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 \(a\):

\[
B_{at} = (1 - l_{at}^k) K_{at}
\]  

(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:

\[ l^k_{at} = h^h_{at} + \rho_{kl} CV_k \sqrt{h^h_{at} (1 - h^h_{at})} \]  \hspace{1cm} (2)

where

- \( l^k_{at} \) is the survival rate for capital of individual age \( a \) in period \( t \)
- \( h^h_{at} \) 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
Survival of Capital (due to death of head), Taiwan

- Blue line: 1988
- Red line: 2008

Y-axis: 0.75 to 1.05
X-axis: 0 to 40
Survival of Capital Due to Head Transition,
Total Bequest Outflow, Taiwan

Bequest Outflow/Capital

Age
Who gets the bequests?
Trying on different methods.
Bequest Inflows, Taiwan 2003

NT$ Thousands

Age

everyone

spouse & children

spouse

Spouse

Sp & Child
Bequest Inflows, Taiwan 2003

- Grandchildren
- Give back to head

NT$ Thousands vs. Age
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)