The Evolution of Wealth Over the Life-Cycle in Canada

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The study of financial well-being typically requires the analysis of several financial indicators. Wealth indicators, in particular, are especially important as they provide a sense of the financial stock accumulated by households, as opposed to income flow measures. Furthermore, assets are important for both seniors and non-seniors, as they can be used as a potential retirement income source by the former, and by the latter as collateral.

Using data from the 1999 Survey of Financial Security, Baldwin et al. (forthcoming) examined the wealth of senior and non-senior households, and the average income flow that could be realized from liquidating these assets. Similarly, Wolff and Zacharias (2009) also examined the relative contribution of household wealth to household income by translating aggregate net worth figures into household income figures. However, because these studies were conducted on a cross-sectional basis, they did not examine the process of wealth accumulation over the life-cycle, and did not examine whether the difference seen between seniors and non-seniors was representative of life-cycle trends. Another question largely unanswered by the literature is whether recent cohorts differed from earlier cohorts in terms of wealth accumulation.

This paper will study the evolution of the financial wealth of Canadians over their life-cycle. Because longitudinal data sources on wealth are non-existent in Canada, it will make use of synthetic cohort techniques to derive representative cohorts of Canadians from a variety of cross sectional data sources, including the 2005, 1999 and 1984 Survey of Financial Security (SFS) and the 1976 Survey of Consumer Finances (SCF). Changes in wealth patterns over time for three cohorts will be examined, as well as the extent to which the income level of households would augment (at every point of the life-cycle) when assets are translated into potential income figures.

References:

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Wolff, E. N. and A. Zacharias. 2009. "Household Wealth and the Measurement of Economic Well-Being in the United States". Journal of Economic Inequality. Vol. 7. P. 83-115.