Estimating Bequests and Asset Transfers

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Overview

- Some assets are transferred from one generation to the next through bequest but some are transferred well before death.

- This may be particularly true in societies where adult children and their parents co-reside

Overview

- Assets may transferred when the headship is transferred from one generation to the next (household succession)

Overview

- Using data of 17 countries, Mason et al. (2011) found that asset income of working-age adults is much greater than can be attributed to their observed saving. **They rely on bequests and asset transfers.**

Issue

- Documenting the extent and the timing of asset transfers is a difficult task because many transactions occur within the household and undocumented.

- Timing of a transfer can be unclear

Objective

- To describe a method to model the intergenerational transmission of assets due to generational succession.

Method

- Intergenerational transmission of wealth is captured with reference to changes over time in the number of households and the age of their head.

- Household head by assumption holds the assets of the household.

Method

- Assets will be transferred from an old household to a new household when:
  - a new member becomes the head
  - household merges into another household
  - household dissolves

Method

- Bequest outflows, all transfers that result from demise of a household aged a:

$$B_{at} = (1 - l_{at}^k) K_{at} \qquad (1)$$

where

l_{at}^k is the survival rate for capital of individual age a in period t

K_{at} is the capital,

Method

- where the survival of capital is:

$$l_{at}^{k} = l_{at}^{h} + \rho_{kl} CV_{k} \sqrt{l_{at}^{h}(1 - l_{at}^{h})} \qquad (2)$$

where

l_{at}^{k} is the survival rate for capital of individual age a in period t

l_{at}^{h} is the survival rate for household head

ρ_{kl} is the correlation between survival rate of head and capital

CV_{k} is the coefficient of variation
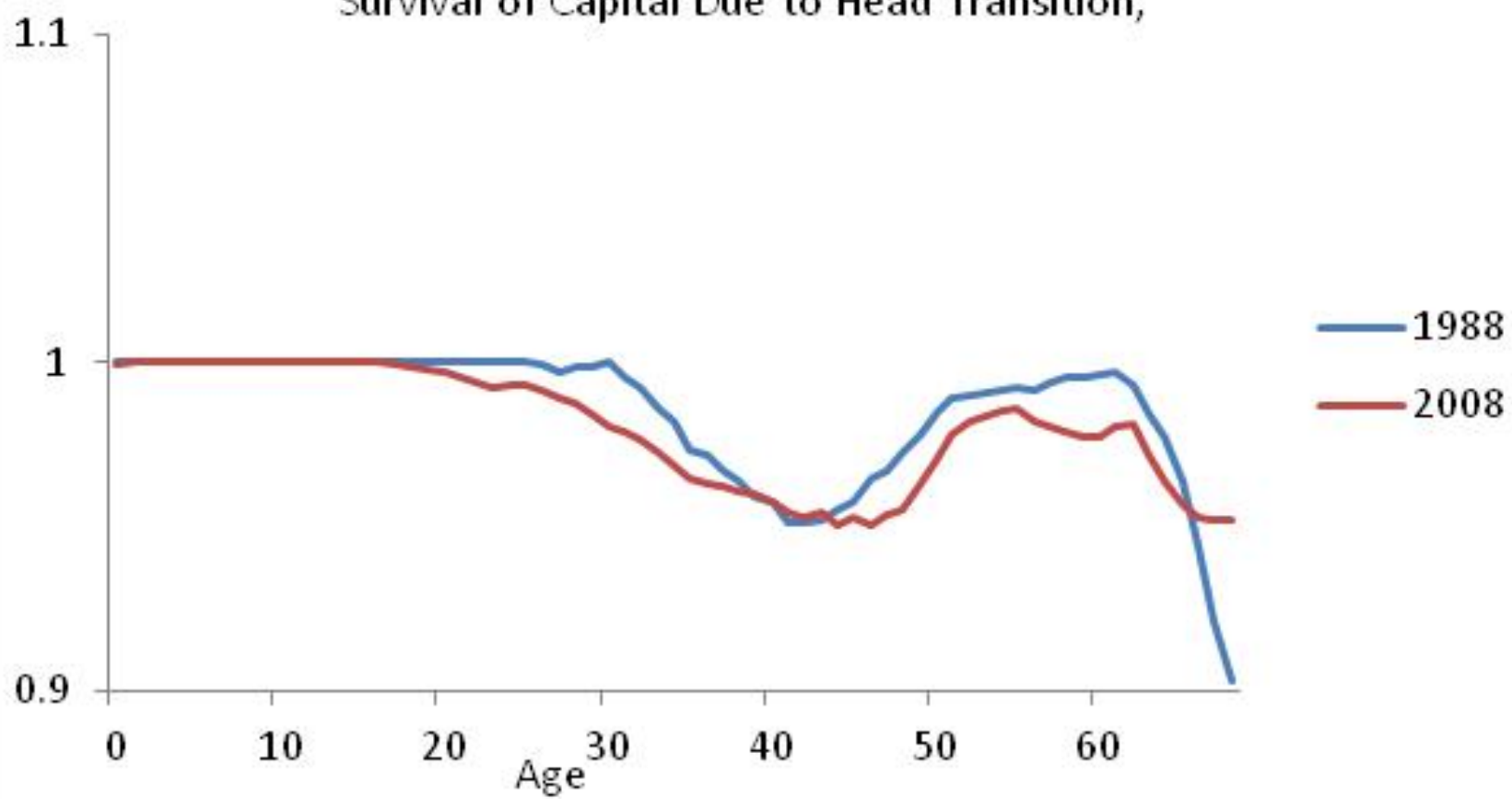
Data

- Taiwan Family Income and Expenditure Survey

Mean Capital , Real Value NT$, Taiwan
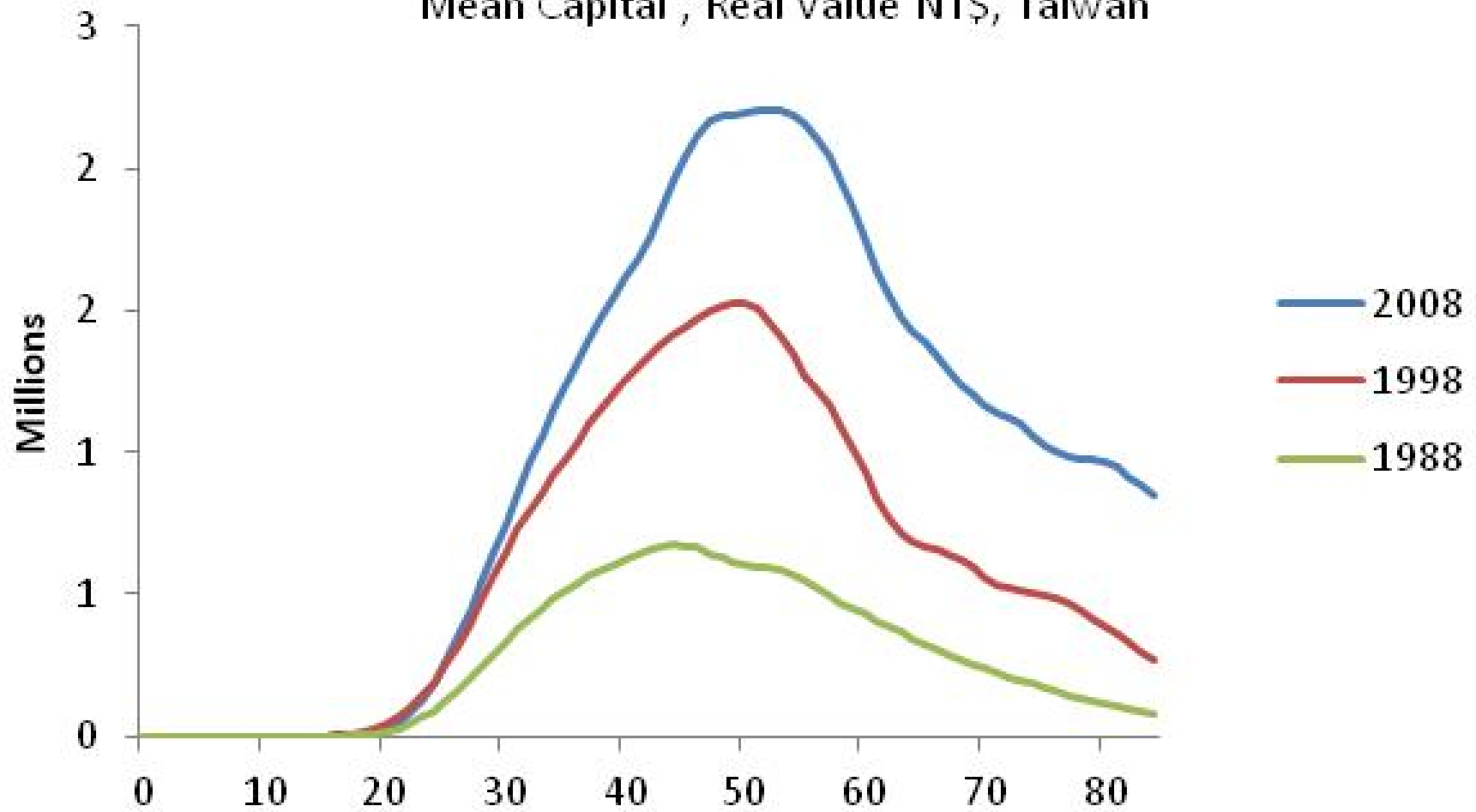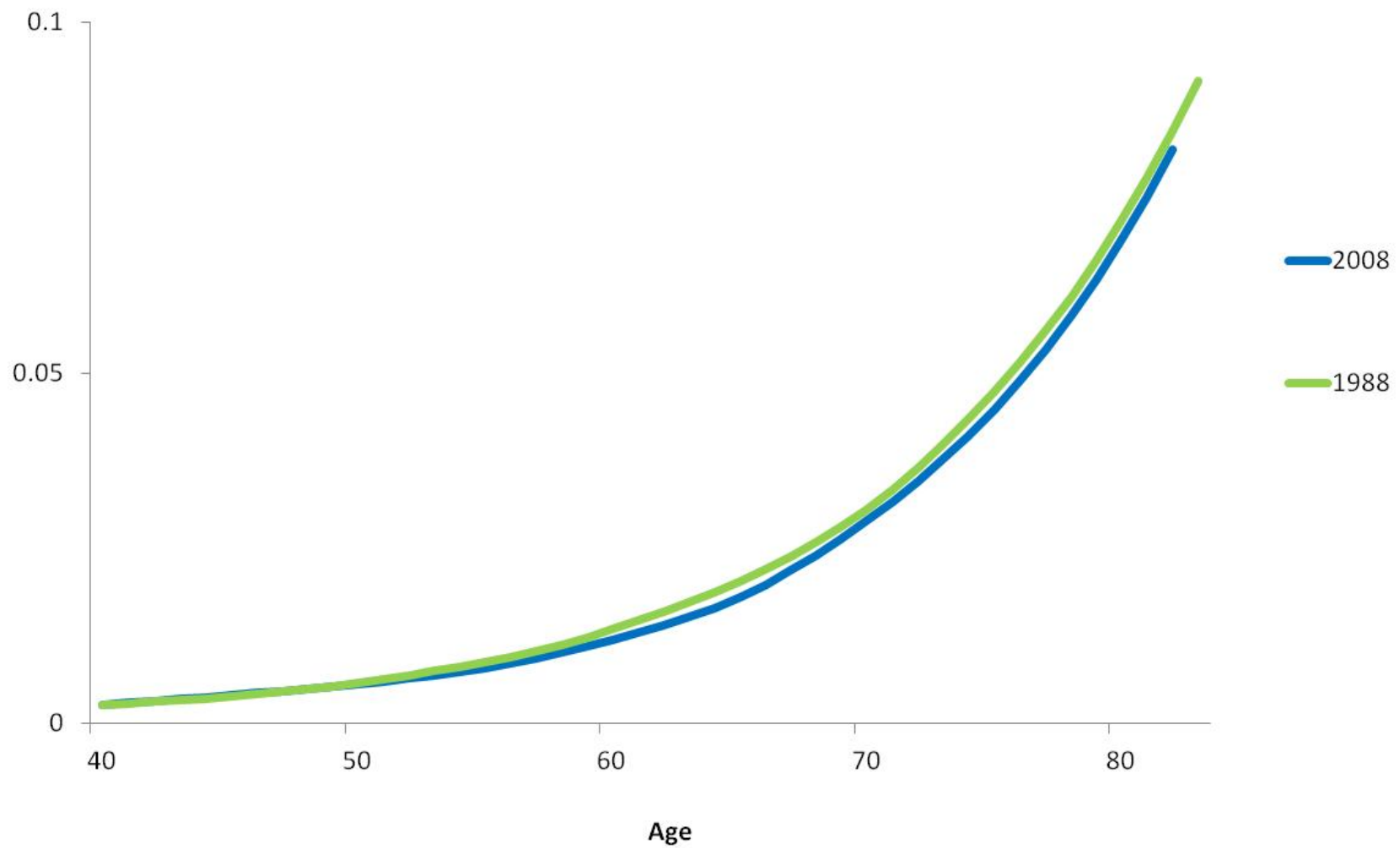
Survival of Capital (due to death of head), Taiwan

1988
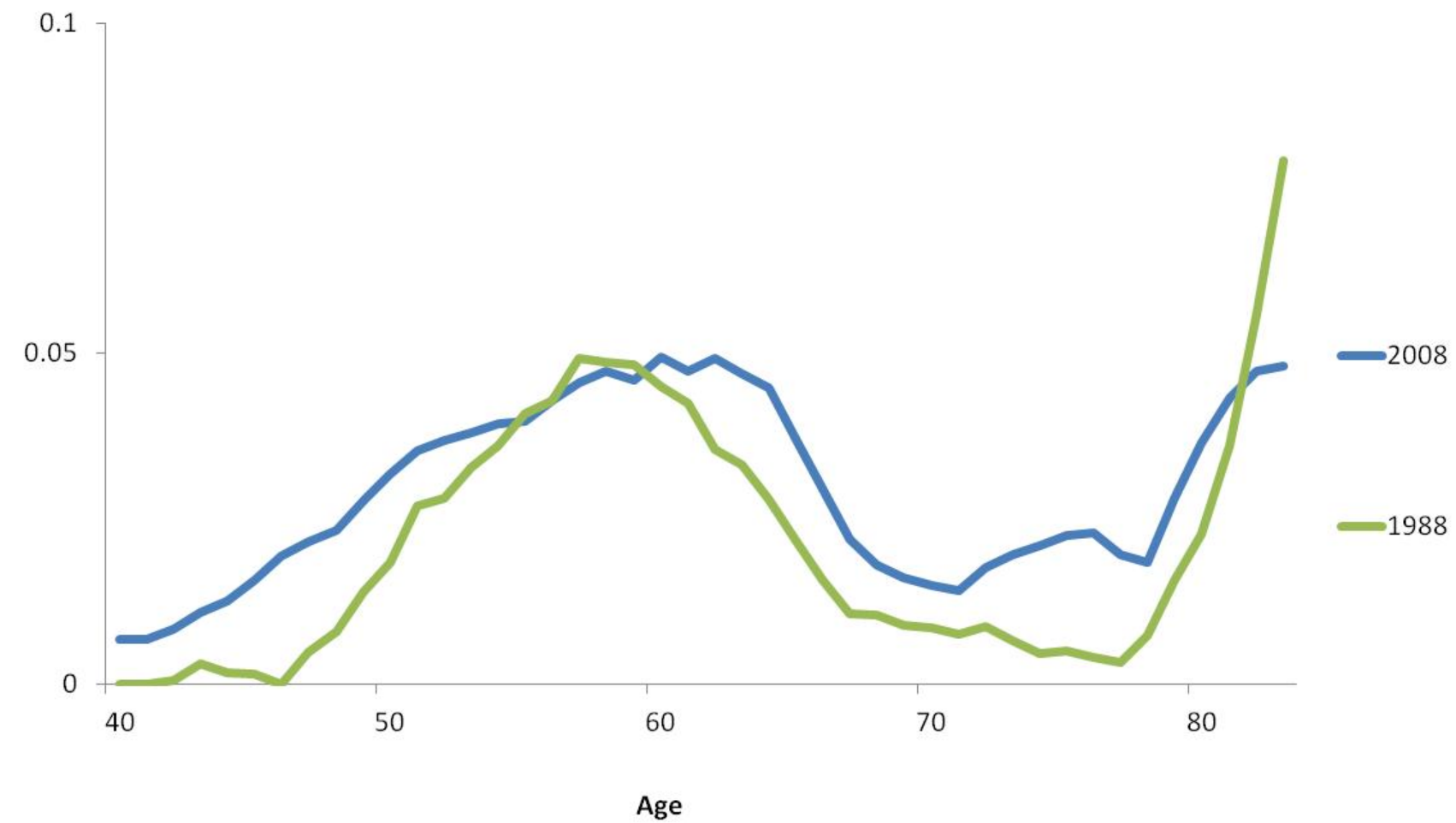2008
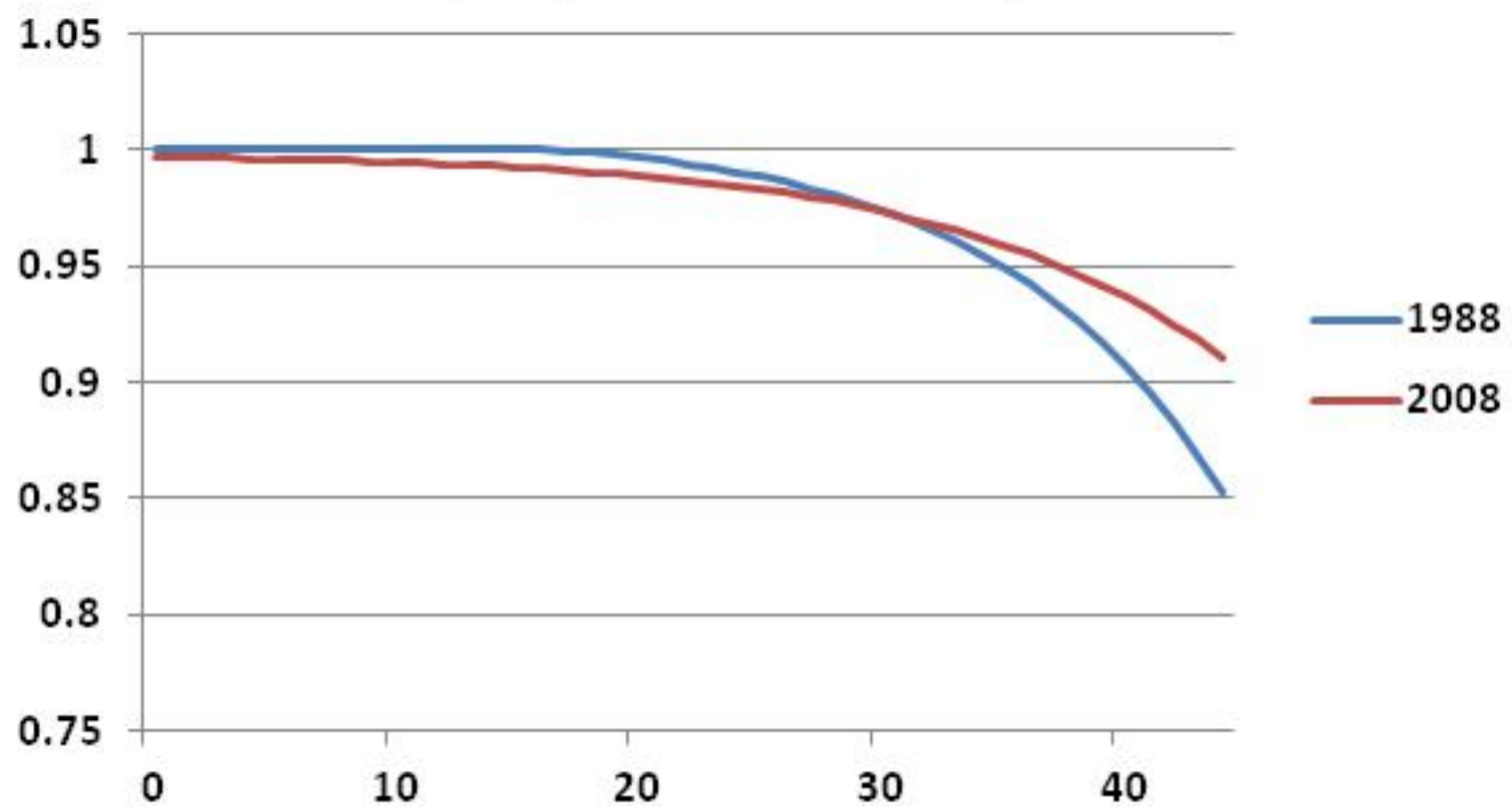
Survival of Capital Due to Head Transition,

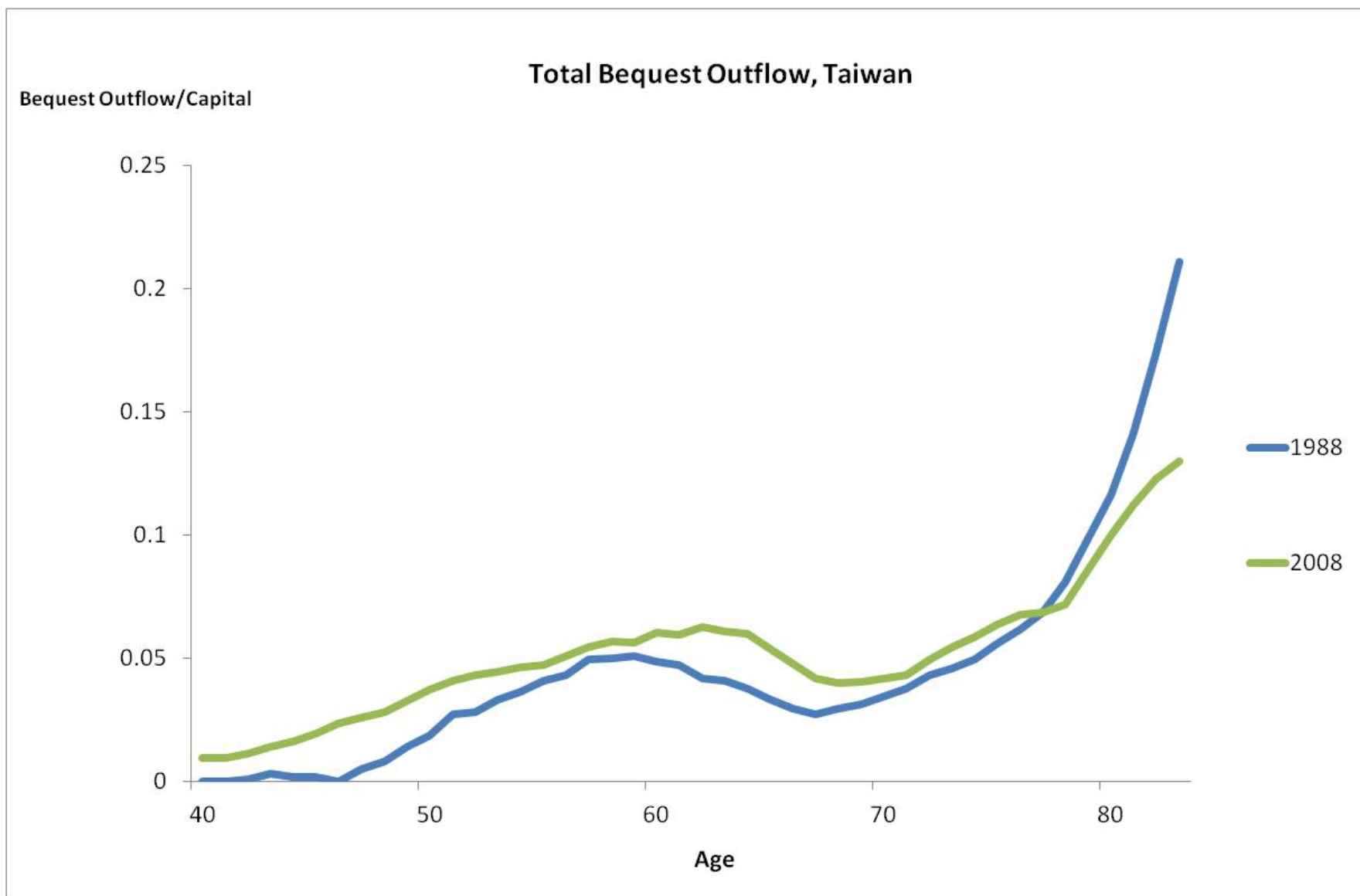Bequest Outflow/Capital

Bequest Outflow Due to Death of Head, Taiwan

0.1

0.05

0

2008

1988

40   50   60   70   80

Age

Bequest Outflow Due to Transition of Head, Taiwan

Bequest Outflow/Capital

2008

1988

Age

Total Bequest Outflow, Taiwan

Who gets the bequests?

Trying on different methods.

Bequest Inflows, Taiwan 2003
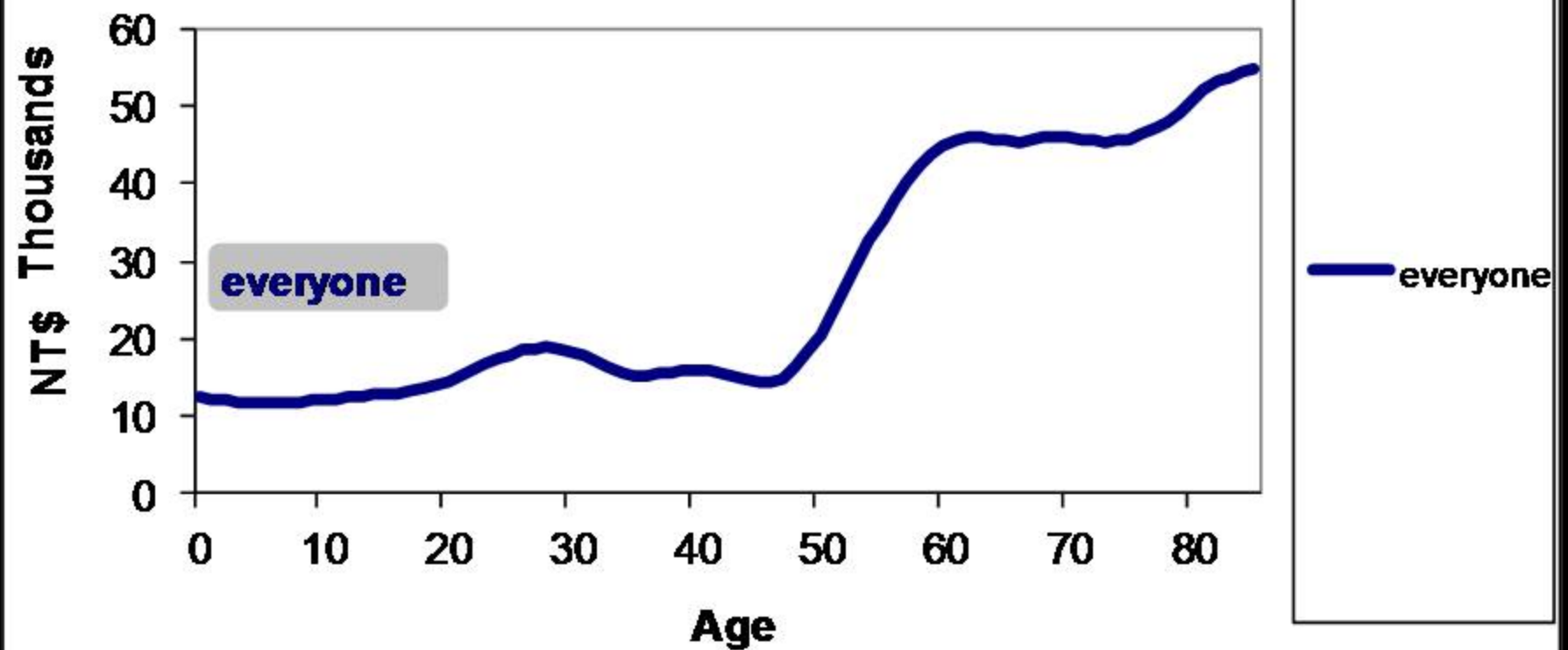
everyone

NT$ Thousands

Age

everyone
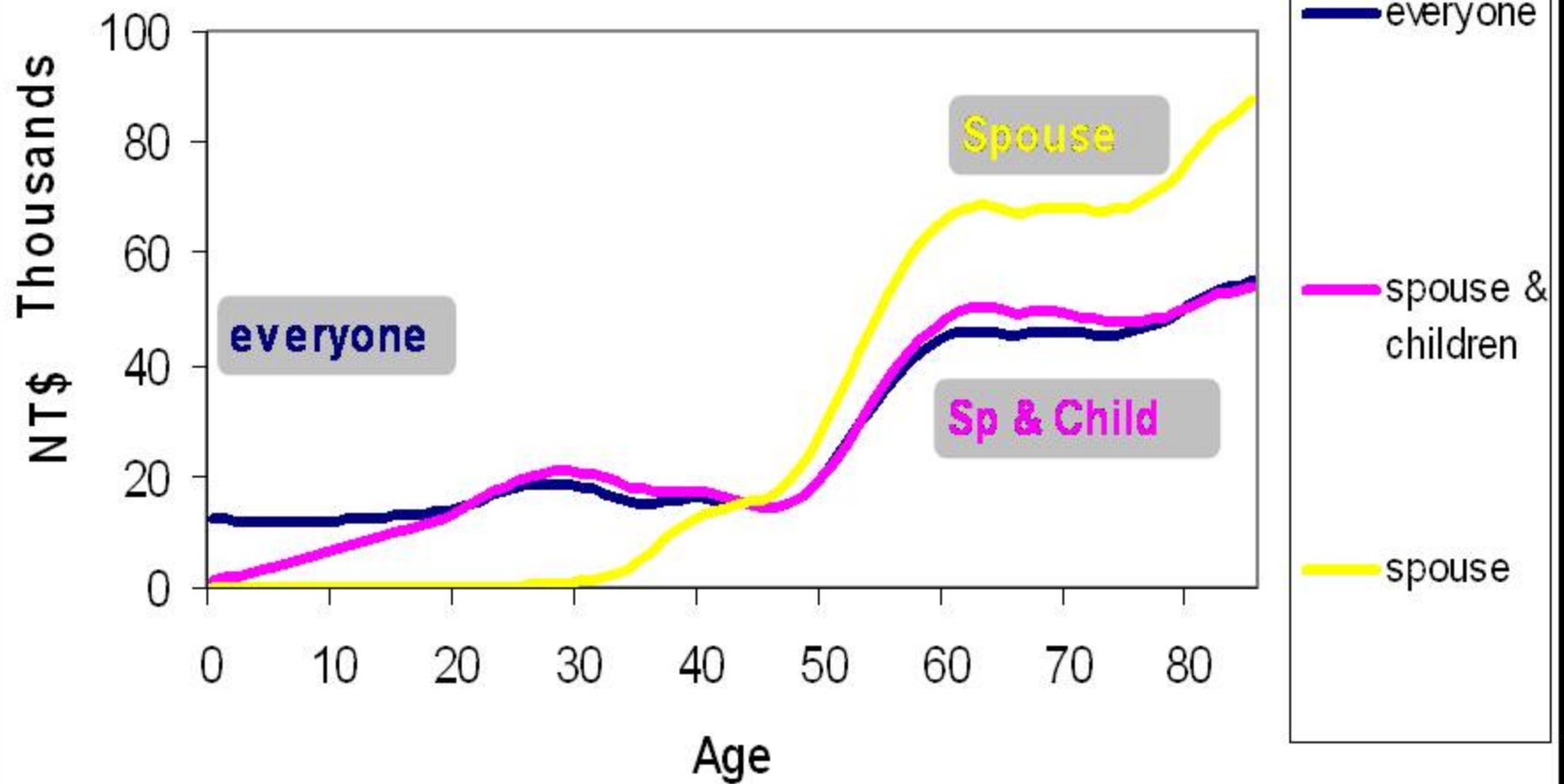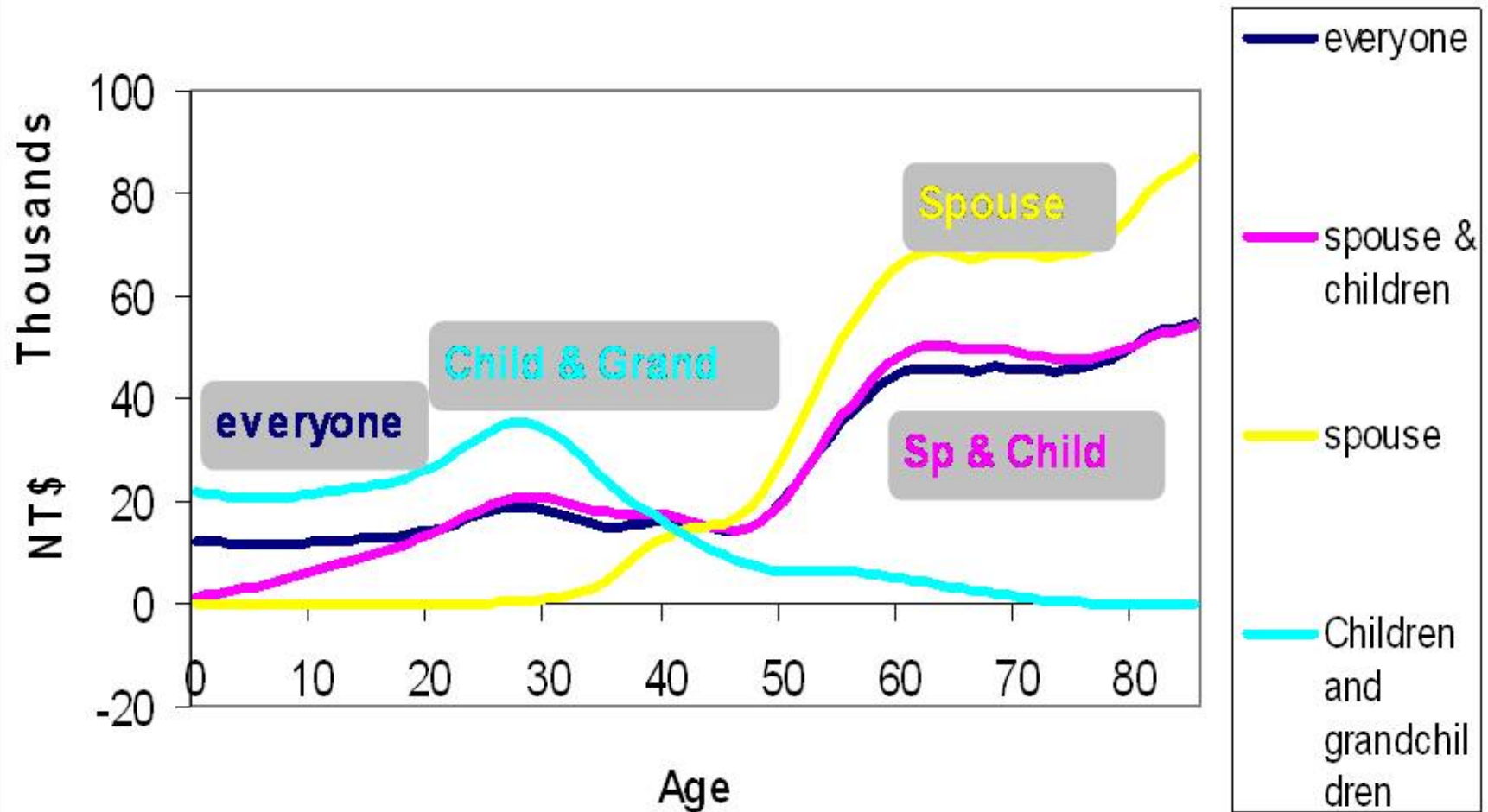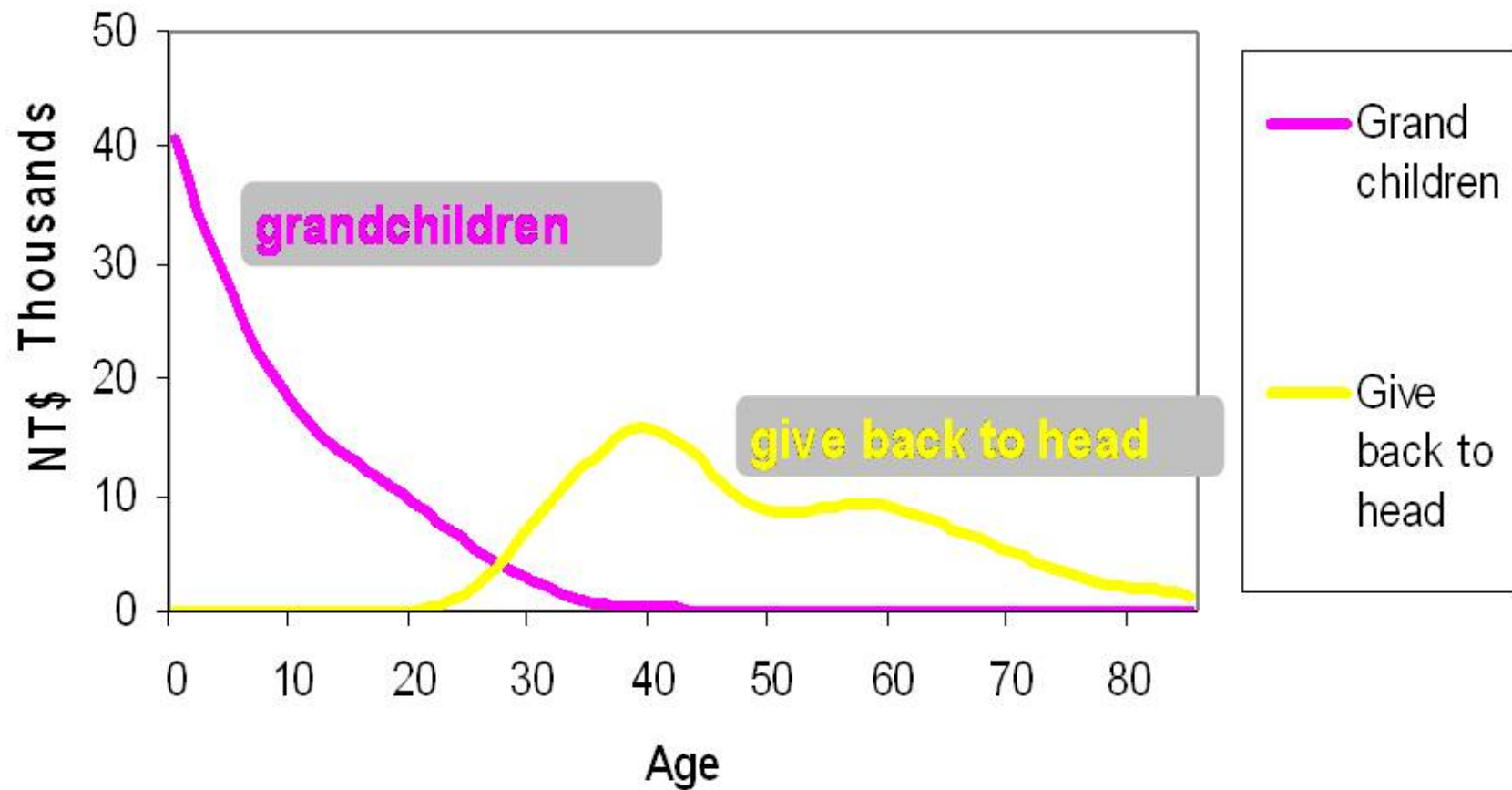
Bequest Inflows, Taiwan 2003
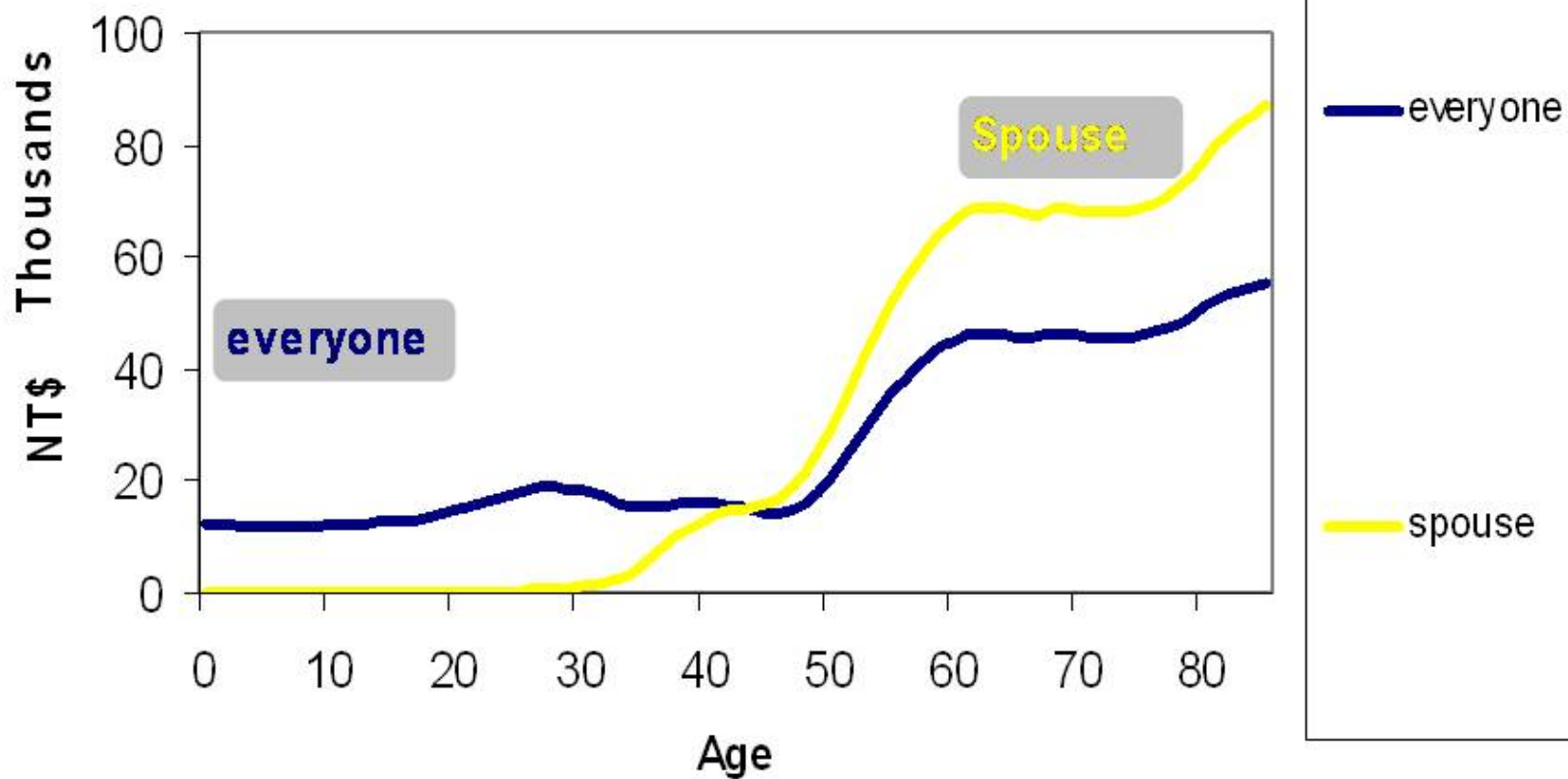
Bequest Inflows, Taiwan 2003

Bequest Inflows, Taiwan 2003
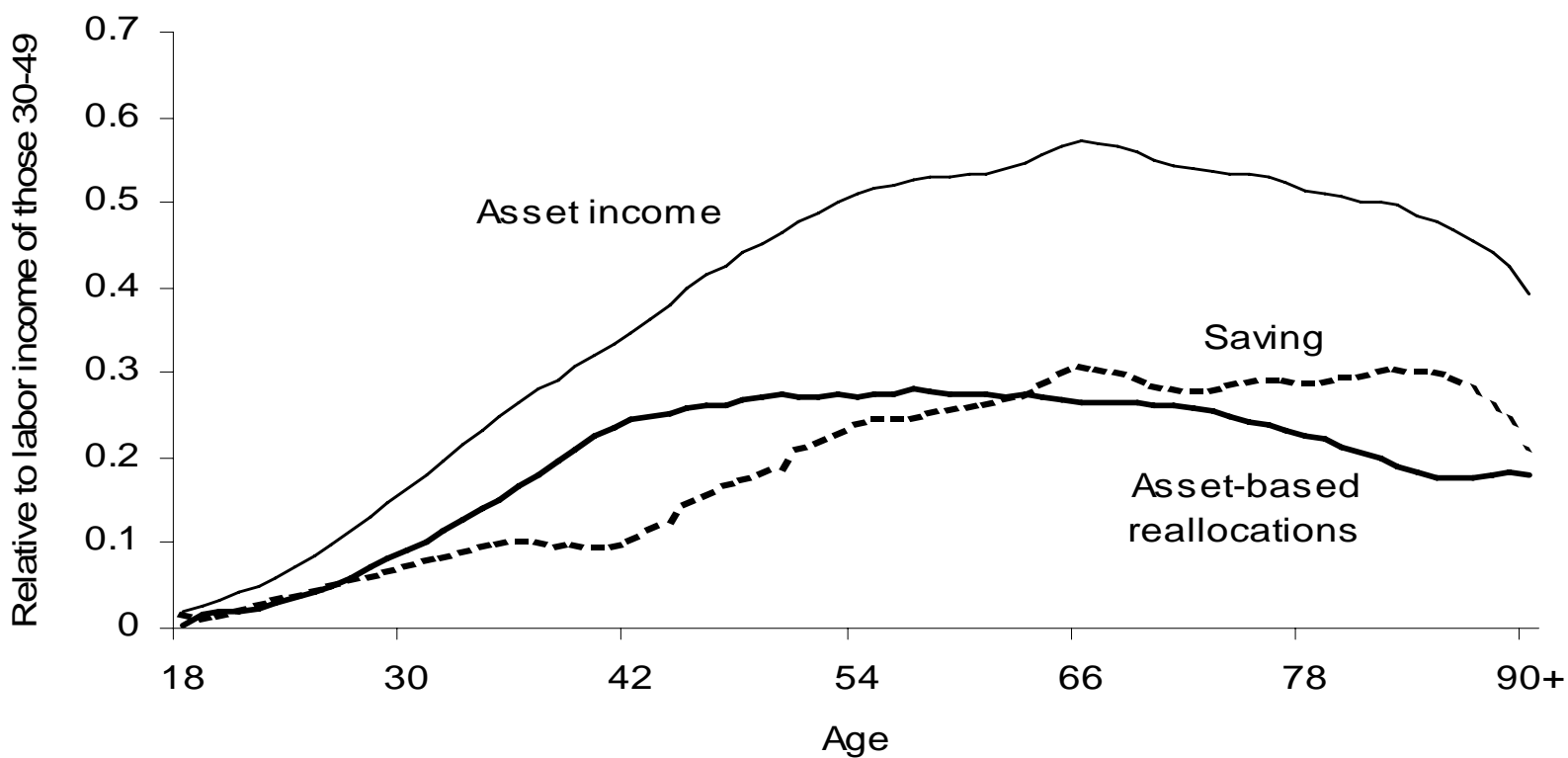
Bequest Inflows, Taiwan 2003

Thank you

welcome suggestions & comments

Figure 9.1 Asset-based flows, persons 18 and older, simple average of values: 17 countries around 2000

Source: Mason et al (forthcoming)