



# Public assistance & accumulation among low-income households in CEE

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# Outline

- Theoretical overview:
  - Asset accumulation among low-income households
  - Means tested income support and asset accumulation
- Data and research design
- Results
- Concluding points



# Assets of low income households

- Low income households: saving to income ratio  $\ll$  predictions from the standard life-cycle accumulation model
- Possible explanations:
  - Subsistence threshold
  - Irregularities in the income flow  $\rightarrow$  not able to plan
  - Unobserved psychological characteristics of low-income persons (ex: lack of self-control, high time discount)
  - Lack of access to saving enhancing strategies
  - Socio-economic institutions (ex: tax system, access to credit) <sup>3</sup>



# Means-tested support & asset accrual

- poor relief-focus on cash & labour market position
- 2 impact channels on asset accumulation:
  - Income floor → possible reduction of precautionary saving
  - Asset test → direct disincentive to accumulate
- Insurance effect-too low benefits → inability to invest in long-term insurance instruments



# Data

- Household data:
  - EU-SILC 2007 longitudinal database
  - 8 CEE countries:
    - CZ, EE, HU, LV, LT, PL, SI, SK
  - 3-4 waves: 2004-2007
- Country data on policy rules:
  - MISSOC Database



# Data

- Asset variables:
  - Index of consumer durables (5 items-ITR)
  - Index of debts (3 items-ITR)
  - Asset income
  - Capacity to face unexpected expenses/ savings
- Income floor
  - maximum benefit a household may be entitled to given its characteristics
  - assume no income
- Presence of asset test



# Model specification

- 3 level hierarchical models
  - Household observations → household → country
- 2 low-income subsamples:
  - low education: maximum household education < postsecondary
  - low income: in the bottom 40% of the income distribution in 3 out of 3/4 years



# Results-Durables Index

	M 1-1	M1-2	M1-3	M2-1	M2-2	M2-3
MFB	6E-04***	0.0012***	0.0011***	8.4E-04***	0.0013***	0.0006***
MFB*SP		-1.2E-04***			-2E-04***	
MFB*YC		-4.5E-04***			-4.1E-04	
MFB*RET		-5.5 E-05			-3.6E-04***	
MFB*INC		-6.9E-08***				
R Slope			0.0007***			0.0005***
N	83994	83994	83994	20319	20319	20319





# Results- Debt Index

	M 1-1	M1-2	M1-3	M2-1	M2-2	M2-3
MFB	8.3E-04***	4.3E-04**	0.0014*	0.002***	0.001***	0.0032*
MFB*SP		8.1E-05			3E-04	
MFB*YC		1.2E-04			1.4E-04	
MFB*RET		1.0E-04			1.4E-04	
MFB*INC		7.2E-08***				
R Slope			0.0015***			0.0033***
N	82930	82901	82901	19992	19992	19992

Source: Calculations based on EU-SILC 2007-longitudinal



# Results-Savings

	M 1-1	M1-2	M2-1	M2-2
MFB	0,9999	0,9999	1,000001	1,000002
MFB*SP		1,000001*		1,000001
MFB*YC		1,00000		0,9999
MFB*RET		0.9999		0,9999**
N	83996	83996	20319	20319



# Results- Asset Income

	<b>M 1-1</b>	<b>M1-2</b>	<b>M2-1</b>	<b>M2-2</b>
MFB	1,000001	1,000003	1,000003	1,000005
MFB*SP		1,0000		1,0000
MFB*YC		0,9999*		0,9999
MFB*RET		1,000001*		0,9999
N	83996	83996	20319	20319
MFB	9,06E-08	1,94E-06	-9,7E-08	-2,6E-07
R. Slope		5,11E-11		5,07E-11
N	9367	9367	1581	1581

Source: Calculations based on EU-SILC 2007-longitudinal



# Results-summary

- Durables:
  - Positive & substantial effect
  - Lower impact for single parents & families with young children
  - Effect decreases with income
- Arrears:
  - Positive & significant effect
  - Increasing with income



# Results-Summary

- Asset income:
  - No effect
- Capacity to face unexpected expenses /savings:
  - No effect
- Overall- evidence on income floor effects on saving mixed:
  - Effect may be different for different types of assets
  - Effect may depend on other macro (institutional) variables



# Conclusions

- Positive effects on durables accumulation  
→ durables : consumption goods rather than assets
- Negative income floor effects only for debt accumulation