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 er 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

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

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 %)

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

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

- Net Wealth
  - USA: 89%
  - Germany: 77%

- Net wealth + public pension wealth
  - USA: 70%
  - Germany: 54%

- Net wealth + private pension wealth
  - USA: 83%
  - Germany: 72%

- Augmented Net Wealth
  - USA: 70%
  - Germany: 54%
Results – Age Profiles

Figure 2. Normalized age-wealth profiles

Net worth

Augmented wealth

Public pensions

Private pensions

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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