Asset-based poverty

How can we integrate wealth into official Swiss poverty statistics?

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Contents

- Why integrate wealth into poverty measurement?
- Operational choices and why they matter
- Communication issues and possible strategies
How do we define poverty?

«People are considered to be poor if they do not have the financial means to buy goods and services that are necessary for a socially integrated life.» (FSO 2018)

- Statistical reality: poverty = income poverty
  → only income from assets is considered, but not assets themselves

- Consequence: poverty rate (especially of the elderly) is overestimated

- Objective: integrate wealth into poverty measurement in the mid-term
A lot is going on…

- National level: cantonal poverty reports based on tax data
- International level:
  - ECB: «Household Finance and Consumption Network» (HFCN)
- Growing literature on the topic «asset poverty»
The Swiss SILC module on wealth

- Statistics on Income and Living Conditions (SILC) with special Swiss modules on wealth in 2011/12, 2015, 2018 and (scheduled) 2020

- SILC is also used for income poverty measurement

- CH-SILC module 2015:
  + decent response rates (at least 80%, depending on wealth component)
  + refined data plausibilisation and imputation model
  + good coherence with macro data (Ravazzini et al. 2018)
  - no information on debts other than mortgages
  - not possible to distinguish main residence from other real estate property
But how should we take wealth into account?

«Asset poverty is defined as an individual having insufficient wealth to meet their basic needs over time.» UNECE (2017): Guide on poverty measurement, p. 159

- Main reasons / advantages for Swiss official statistics:
  + income poverty rate can still be updated annually…
  + … and remains unchanged → no break in time line
  + international comparability (OECD / Eurostat)

- But we have to make more choices:
  which wealth concept, poverty line, and reference period should we apply?
Wealth: which wealth concept?

assets in bank and postal accounts
value of shares, bonds and investment funds etc.
valuables (vehicles, jewelery etc.)
real estate property – mortgage(s)

Source: author’s own diagram (includes only wealth components available in SILC 2015)

→ We focus on **liquid assets** as they are the only asset type to fully serve as an income substitute
Basic needs: which poverty line?

- **Asset-based poverty line = (fraction of) income poverty line**

- In Switzerland, two poverty lines are used to measure income poverty:
  - a **national poverty line** set at the social minimum subsistence level that serves as the basis for measuring public social assistance benefits
  - a **relative poverty line** set at 60% of median equivalised disposable income (Standard Eurostat)

National vs. relative poverty line values for selected household types, in CHF per month (1 CHF ≈ 0.88 EUR):

- **National Poverty Line**
  - Single person: 2240.- / 2506.-
  - Family of 4: 3980.- / 5263.-

- **Relative Poverty Line**
  - Single person: 3052.- / 3759.-
  - Family of 4: 3586.- / 4010.-

Source: FSO, CH-SILC 2015
Time: which reference period?

Asset-based poverty rates, by reference period

<table>
<thead>
<tr>
<th>Reference Period</th>
<th>Poverty Rate</th>
<th>Asset Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 month</td>
<td>18.4%</td>
<td>&lt; 2 240.-</td>
</tr>
<tr>
<td>3 months</td>
<td>28.1%</td>
<td>&lt; 2 240.-</td>
</tr>
<tr>
<td>6 months</td>
<td>36.5%</td>
<td>&lt; 3 980.-</td>
</tr>
<tr>
<td>12 months</td>
<td>48.2%</td>
<td>&lt; 47 760.-</td>
</tr>
</tbody>
</table>

→ Changing the reference period leads to a large variation in the results and changes also the meaning of the indicator (from very little to quite substantial amounts of assets)

→ we keep a wide range

Source: FSO, SILC 2015 (provisional data on wealth, version 07.06.2018), based on liquid assets and the national poverty line
Operational choices: summary

«Asset poverty is defined as an individual having insufficient wealth to meet their basic needs over time.» UNECE (2017): Guide on poverty measurement, p. 159

«Asset poverty is defined as an individual having insufficient liquid assets to meet their poverty line over a duration of 1, 3, 6 or 12 months.»

for Swiss analyses, we use the national poverty line

for international comparison we use the relative poverty line
Combining income and asset poverty rates

Income poverty rate and twice poor rate (= share of persons that are both income and asset poor)

<table>
<thead>
<tr>
<th></th>
<th>0%</th>
<th>2%</th>
<th>4%</th>
<th>6%</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>income poor</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td>7.0</td>
</tr>
<tr>
<td>both income poor and insufficient liquid assets for...</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 month</td>
<td>2.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 months</td>
<td>3.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 months</td>
<td>3.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 months</td>
<td>4.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Of all income poor...

→ 31% cannot draw on any liquid assets
→ 26% still have certain assets, but they are often not very large and only last for 1 to 12 months
→ 43% can sustain themselves for > 12 months

Source: FSO, SILC 2015 (provisional data on wealth, version 07.06.2018), based on liquid assets and the national poverty line
Who is both income and asset poor?

Income poverty rate and twice poor rate with a reference period of 3 months

- Poverty rates of the elderly decline the most (but younger people also have assets)
- Risk groups stay largely the same

Source: FSO, SILC 2015 (provisional data on wealth, version 07.06.2018), based on liquid assets and the national poverty line
Coherence with other indicators on the standard of living

Material deprivation rate (3 out of 9 items)
Incapacity to afford unexpected expense of 2500 CHF
Low satisfaction with financial situation of household...
Difficult to make ends meet
Consumes wealth
Incurs debt

Source: FSO, SILC 2015 (provisional data on wealth, version 07.06.2018), based on liquid assets and the national poverty line with a reference period of 3 months

→ inclusion of assets leads to better coherence
→ income poor are divided in two distinct groups
So wealth matters…

Information on assets enriches poverty measurement in Switzerland and improves the coherence of poverty rates with other indicators on the standard of living.

…but:

- operational choices influence the results
- how can we communicate these results to the broad public?
Communication objectives

We want to integrate wealth into poverty measurement, without…

- …confusing our users
  («yet another poverty rate?»)

- …jeopardising the legitimacy of the income poverty rate
  («a better poverty rate?»)

- …unnecessarily heating up the debate on the welfare state
  («the poor are actually rich?»)
Measures we could take

- be transparent on what we are doing
- avoid the terms «asset poor» or «wealthy» when addressing the general public
- name the new indicator(s) rather descriptively, but accurately:
  - «share of persons without sufficient liquid assets for x months»
  - «share of persons that are income poor and do not have sufficient liquid assets for x months»
- enable a dialogue before definitive launch: «experimental statistics»
What we communicated so far

“People aged 65 or over […] show a higher than average poverty rate. However, it should be noted here that only income poverty is considered without any possible assets and that it is precisely people aged 65 and over who resort to their financial assets in order to cover everyday expenditure. […] The poverty rate among people of retirement age should therefore only be interpreted with caution.” (FSO 2016)

→ Poverty rates of the elderly were already to be interpreted with caution

→ What we didn’t expect: also half of younger income poor can resort to liquid assets

→ poverty rates change for all age groups
Option 1: show shares in relation to total population

Share of persons that are income poor but are still able to draw on liquid assets, by reference period

<table>
<thead>
<tr>
<th>Period</th>
<th>0%</th>
<th>2%</th>
<th>4%</th>
<th>6%</th>
<th>8%</th>
<th>10%</th>
<th>12%</th>
<th>14%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-17 years</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>18-64 years</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65+ years</td>
<td></td>
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</tbody>
</table>

“People aged 65 or over have a much higher income poverty rate than people aged 18-64 (13.9% vs. 5.8%). However, most of the elderly can resort to assets to supplement their low income for a certain time.

2.5% of people aged 65 or over are at the same time income poor and do not have sufficient liquid assets to cover everyday expenditure for a period of 1 month, and 3.0% for 3 months. These proportions are similar in all age groups.”

Note: the total length of the bars corresponds to the income poverty rate. Debts are not taken into account. Source: FSO, SILC 2015 (provisional data on wealth, version 07.06.2018), based on the national poverty line.
Option 2: show shares in relation to income poor

Share of income poor without sufficient liquid assets, by reference period

“Almost 1/2 of income poor children do not have sufficient liquid assets to finance their current expenditure over a period of 1 month without income.

Of income poor people aged 18-64, 1/3 do not have sufficient liquid assets for 1 month and 1/2 for 3 months.

Of income poor persons aged 65 or over, only 20% do not have sufficient liquid assets for 1 month, but almost 2/3 can sustain themselves for more than one year without income.”

Source: FSO, SILC 2015 (provisional data on wealth, version 07.06.2018), based on the national poverty line. Debts are not taken into account.
Thank you for your attention!

- Further information on asset-based poverty will follow here:
  https://www.experimental.bfs.admin.ch/en/

- Current Swiss poverty statistics:
  www.statistics.admin.ch → Look for statistics → 20 - Economic and social situation of the population → Social situation, well-being and poverty → Poverty and material deprivation

- FSO contact information:
  info.sozan@bfs.admin.ch