 percent than the lowest wealth group. A sizeable percent of single filers in each wealth group experienced absolute percentage changes in total income of 100 percent or more; 20 percent of those in the middle wealth group and approximately 12 percent for the wealthiest filers.

Similar patterns of total income variability are evident in the three rightmost bars of Figure 1a, which show income variability for the period of 7 years to 1 year prior to death. Over the 7-year period, fewer single filers in all three wealth groups had an absolute percentage change in total income of less than 50 percent when compared with the 4-year period, while slightly more single filers in all wealth groups were in the middle

income change category for the 7-year period. Interestingly, the share of single filers in the highest income change category for each wealth group was similar in both the 7-year and 4-year periods, suggesting that very large swings in income are about as likely over short time spans as longer time spans.

Figure 1b provides information on changes in total income for joint filers. Many of the patterns found for single filers are also present for joint filers. One notable difference over the 4-year period is that joint filers in all wealth groups are somewhat more likely than single filers to have had an absolute percentage change in total income of 100 percent or more. More differences between single and joint filers are evident over the 7-year period, especially among the top wealth group. Only about 40 percent of joint filers in the top wealth group had an absolute percentage change in total income of less than 50 percent, and over 30 percent of the joint filers in this group were in the highest income change category

Overall, Figures 1a and 1b show there is substantial variability in total income across filing status, wealth groups, and time period. This variability is due to a combination of heterogeneous rates of return on assets, strategic portfolio decisions, consumption needs, and general economic conditions. Unfortunately, the data in the FPDD do not provide an easy method for sorting out which of these factors is the driving the variability, but a closer examination of the components of income is possible.

Figures 2a, 2b, and 2c show how the conditional median values of the different components of income change over the period prior to death for joint filers in the three wealth groups.⁹ For the lowest wealth group, Figure 2a reveals that median wages declined by one-third between 7 years prior to death and 1 year prior to death, while the

⁹ Results were similar for single filers.

median value of taxable Social Security, pensions, and annuities nearly doubled over the same time period. Both of these trends are due to the aging of filers in the panel. All other components of income have relatively small increases or decreases over the 7 years. Although wages are an important component of total income for this wealth group, taxable interest and dividends become relatively more important as this group nears the end of life.

Figure 2b shows that for joint filers with \$10 to less than \$20 million in end-of-life wealth, both median wages and median taxable interest and dividends declined over the 7 year period; the decline in wages occurred mostly between 4 years and 1 year prior to death. All other components of income increased over the 7-year period, with tax-exempt income having the largest dollar change. In contrast to the income of the lowest wealth group, taxable interest and dividend income is the dominant income component for decedents in this middle wealth group, even with the decline in the median value over the 7-year period.

Among joint filers in the highest wealth group, Figure 2c shows that the median value of taxable interest and dividends dwarfs all other components of income. The median value of taxable interest and dividends is at least twice as large as any other income component. As with the other wealth groups, median wages declined over the 7-year period for this group, while median tax-exempt interest income increased.

Although the composition of income does vary across the different wealth groups, taxable interest and dividends and tax-exempt interest income are key components of total income regardless of the wealth group. This result provides more evidence of the importance of income derived from assets for the filers in the FPDD.

Wealth Allocation at the End of Life

The previous analysis showed that income derived from assets was extremely important for the filers in our sample and that income varied quite substantially across different periods prior to the end of life. Figures 3a and 3b provide some information on the interaction between income and wealth by examining the allocation of end-of-life wealth, as reported in estate tax filings. Note that the filers in our sample from the FPDD have a minimum of \$1 million in wealth in 2003 dollars; this level of wealth places them above the 90th percentile of the distribution of wealth derived from the SCF data.

Figure 3a shows the share of wealth in real estate, non-corporate business, stock, taxable bonds, tax-exempt bonds, annuities, cash and other assets across the three wealth groups for single filers. The most interesting result from Figure 3a is that about 60 percent of wealth is accounted for by financial assets, regardless of wealth group. Stocks play a particularly important role in the portfolio for all wealth groups; the share of wealth in stock is larger than the share for any other financial asset. A similar pattern of wealth allocation is evident for joint filers in Figure 3b. Financial assets account for over 70 percent of wealth for joint filers, regardless of wealth group. For joint filers with \$20 million or more in wealth, over 46 percent of their wealth is in stock.

The diminished role of non-financial assets in the portfolio may be partly due to estate tax rules on valuing those types of asset. For assets such as non-corporate businesses and real estate, filers can devalue them if there is no readily available market value (see Raub, 2008 for more details). Such discount rates typically range from 35 to 50 percent and are frequently used for non-corporate businesses, which can be very difficult to value, especially in cases where a decedent's expertise or reputation is

considered a key business asset. Thus, there is likely a downward bias in the importance of non-financial assets in the wealth of filers in our sample.

To investigate this issue further, we examine the wealth allocation of households in the 1989 to 2004 SCF data that have over \$1 million in wealth in 2003 dollars and have a household head age 70 or older. Regardless of the year of the SCF data, these older wealthier households on average split their wealth roughly 50-50 between financial and non-financial assets. Publicly-traded stock accounts for an average of about 25 percent of the wealth of these households across the survey years, and almost 50 percent of financial assets. Real estate and businesses account for about 50 percent of wealth and about 90 percent of non-financial assets. This finding lends some support to the argument that devaluation of real estate and businesses may at least partially explain why financial assets account for a much larger share of wealth in the FPDD data than the SCF data. Of course, definitional and methodological differences between the SCF and FPDD make the comparison less than straightforward.

The findings that end-of-life wealth is heavily concentrated in financial assets and that income derived from those assets is an important part of total income in the years prior to death provides evidence of the circular link between income and wealth. These financial assets generate income flows that may be used for consumption or saving. If the income is saved, thus increasing wealth, more income is subsequently generated by the assets. Of course, the link between income and wealth is blurred by assets that do not generate yearly income flows, but accumulate value that is observed only if the capital gains are realized through the sale of the asset. Provisions of the U.S estate tax code actually discourage the realization of capital gains for wealthy individuals approaching

the end of their lives.¹⁰ This may explain the relatively small share capital gains contribute to annual income for decedents in all but the highest wealth class.

Conclusion

This preliminary look at the FPDD has shown that median income for the wealthiest U.S. decedents in the years prior to death place them above the 95th percentile in the overall U.S. distribution of income. However, the data also show that the incomes reported for these individuals can be quite volatile in the years leading up to death. This volatility seems to increase for joint filers and is likely due to market fluctuations, as well as the tax-planning and spending needs of the decedents. For these individuals, income is composed primarily of taxable and non-taxable investment income, with wage income and income from non-financial assets having a relatively small share in the total. Not surprisingly, data reported on U.S. estate tax returns for these wealthy individuals show portfolios heavily weighted toward financial assets, especially for those in the highest wealth category. For these individuals, investments in stocks make up almost 50 percent of total wealth.

Despite significant challenges posed by the limitations of the data, there remains much information to be mined. The analyses presented here clearly show that despite frequent and sometimes quite large changes in annual income, the individuals represented by this data set controlled a significant share of total U.S. wealth at the time of their death. There is some evidence of income shifting, moving investments from taxable

¹⁰ The U.S. Estate Tax complements federal taxes on income in a number of ways, including the treatment of unrealized capital gains on investment assets. Because the estate tax is levied on the value of assets on the date of a decedent's death, the beneficiaries of those assets inherit them with a cost basis equal to the date of death value. Thus, taxable accumulated capital gains on assets owned by a decedent are effectively eliminated at death. Estate planners are able to significantly reduce overall tax liability through strategic manipulation of a decedent's portfolio in the years prior to death.

income-producing assets to those that generate non-taxable interest, which typically means moving from investments with high rates of return to those with lower rates of return. Further, contrary to the predictions of life cycle models of savings, these individuals do not appear to be consuming out of savings, as evidenced by the relatively low share capital gains contribute to total income. The findings suggest some direct linkages between income and wealth, such as the importance of income derived from financial assets, but also show that income alone cannot account for the high levels of wealth observed in the data.

References

Bucks, Brian, Arthur B. Kennickell, and Kevin B. Moore (2006) "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," *Federal Reserve Bulletin*, vol. 92, A1-A38.

Bernanke, Ben. S. "The Level and Distribution of Economic Well-Being," <http://www.federalreserve.gov/newsevents/speech/bernanke20070206a.htm>. February 6, 2007.

Czajka, John L and Schirm, Allen L, "The Family that Pays Together: Introducing the Tax Family Concept, with Preliminary Findings," *Proceedings of the American Statistical Association*. Washington, DC: American Statistical Association, 1993.

Frenze, Christopher, "Income Mobility and Economic Opportunity," Joint Economic Committee Study, U.S. House of Representatives, 102nd Congress, 2nd Session, June 1992 <http://www.house.gov/jec/middle/mobility/mobility.htm>.

Johnson, Barry W. and Schreiber, Lisa M., "Creativity and Compromise: Constructing a Panel of Income and Estate Tax Data for Wealthy Individuals," *Proceedings of the Section on Survey Research Methods*. Washington, DC: American Statistical Association, 2006.

Kennickell, Arthur B. (2001) "Modeling Wealth with Multiple Observations of Income: Redesign of the Sample for the 2001 Survey of Consumer Finances," working paper, Board of Governors of the Federal Reserve System.

Kennickell, Arthur B. (1999) "Revisions to the SCF Weighting Methodology: Accounting for Race/Ethnicity and Homeownership," working paper, Board of Governors of the Federal Reserve System.

Kennickell, Arthur B. and R. Louise Woodburn (1999) "Consistent Weight Design for the 1989, 1992, and 1995 SCFs, and the Distribution of Wealth," *Review of Income and Wealth*, Series 45, 2, 193-215.

Piketty, Thomas and Saez, Emmanuel "Income Inequality in the United States, 1913 – 1998," *Quarterly Journal of Economics*, Volume CXVII, Number 1, February 2003.

Raub, Brian G. "Federal Estate Tax Returns Filed for 2004 Decedents", *Statistics of Income Bulletin*, Washington DC: Internal Revenue Service, Spring 2008.

Reynolds, Alan, *Income and Wealth*, Greenwood Press, Westport Connecticut, 2006,

Schirm, Allen L. and Czajka, John L. "Alternative Designs for a Cross-sectional Sample of Individual Tax Returns: The Old and the New," *Proceedings of the Section on Survey Research Methods*. Washington, DC: American Statistical Association, 1991.

Steuerle, C. Eugene, "Wealth, Realized Income and the Measure of Well-Being," in David, Martin and Smeeding, Timothy, eds., *Horizontal Equity, Uncertainty and Economic Well-Being*, University of Chicago Press, 1985.

Tourangeau, Roger, Robert A. Johnson, Jiahe Qian, Hee-Choon Shin, and Martin R. Frankel (1993) "Selection of NORC's 1990 National Sample," working paper, National Opinion Research Center at the University of Chicago.

U.S. Treasury Department, "Income Mobility in the U.S. From 1996-2005," Report of the Department of the Treasury, <http://www.treas.gov/press/releases/reports/incomemobilitystudyfinal.pdf>, November 13, 2007.

Wahl, Jenny and Johnson, Barry W. "The Mismeasure of Man's Well-Being: Refining Realized Income Measures with Wealth, Portfolio, and Mortality Information." National Tax Association, March 2004.

Wolff, Edward N. and Zacharias, Ajit. "Household Wealth and the Measurement of Economic Well-Being in the United States," The Levy Economics Institute of Bard College, Working Paper Number 447, http://www.levy.org/pubs/wp_447.pdf, May 2006.

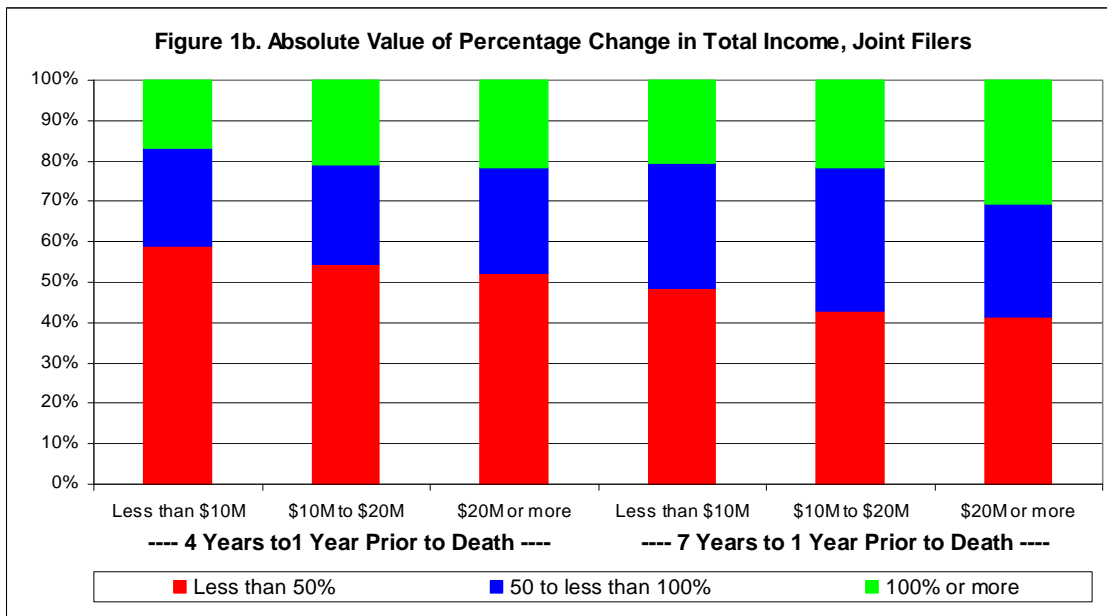
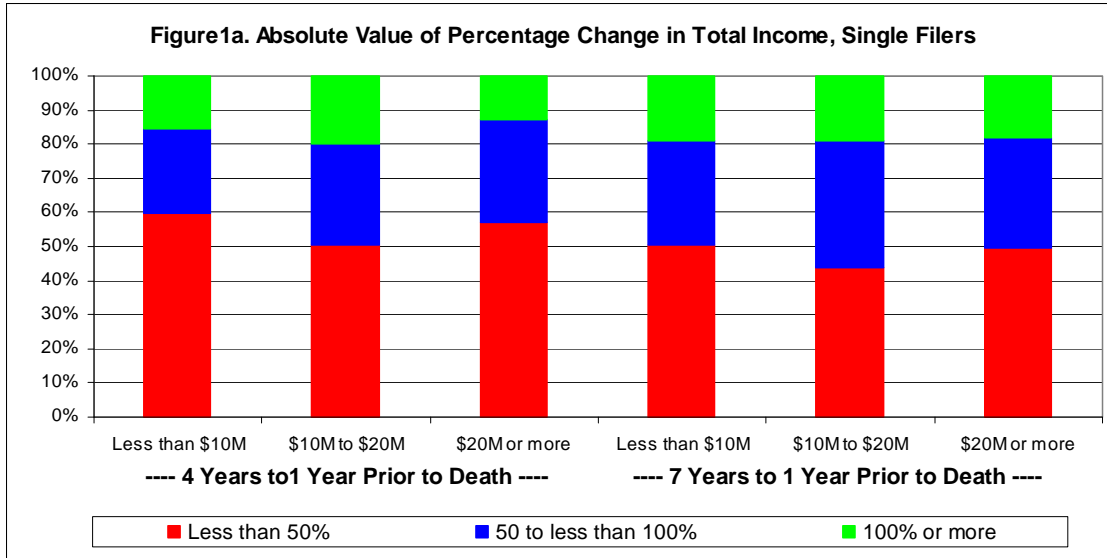


Figure 2a. Changes in Income Composition, Selected Years Prior to Death, Joint Filers, Less than \$10M

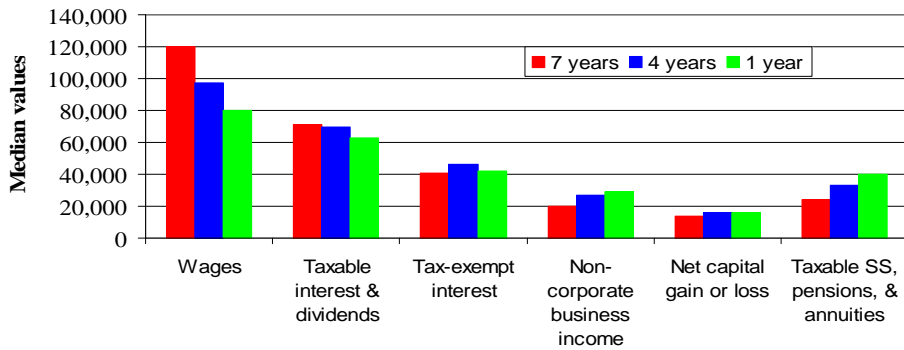


Figure 2b. Changes in Income Composition, Selected Years Prior to Death, Joint Filers, \$10M to less than \$20M

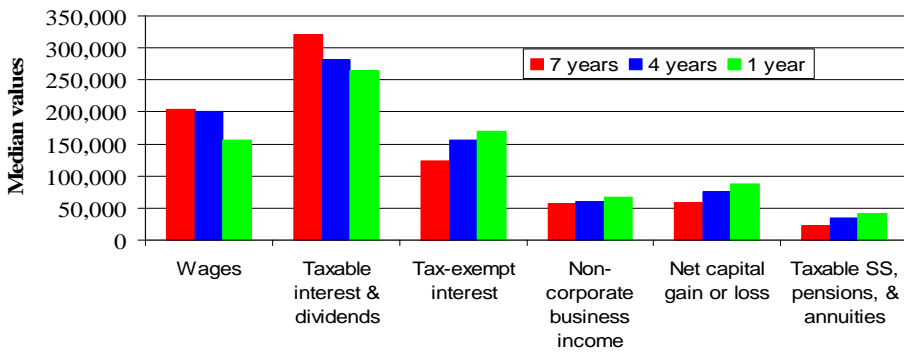


Figure 2c. Changes in Income Composition, Selected Years Prior to Death, Joint Filers, \$20M or more

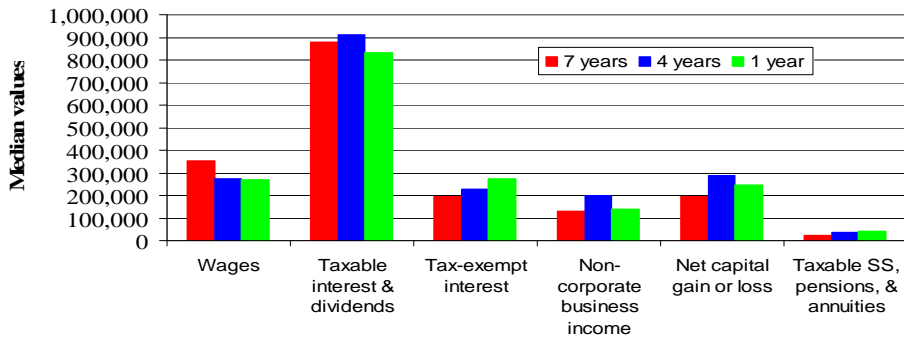


Figure 3a. Wealth Allocation at End of Life, Single Filers

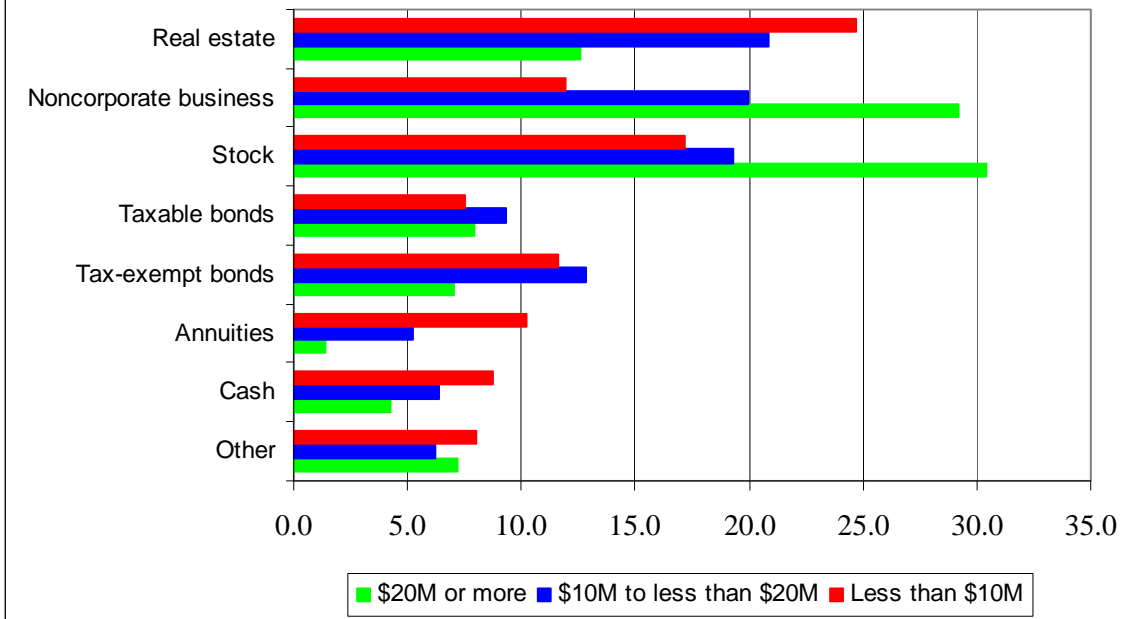


Figure 3b. Wealth Allocation at End of Life, Joint Filers

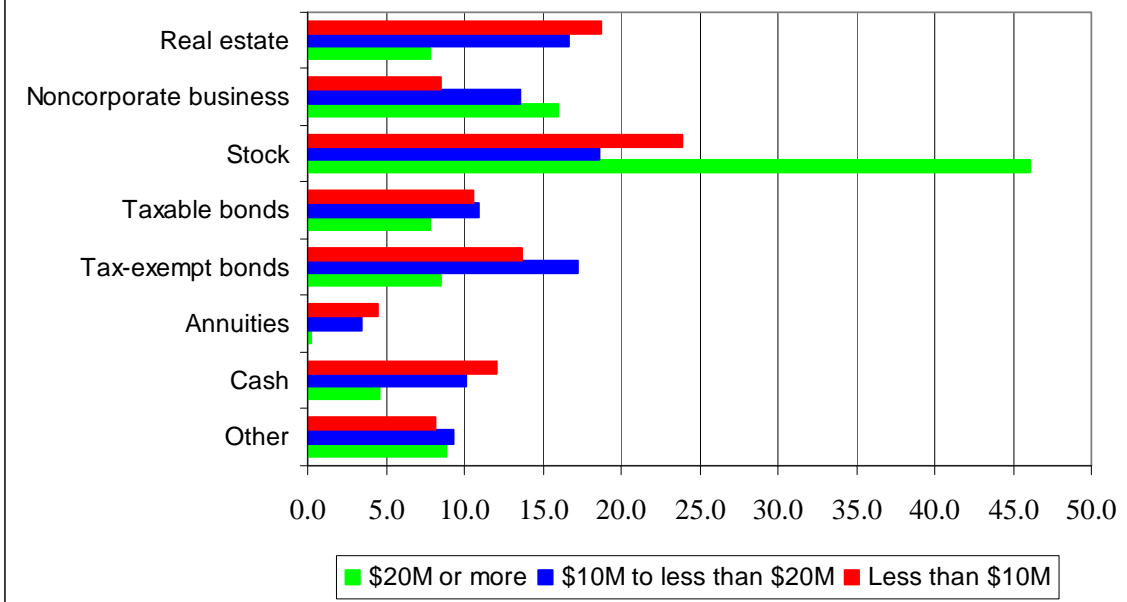


Table 1: Filing Threshold and Number of Decedents by Year of Death
In 2003 Constant Dollars

Year of Death	Number of decedents	Filing threshold	Number of decedents with assets of \$1M or more in 2003 dollars
1994	417	600,000	385
1995	480	600,000	440
1996	522	600,000	479
1997	574	600,000	520
1998	538	625,000	487
1999	635	650,000	586
2000	609	675,000	559
2001	667	675,000	605
2002	637	1,000,000	631
2003	480	1,000,000	472
Total	5,559	N/A	5,164

Table 2: Filing Status Stability

Includes only those where the year of death is between 1994 and 2003 and have assets of \$1 million or more in 2003 dollars

Filing Status	Return filed 1 year prior to death	Number of years prior to death filing status unchanged			
		3	5	7	9
Single	1,690	1,433	1,244	1,073	775
Joint	3,474	3,417	3,367	3,329	2,716
Total	5,164	4,850	4,611	4,402	3,491

Table 3. Percent of Filers Having Income Components and Median Values of Income Components in 7 Years Prior to Death, by Filing Status (2003 dollars)

Filing Status / Income Components		Years prior to death													
		7		6		5		4		3		2		1	
		% having	Median	% having	Median	% having	Median	% having	Median	% having	Median	% having	Median	% having	Median
Single	Total income	100.0	286,000	100.0	271,000	100.0	267,000	100.0	256,000	100.0	259,000	100.0	245,000	100.0	241,000
	Taxable interest & dividends	98.6	127,000	98.5	128,000	98.9	117,000	98.8	116,000	98.1	108,000	98.7	95,000	98.7	91,000
	Tax-exempt	67.2	68,000	67.9	70,000	70.3	68,000	70.0	61,000	69.9	59,000	70.0	63,000	68.8	59,000
	Non-corporate business income	70.0	15,000	69.2	16,000	68.4	17,000	67.4	13,000	67.0	12,000	66.0	16,000	64.3	12,000
	Net capital gain or loss	81.9	15,000	83.4	14,000	85.1	15,000	84.9	18,000	85.5	21,000	86.8	19,000	87.3	12,000
	Taxable SS, pensions, & annuities	76.2	12,500	76.2	14,000	77.9	15,000	79.3	16,000	79.8	17,000	82.4	18,000	84.2	19,000
	Wages	29.6	87,500	27.7	88,000	25.1	105,000	23.7	90,500	21.8	85,000	20.6	77,500	18.5	76,000
	Other income	87.2	-39,000	88.0	-39,500	88.3	-43,000	87.7	-37,000	86.5	-45,500	87.9	-42,000	88.0	-35,500
Joint	Total income	100.0	544,000	100.0	501,000	100.0	484,000	100.0	470,500	100.0	477,000	100.0	448,000	100.0	422,000
	Taxable interest & dividends	99.2	134,000	99.2	136,000	99.0	133,000	98.9	130,000	98.9	121,000	98.9	119,000	98.8	115,000
	Tax-exempt	63.7	65,500	64.9	69,000	65.9	69,500	66.3	73,000	67.1	71,500	67.3	71,000	67.4	71,000
	Non-corporate business income	88.7	30,000	87.7	35,000	86.7	32,000	85.2	36,000	85.6	33,000	85.0	35,500	83.4	39,000
	Net capital gain or loss	88.5	28,000	89.2	28,000	89.8	30,000	89.5	32,000	90.0	34,000	90.9	36,000	91.2	34,000
	Taxable SS, pensions, & annuities	64.6	24,000	68.0	28,000	70.5	31,000	73.6	34,000	76.8	37,000	78.8	41,000	81.6	40,000
	Wages	59.1	161,000	56.6	151,000	53.8	145,500	52.3	136,000	49.7	126,000	47.3	116,000	44.5	111,000
	Other income	89.7	-24,000	90.7	-27,000	90.9	-31,000	91.1	-37,000	91.4	-31,000	90.6	-32,000	90.0	-35,000

Table 4: Percentage of Positive Changes in Total Income, By Absolute Value of the Percentage Change in Total Income, Selected Years Prior to Death

Filing Status	Change Between 4 Years & 1 Year Prior to Death			Change Between 7 Years & 1 Year Prior to Death		
	Less than 50%	50% to less than 100%	100% or more	Less than 50%	50% to less than 100%	100% or more
Single	42.3	31.3	76.8	43.6	22.5	71.9
Joint	41.5	34.3	66.4	41.2	26.7	66.6