What Do We Learn from International Data on Household Portfolios?

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The Luxembourg Wealth Study: Enhancing Comparative Research on Household Finance

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Outline

1. Data on household portfolios: Europe is catching up

2. Why are international comparable data useful? Two examples

3. More issues

4. Important dimensions of data collection

Increasing household responsibility for saving and portfolio decisions.

Responsibility also for **financial institutions and regulators**, as individuals **seek advice** from financial planners.

- **Normative household finance**: What should investors do?

- **Positive household finance**: What do investors do?

Growing fields, but economists don't have good answers to either question.

1. Data on household portfolios

Macroeconomic data cannot address issues of:

- Participation decisions.

- Relation with wealth and demographic characteristics.

- Transitions in and out from financial markets.

Financial intermediary data or survey data?

Financial intermediary data

- Detailed amounts of assets held by customers.
- Track data even when investors are not aware of their portfolio.
- Panel information, even at high frequency.

However:

- Samples are not representative of the population.
- They miss data on consumption, income, real estate, etc.
- Investors have multiple-bank relations.

Survey data

- Assets are aggregated in few selected categories.

- Unable to study the portfolio of the rich.

- Asset amounts are affected by large measurement errors.

- But quite useful in detecting systematic patterns of the decision to invest in specific assets.

Approach: strict international comparability

- Variety of European **policies, constraints, institutions**.

- Their impact can only be understood if we can **compare them across time or across countries**.

- Comparable data allow to exploit the **natural experiments** created by different policy and institutions.

- Difference in institutions is a big **value added** with respect to US surveys.

Europe is catching up

SHARE Survey of Health, Ageing and Retirement	Individuals 50+. Health, pensions, retirement, family networks.	**11 countries** 14 planned, **panel**, **retrospective data**
ECHP	Income, labor market, education, housing	**15 countries** **1994-2001 panel**
EU-SILC Statistics on Income and Living Conditions	Income, poverty, social exclusions, living conditions.	**15 countries** 30 planned
LWS	Wealth, portfolio choice.	**10 countries**
EU-SCF	Wealth, portfolio choice, consumption	**Euro-zone**

2. Why are international comparable data useful?

Example # 1. The stockholding puzzle

Example # 2. The age profile of homeownership

Example #1: The stockholding puzzle

Standard finance theory predicts that people should be holding at least some stocks.

Many don't, even

- considering mutual funds and defined contribution pension funds;
- **at high level of income and wealth**.

Most promising explanation: fixed costs, information costs (Guiso, Haliassos, Jappelli), creditor rights.
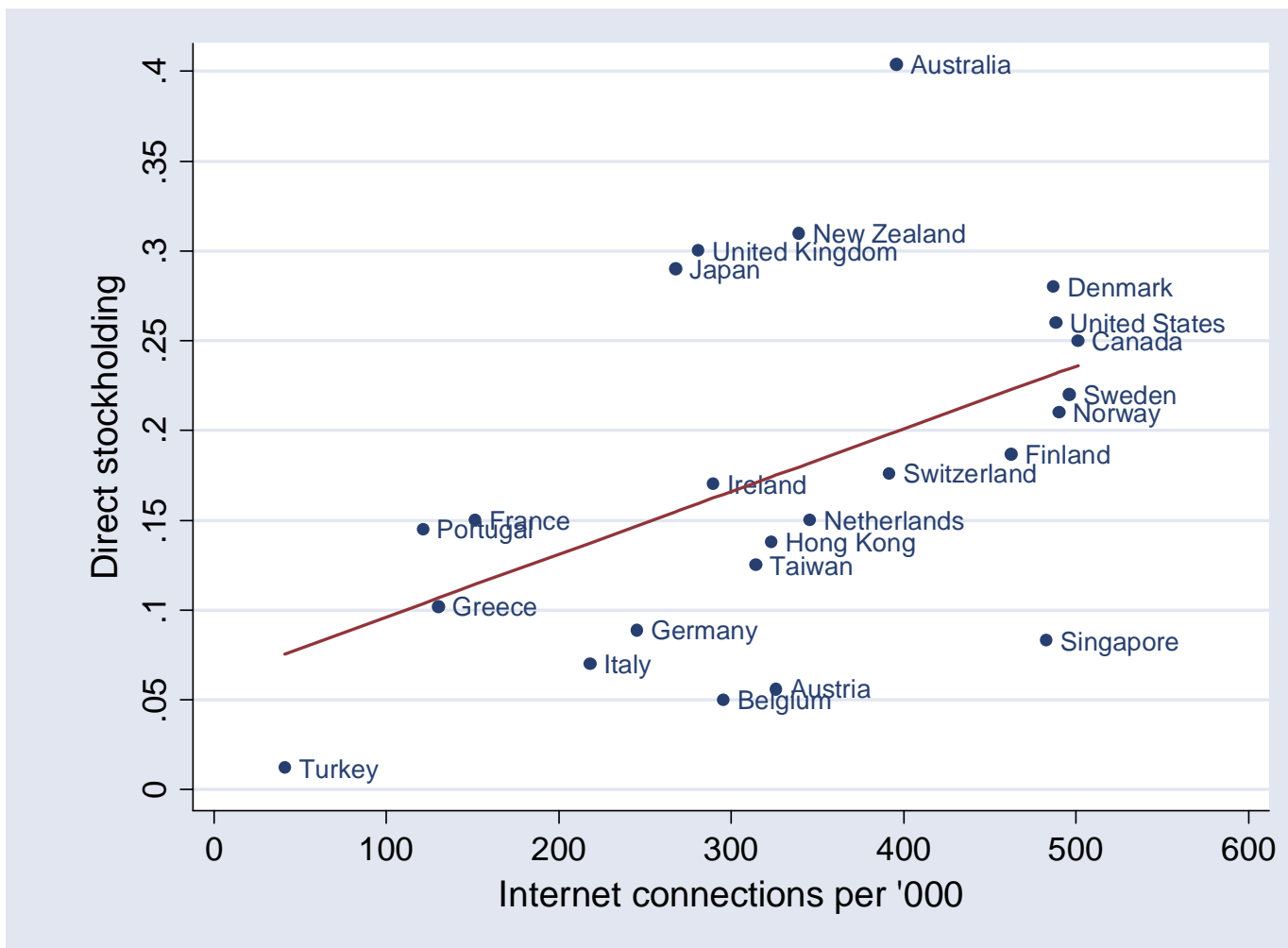
International differences in stockholding
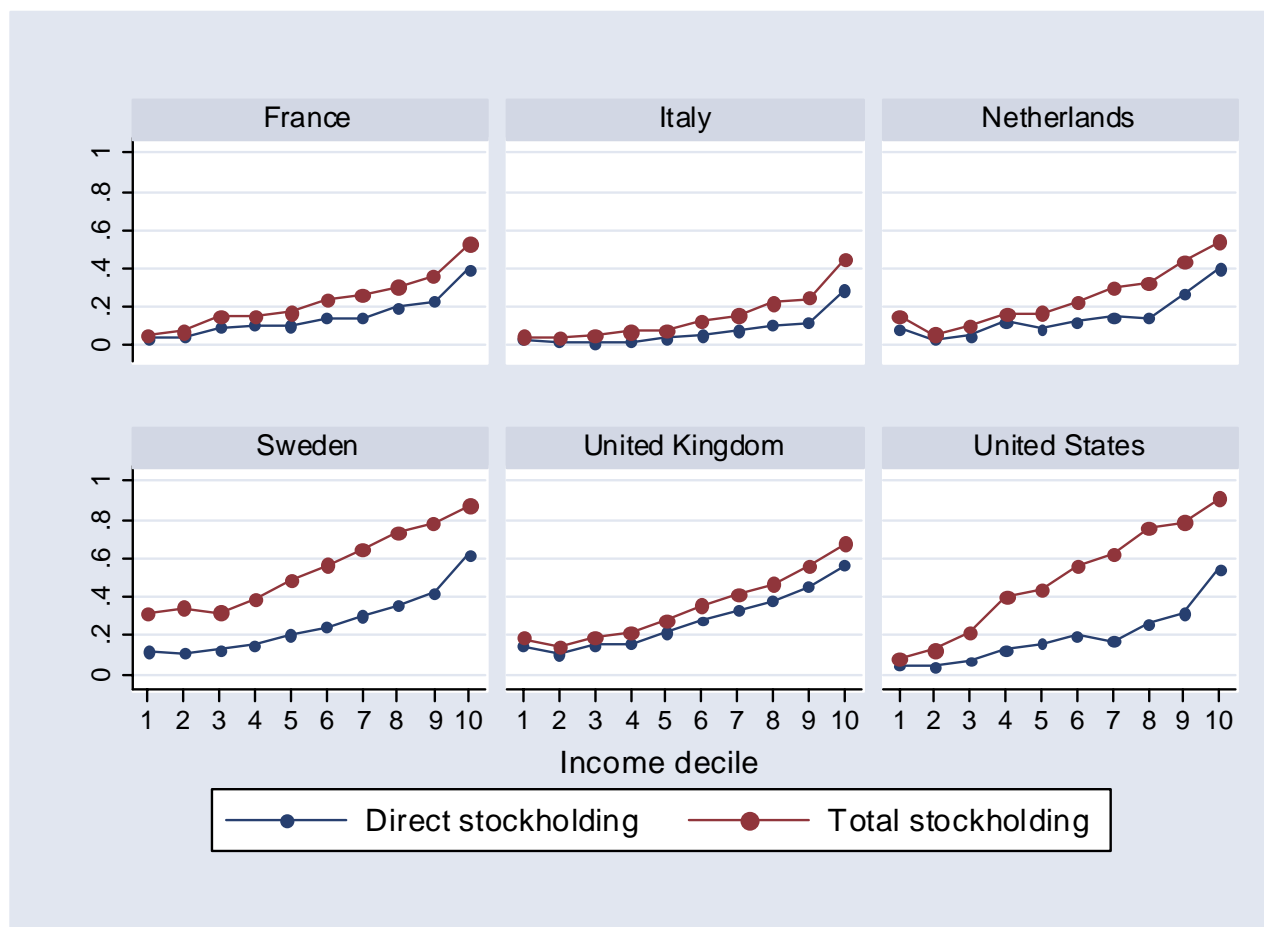
Within each country we observe a strong correlation between participation, income, and wealth.

Substantial differences remain: **at the same level of income or wealth**, many participate in the US, few in Italy.
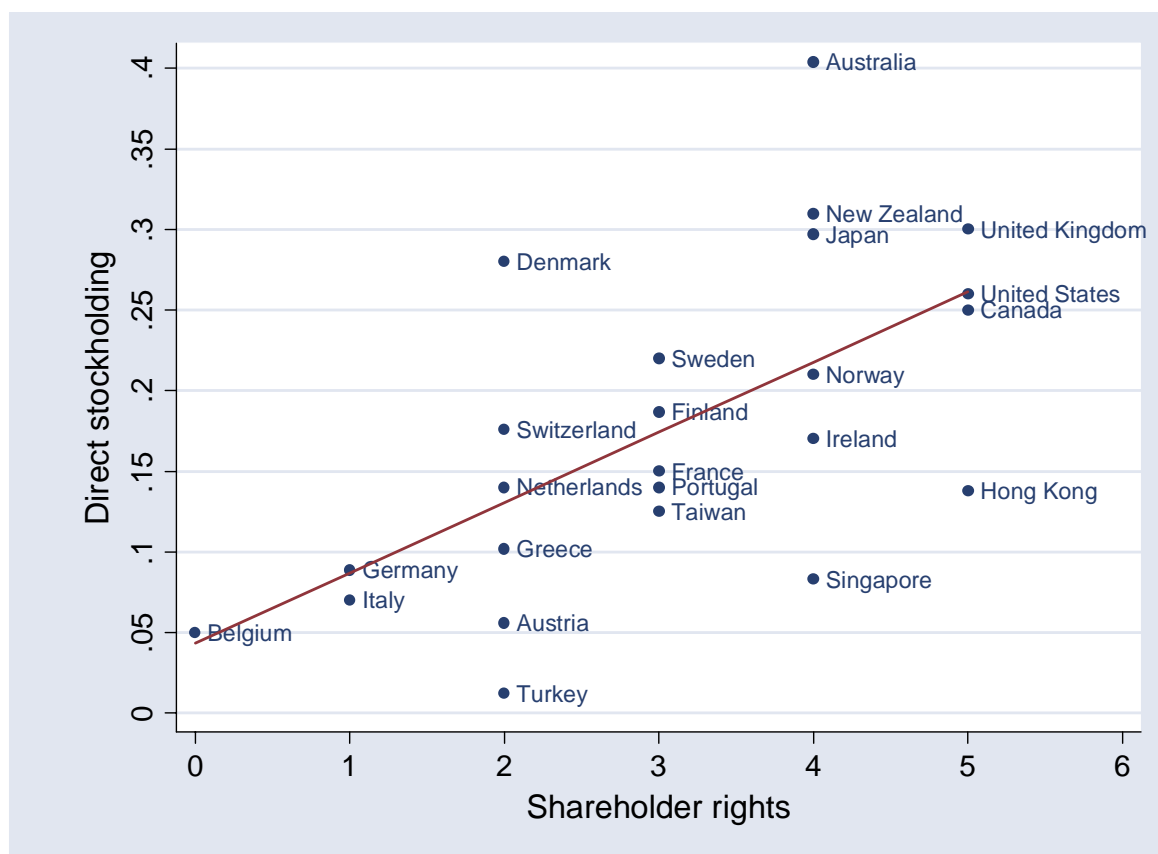

Proportion of stockholders with income $40-50000
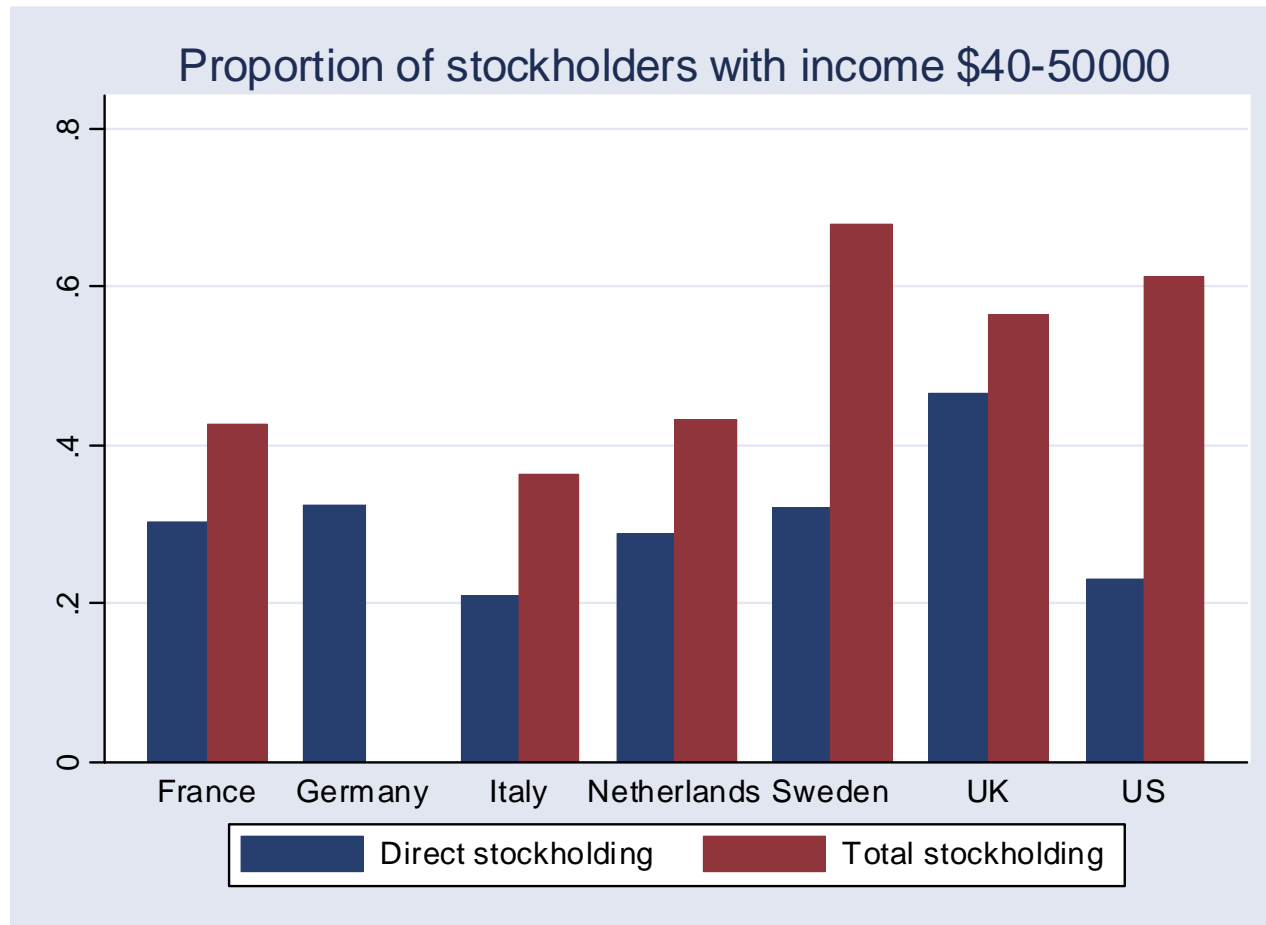
Stockholding and information costs

Stockholding and investor protection

Weak investors' protection lowers incentive to participate in the stock market (Giannetti and Koskinen).
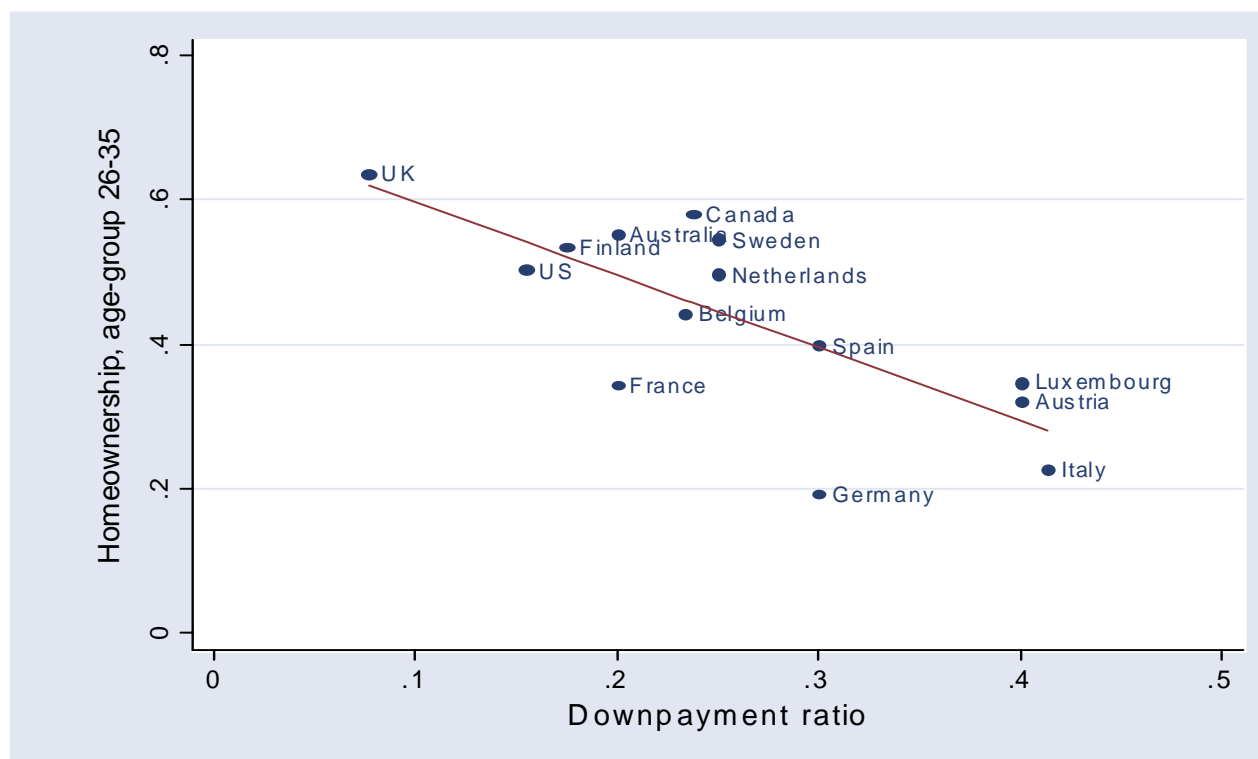
Example #2. The age profile of homeownership

- Many determinants: house prices, taxes, bequest motives, etc.

- Access to credit is an important determinant of the **timing of first home purchase** (Chiuri-Jappelli).

Individual cohort-adjusted profiles (males)
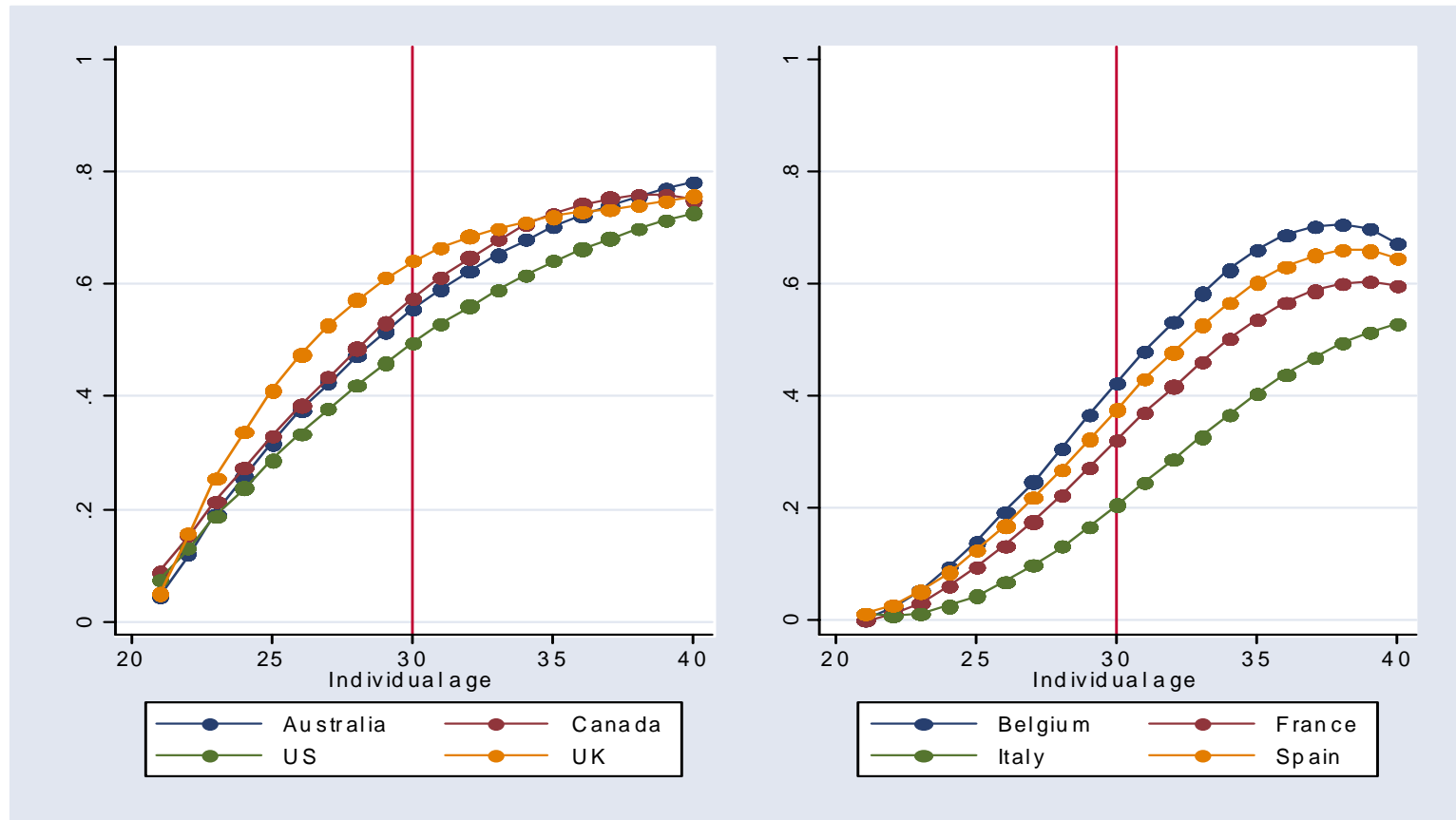
Downpayment and homeownership in age group 26-35

Implication: credit markets imperfections can explain international differences in saving (Jappelli-Pagano).

3. International micro data can shed light on many other important issues

Examples

A. How effective are tax incentives for saving and portfolio decisions?

B. Will increase in household debt be accompanied by higher default rates?

C. Equity withdrawal for the elderly

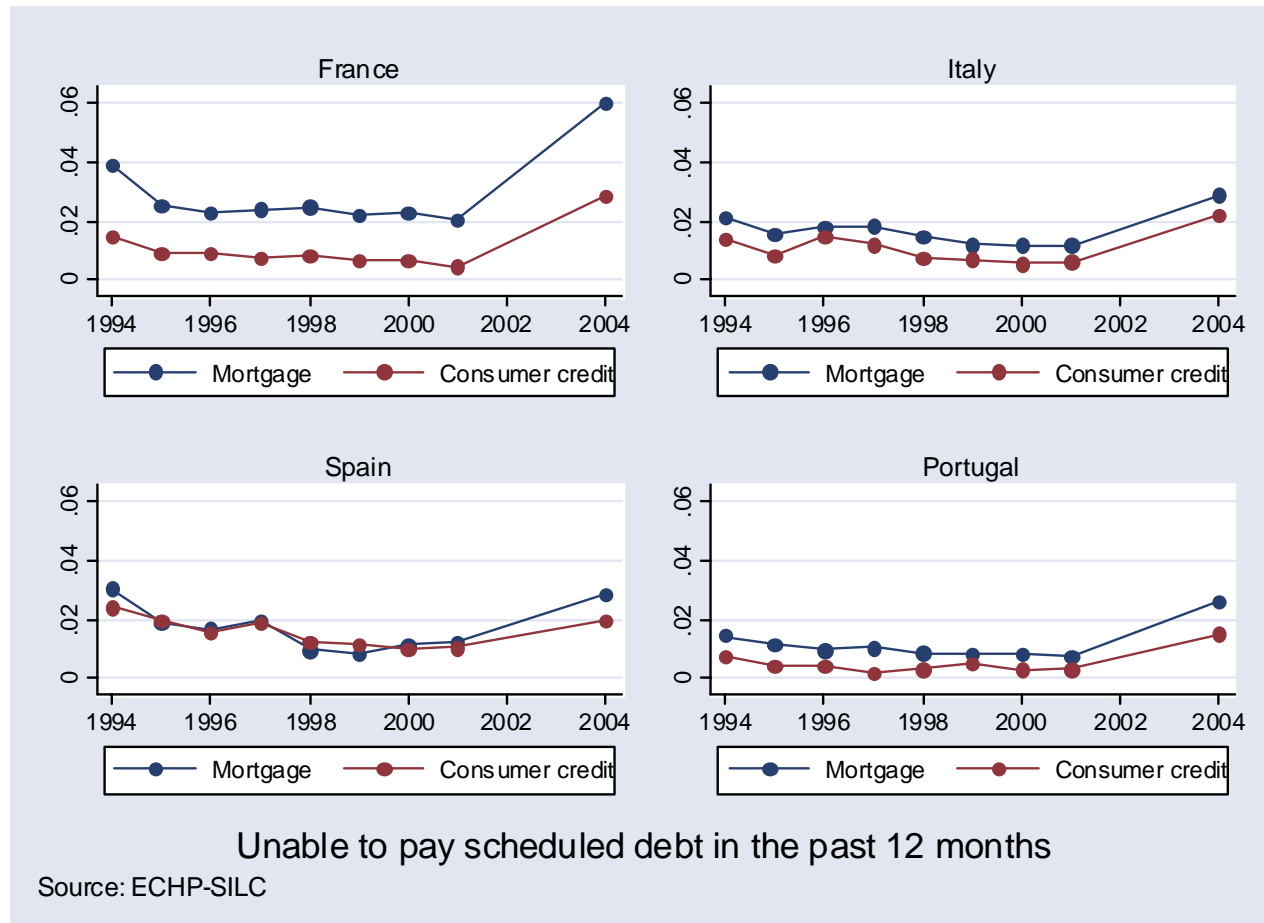**D.** Intergenerational transfers

A. How effective are tax incentives for saving and portfolio decisions?

International variety of tax incentives:

- Retirement saving instruments.

- Education IRA, tax deductibility of tuition fees.

- Health protection: health expenses deductible, private health insurance premiums deductible.

- Tax incentives to borrow: Mortgage interest deductible for first-time buyers.
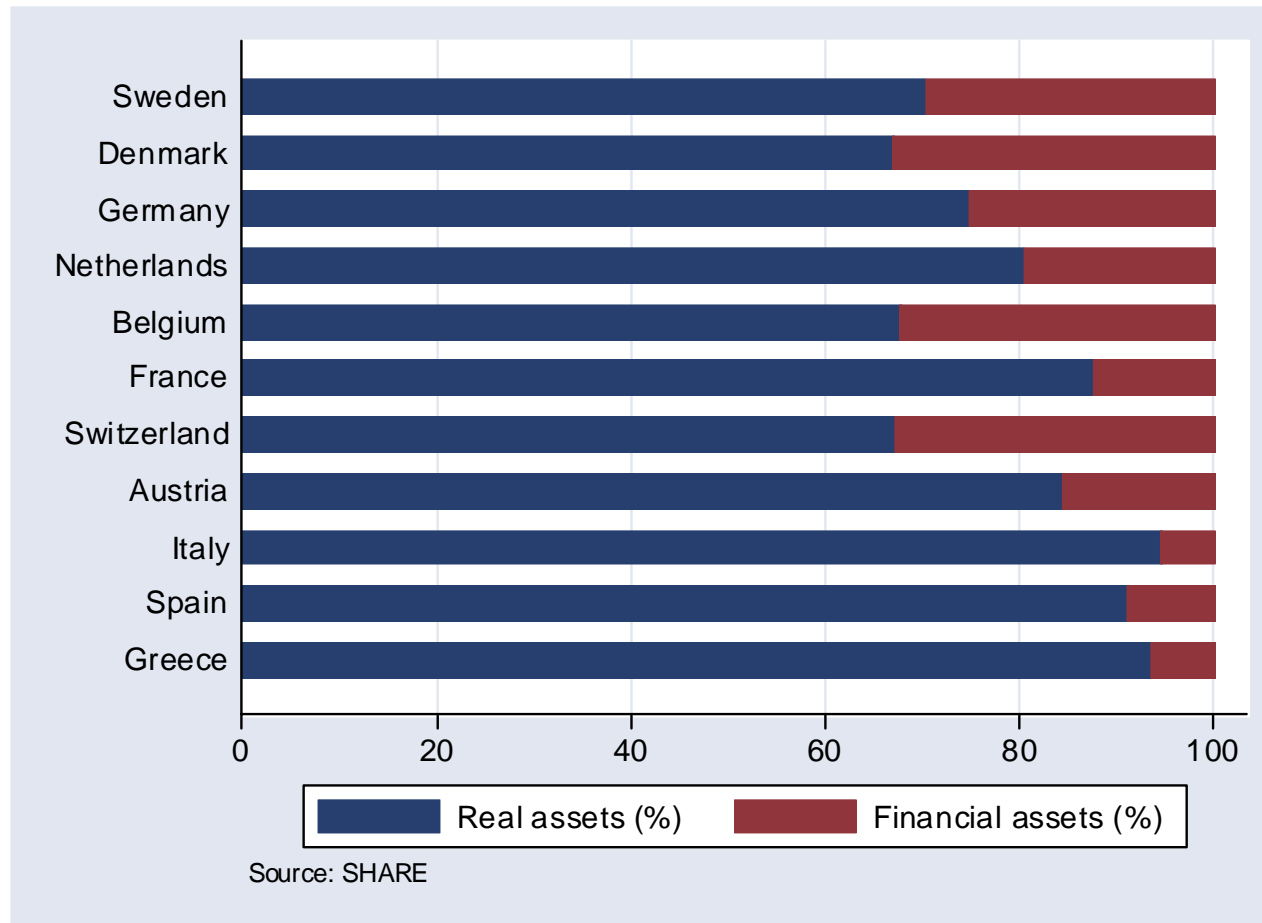
B. Household borrowing and defaults

- More credit to risky borrowers? Or lower cost of bankruptcy?

Unable to pay scheduled debt in the past 12 months

Source: ECHP-SILC

# C. Equity withdrawal for the elderly

Why don't we observe more equity withdrawal?

Source: SHARE

D. Intergenerational transfers

- We know little about transfers between generations.

- We don't know how bequests react to **changes in social security**, or redistribution through long-term care.

- We don't even know **how large bequests are**.

- Preferences, tax considerations, financial market constraints.

Real wealth and probability of receiving bequests play a major role in determining expected bequests (Christelis-Weber)

Self-reported probability of leaving an inheritance above 50,000 euro

Source: SHARE
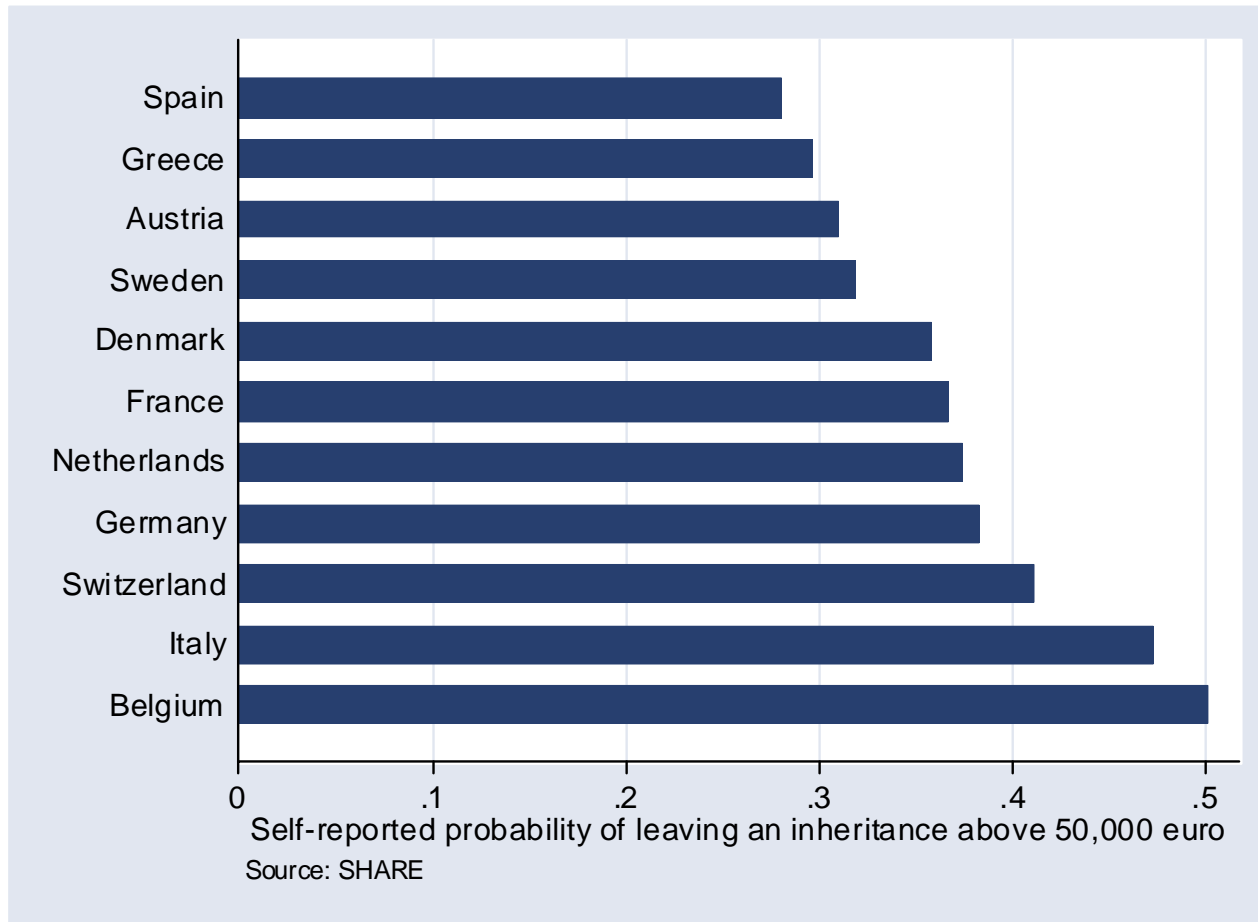
4. Important dimensions of data collection

- **Repeated cross-sections.** Age and cohort effects

- **Panel data.** Study decisions at the time decisions are made. Portfolio transitions, housing transitions.

- **Integrate** consumption, income and wealth data.

- To exploit **EU institutional differences**, surveys need to be representative at the country level.

- **Coordinate** data collection efforts: **SHARE, SILC, LWS, EU-SCF.**