

# 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  $a$ :

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

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:

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

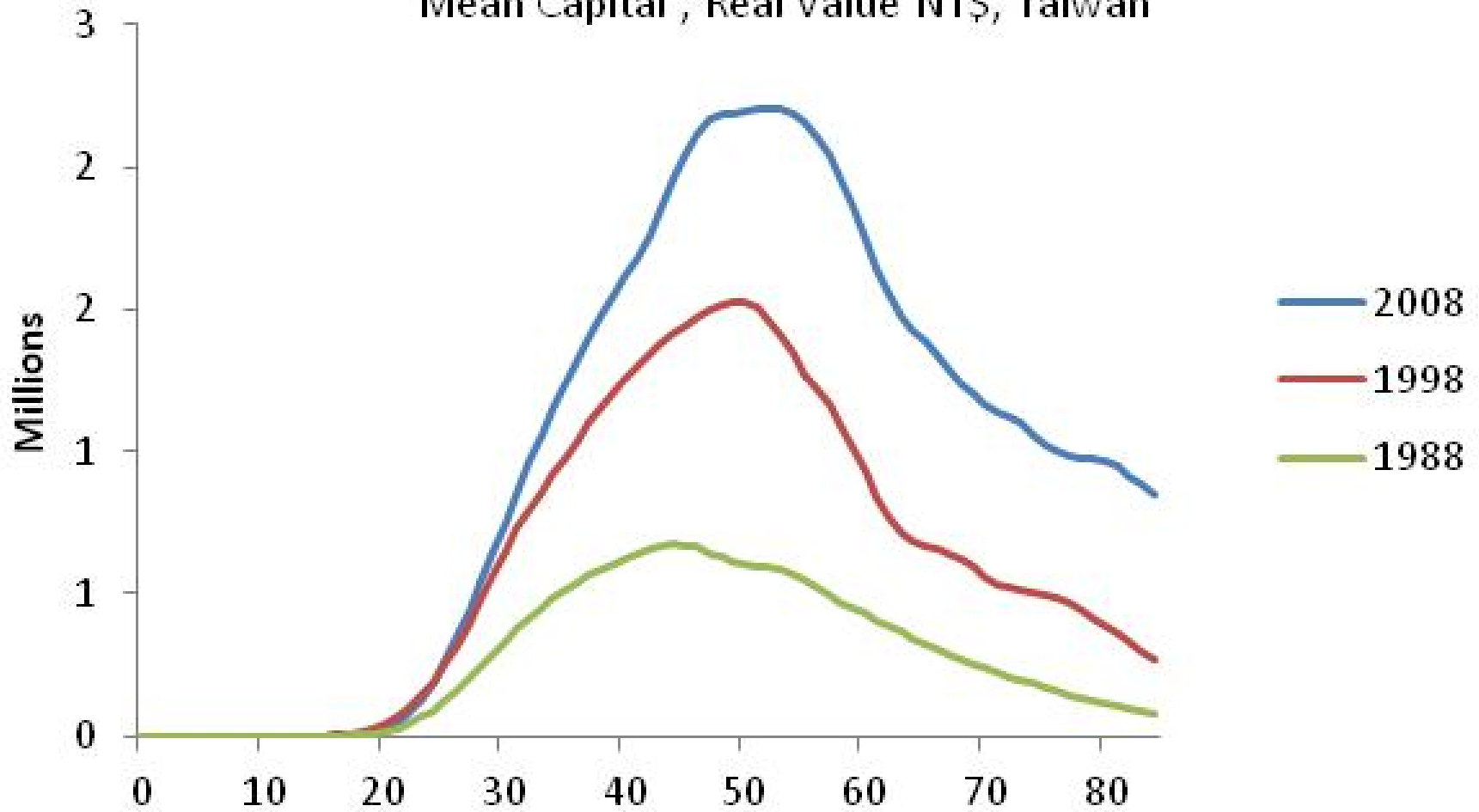
where

- $l_{at}^k$  is the survival rate for capital of individual age  $a$  in period  $t$   
 $l_{at}^h$  is the survival rate for household head  
 $\rho_{kl}$  is the correlation between survival rate of head and capital  
 $CV_k$  is the coefficient of variation

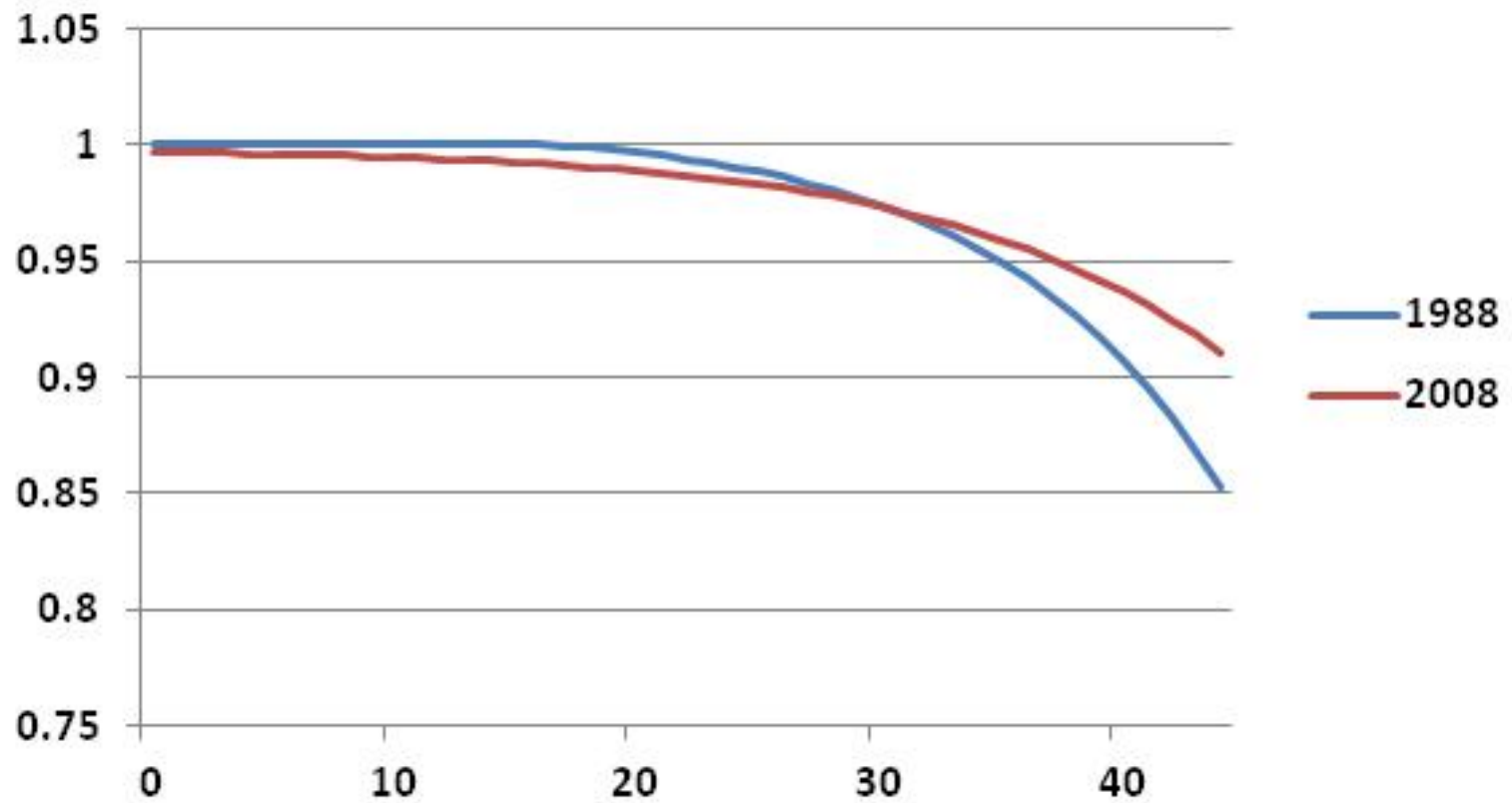
# Data

- Taiwan Family Income and Expenditure Survey

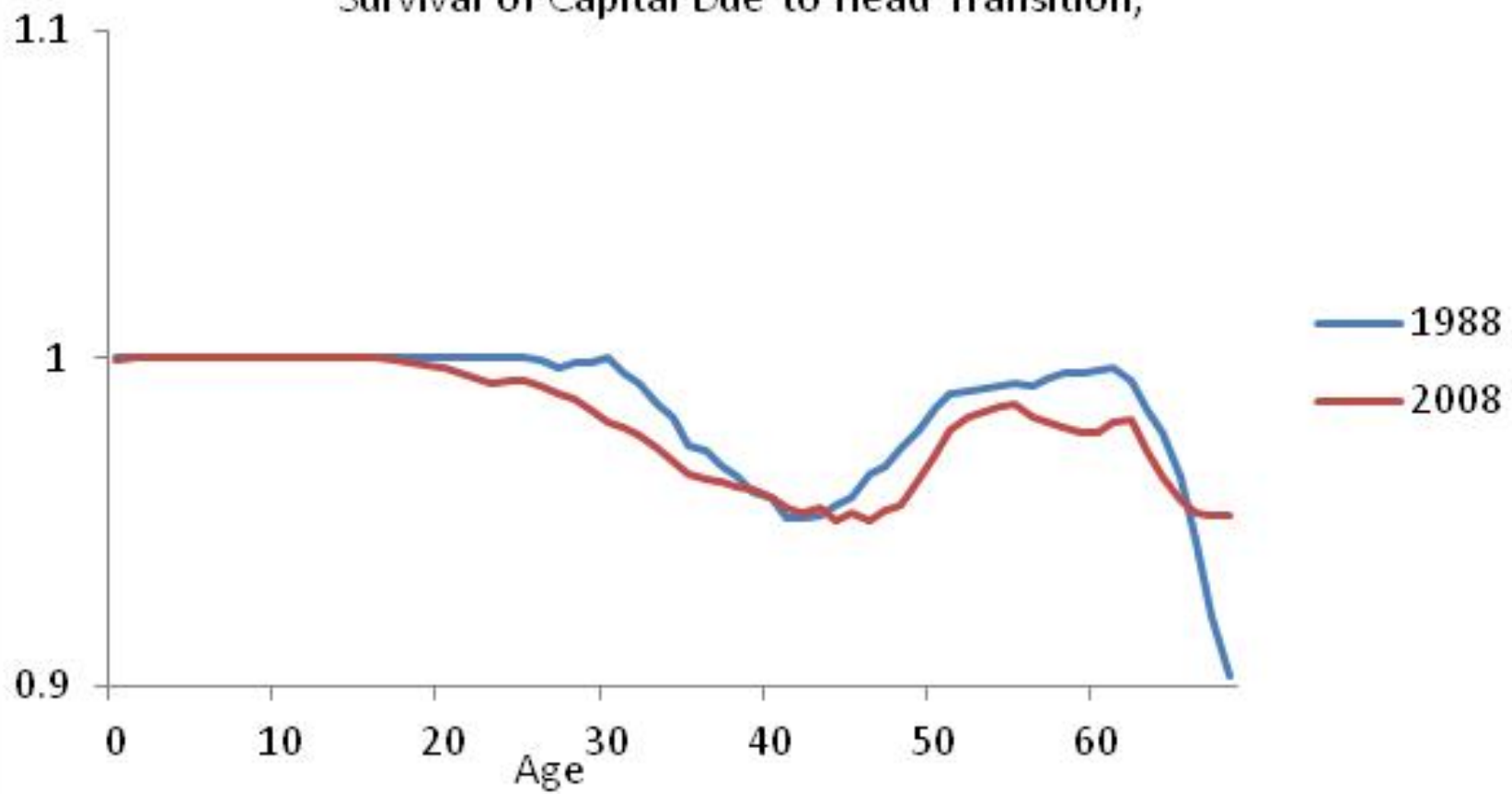
Mean Capital , Real Value NT\$, Taiwan



Survival of Capital (due to death of head), Taiwan

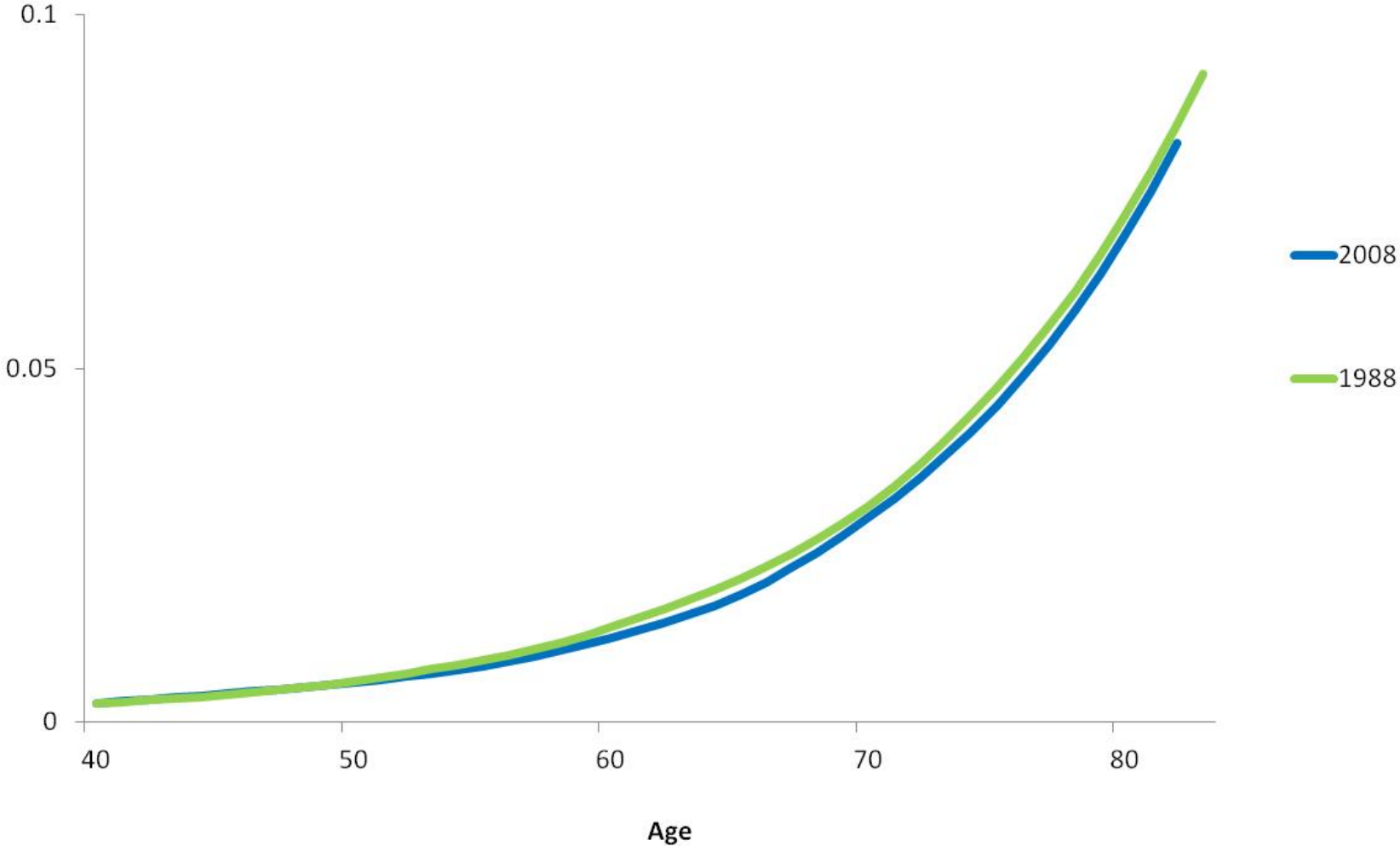


Survival of Capital Due to Head Transition,



Bequest Outflow/Capital

### Bequest Outflow Due to Death of Head, Taiwan



### Bequest Outflow Due to Transition of Head, Taiwan

Bequest Outflow/Capital

0.1

0.05

0

40

50

60

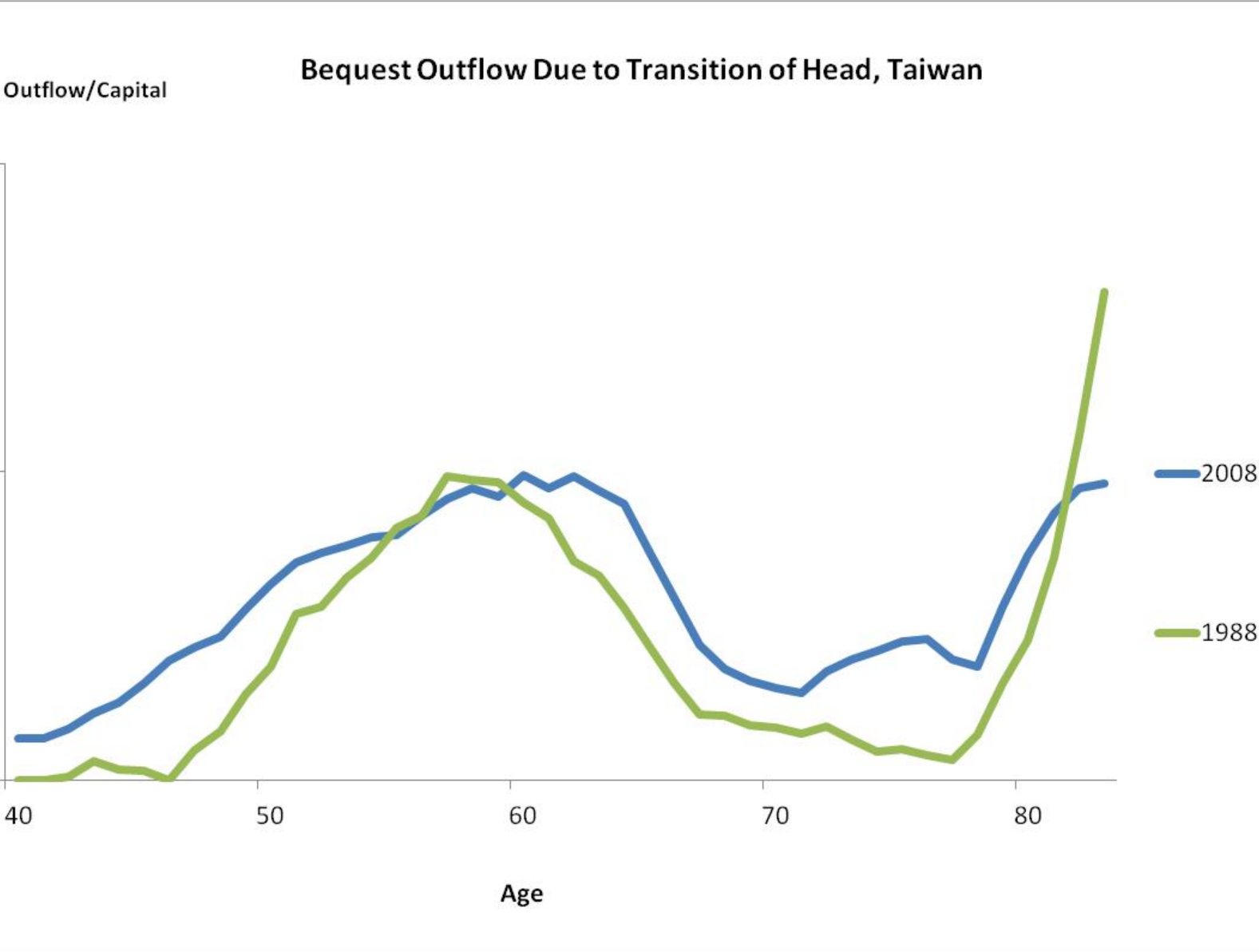
70

80

Age

2008

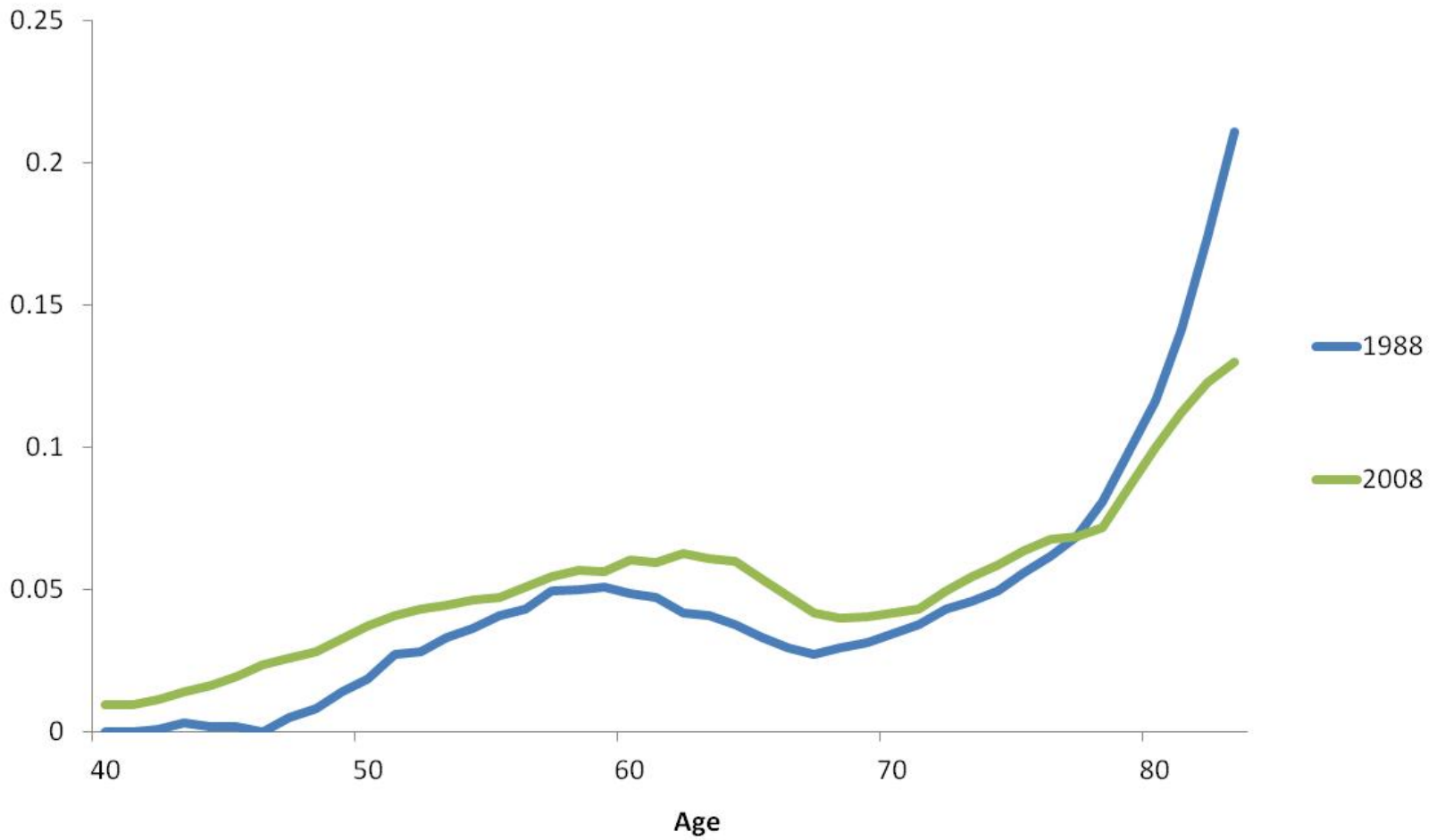
1988





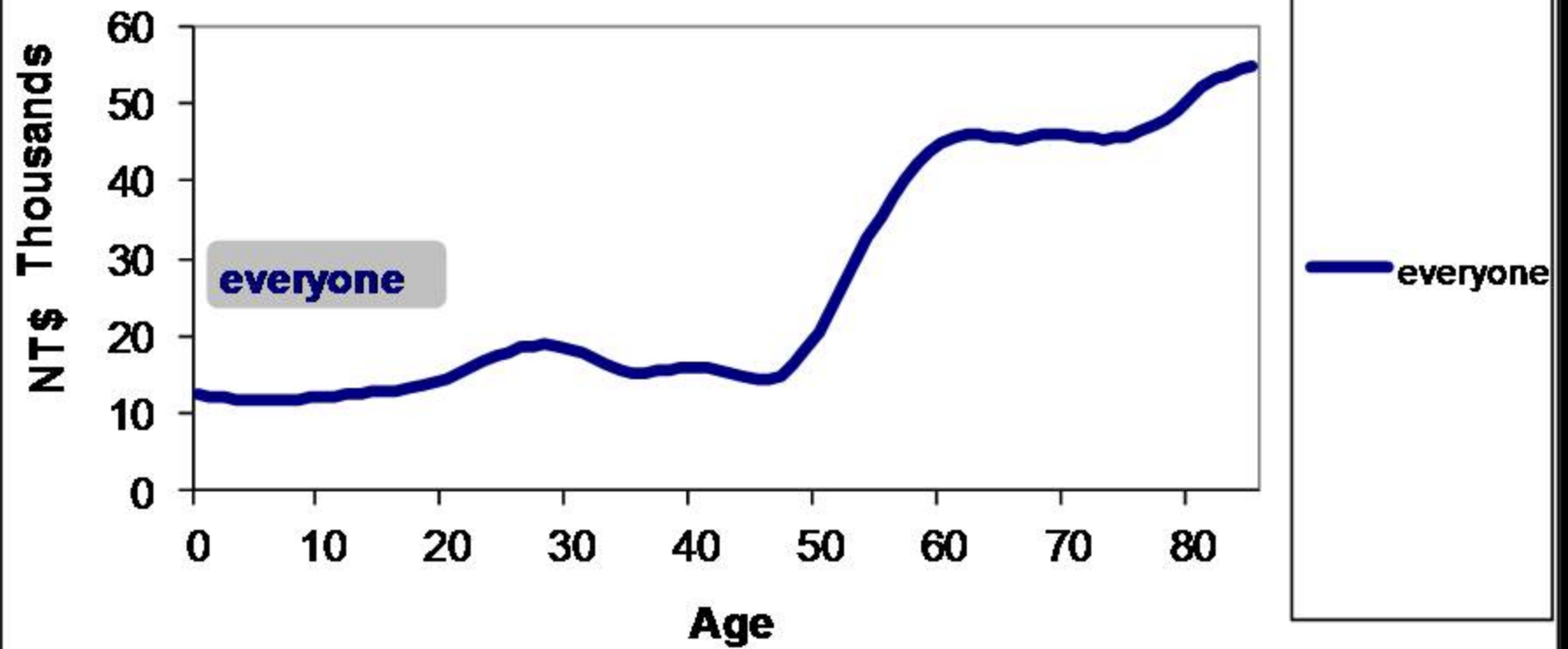
### Total Bequest Outflow, Taiwan

Bequest Outflow/Capital

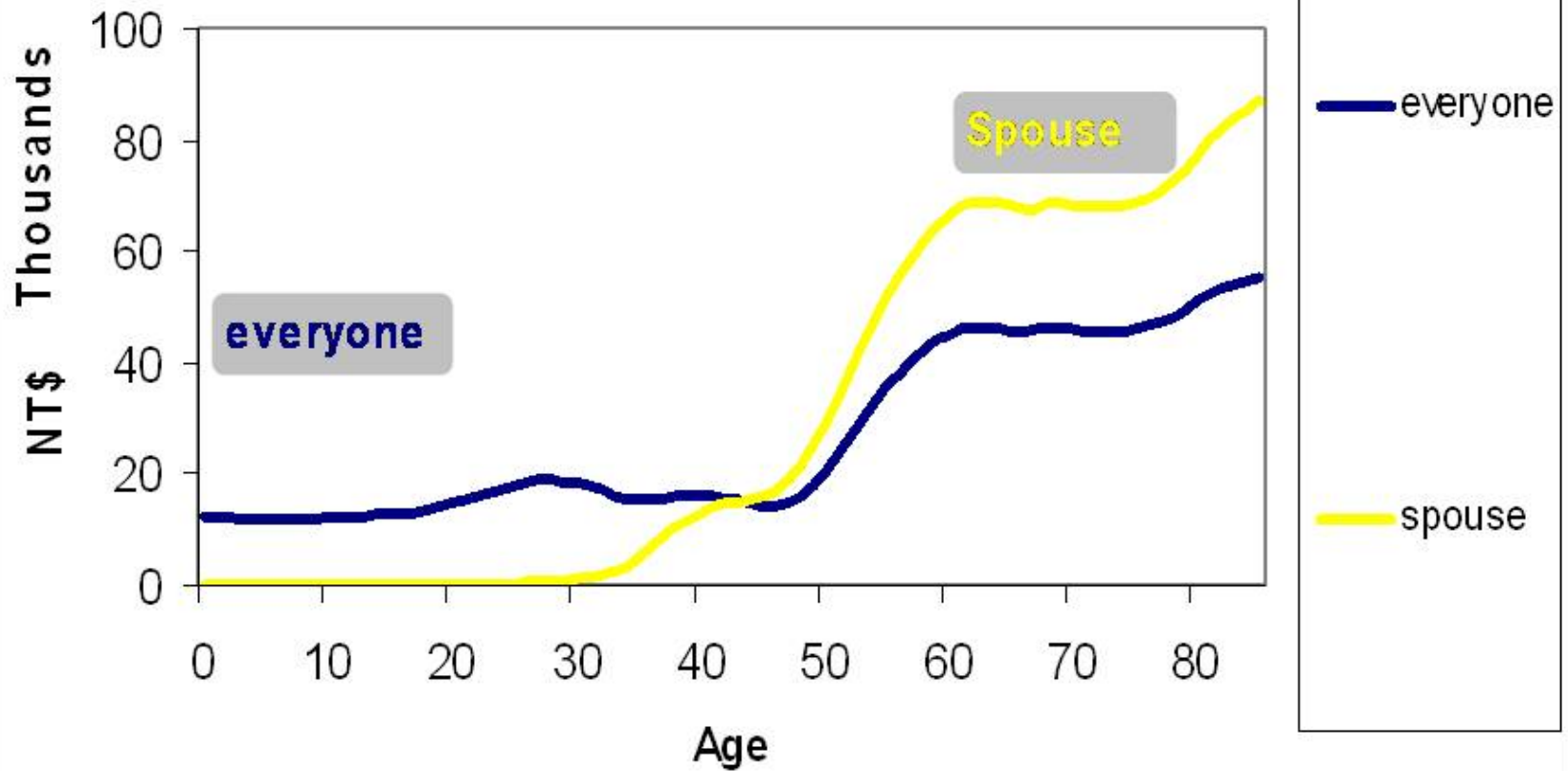


Who gets the bequests?  
Trying on different methods.

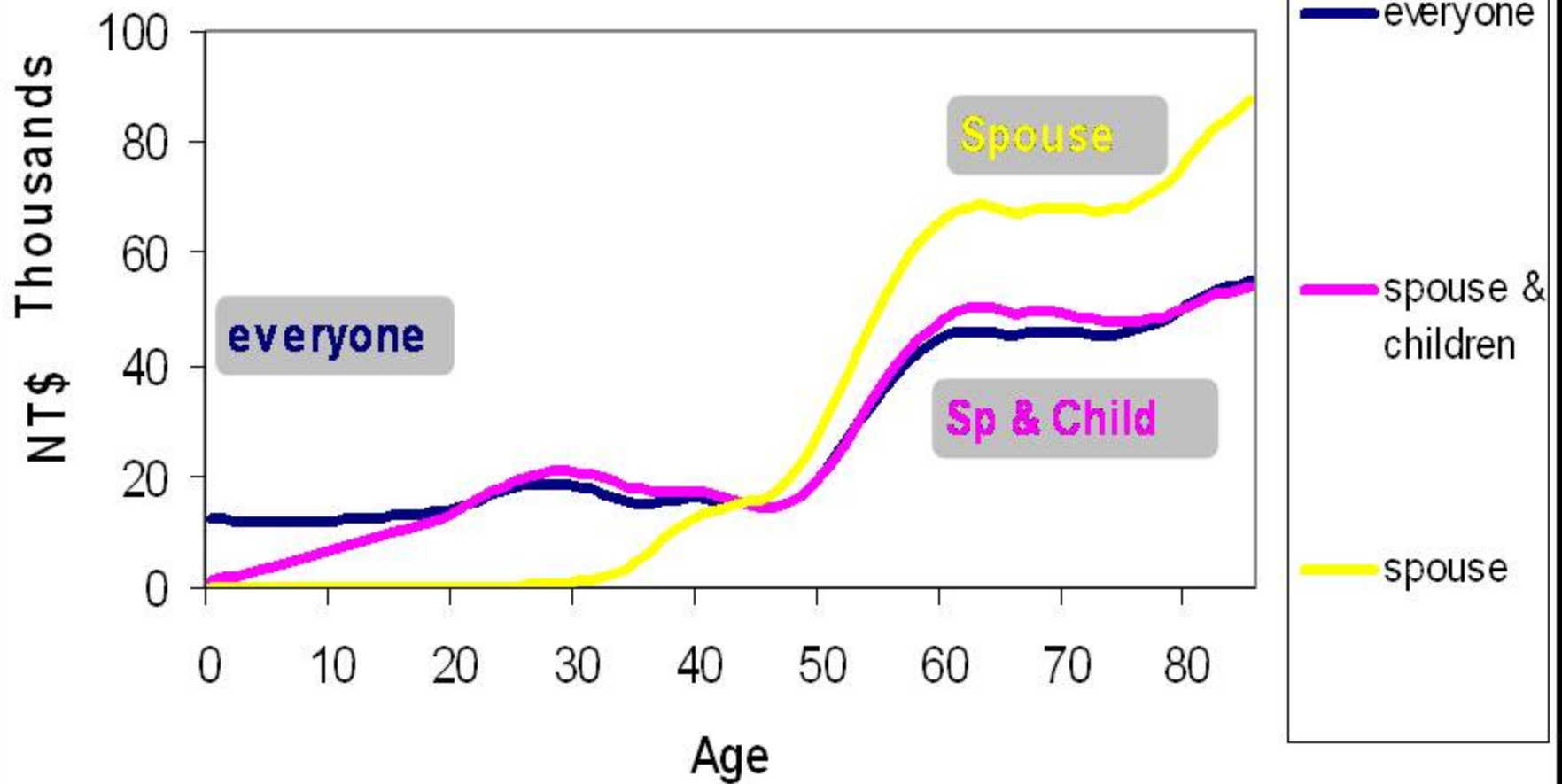
### Bequest Inflows, Taiwan 2003



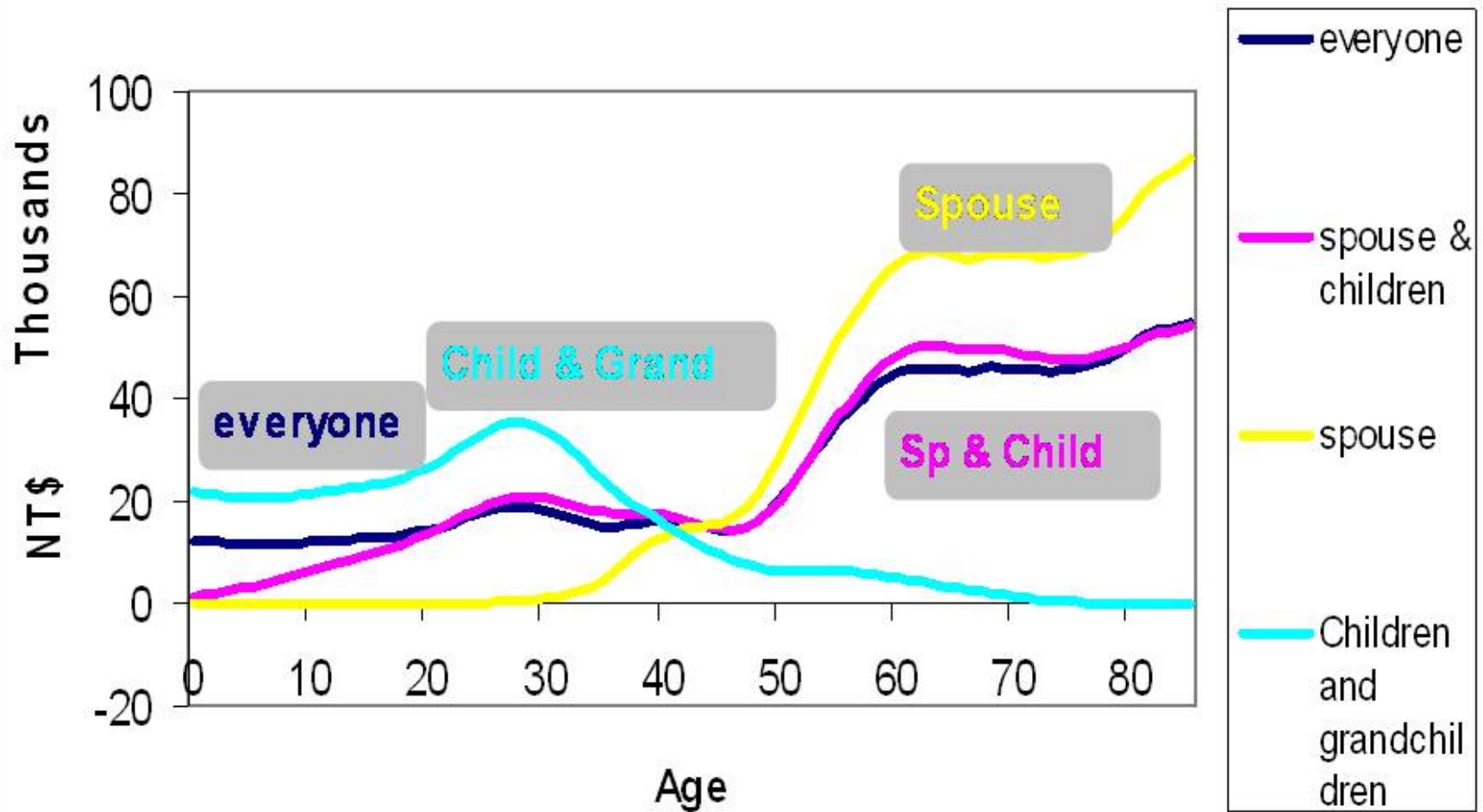
## Bequest Inflows, Taiwan 2003



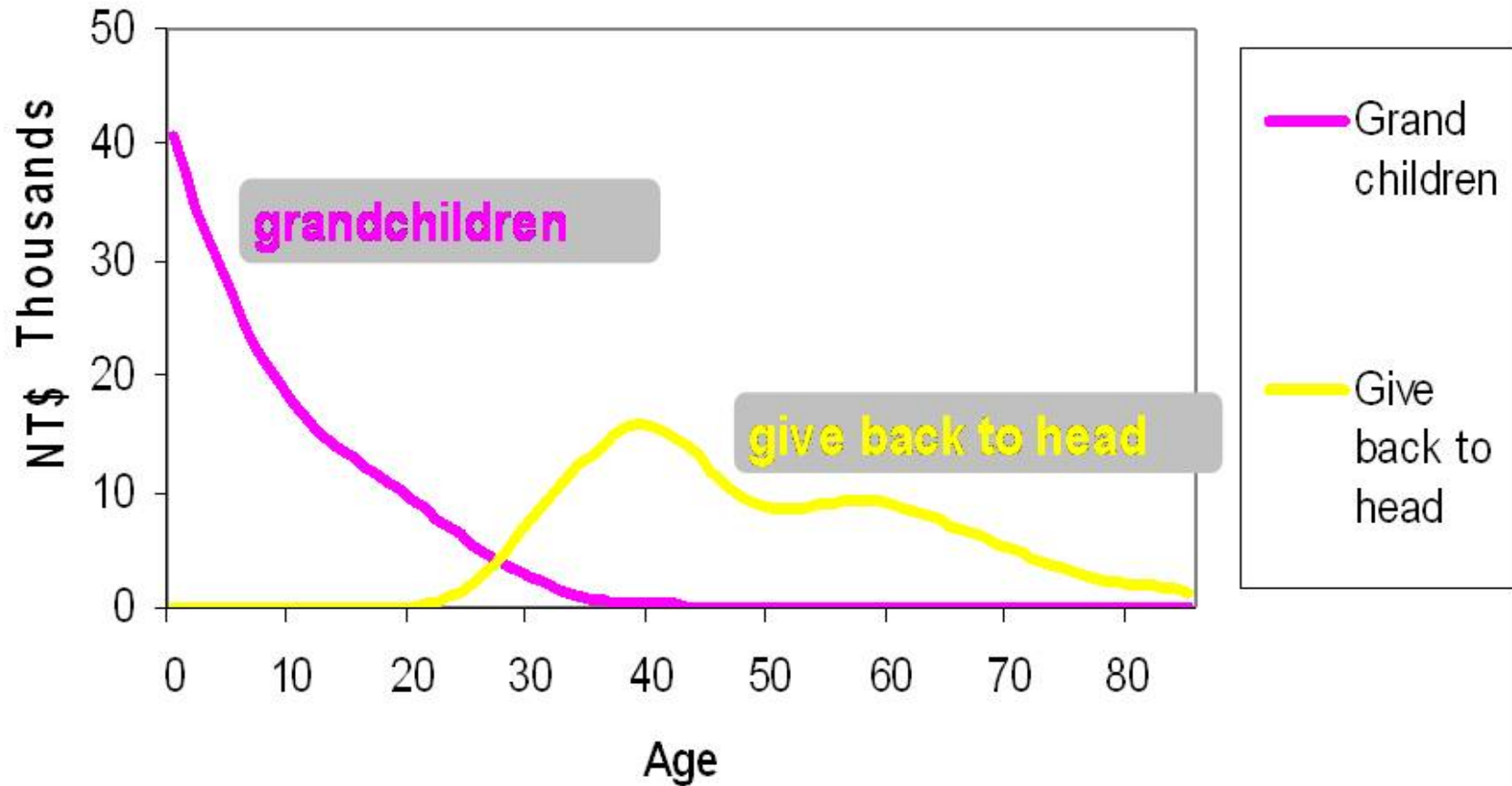
## Bequest Inflows, Taiwan 2003



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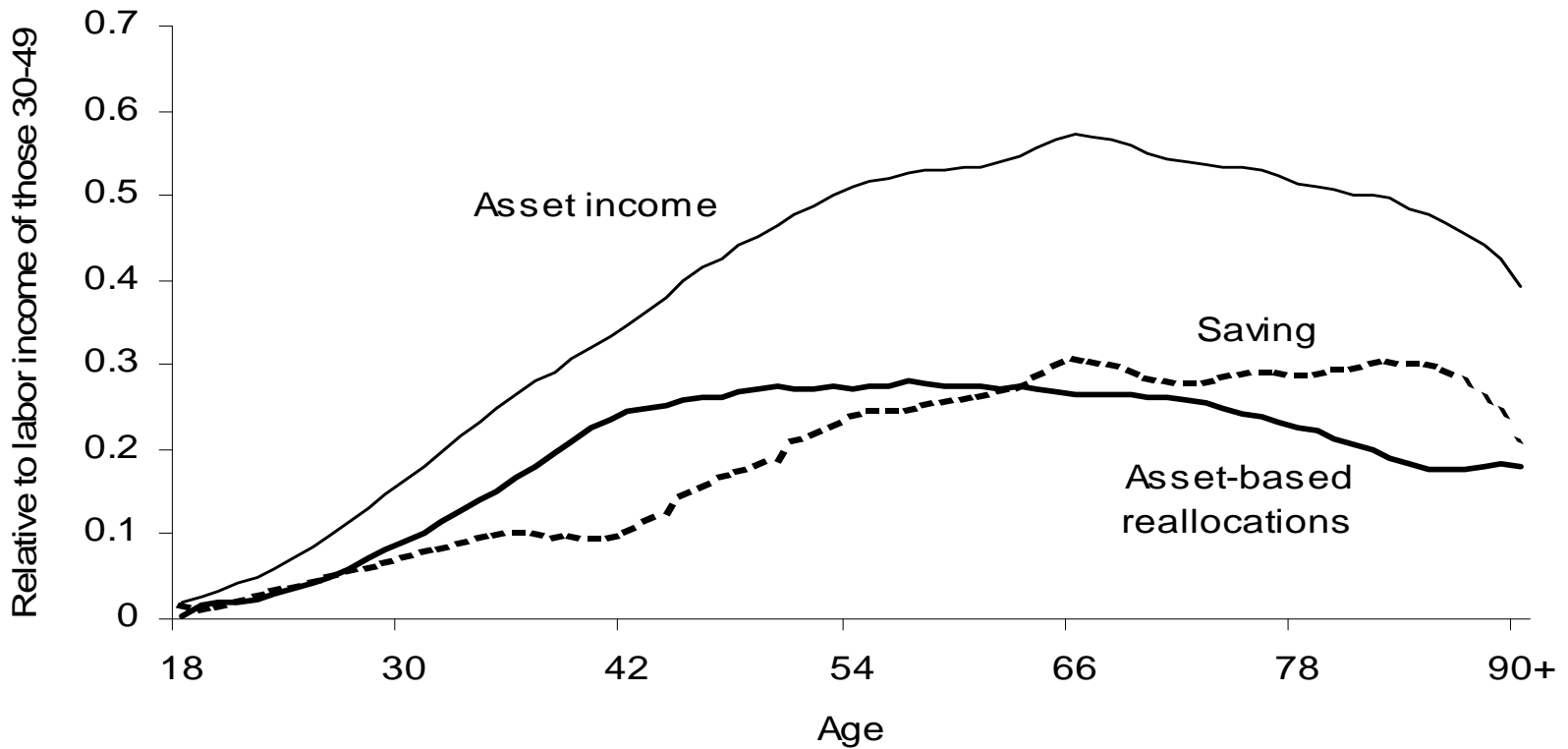


Thank you

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)