

Directorate for Financial and Enterprise Affairs  
Statistics Directorate

## Working Party on Financial Statistics

### HIGHLIGHTS OF THE WORK OF THE OECD EXPERT GROUP ON MICRO STATISTICS ON HOUSEHOLD INCOME, CONSUMPTION AND WEALTH

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*This document has been prepared by Marco Mira d'Ercole (OECD - STD/HSPM) and will be presented under item 18 of the draft agenda*

*The present note provides a few highlights of the recently released OECD Guidelines for Micro Statistics on Household Wealth. The full set of guidelines is available at the following address: <http://www.oecd.org/statistics/guidelines-for-micro-statistics-on-household-wealth.htm>. This note contributes to the discussion on agenda item 4. Household financial wealth and vulnerabilities (Document 18).*

For further information, please contact Marco Mira d'Ercole, Household Statistics and Progress Measurement, OECD Statistics Directorate ([marco.mira@oecd.org](mailto:marco.mira@oecd.org))

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## HIGHLIGHTS OF THE WORK OF THE OECD EXPERT GROUP ON MICRO STATISTICS ON HOUSEHOLD INCOME, CONSUMPTION AND WEALTH

### Introduction

1. The OECD *Guidelines for Micro Statistics on Household Wealth* (freely available at the following address: <http://www.oecd.org/statistics/guidelines-for-micro-statistics-on-household-wealth.htm>) presents, for the first time, an internationally agreed set of guidelines for producing micro statistics on household wealth. They fill an important gap in the existing international guidance on measuring the various dimensions of people's economic well-being. They address the common conceptual, definitional and practical problems that countries face in producing such statistics, and are meant to improve the comparability of the currently available country data. They are also needed to facilitate the integration of micro statistics on household wealth with those relating to the other dimensions of economic well-being, i.e. income and consumption.

2. The micro perspective of wealth statistics presented here complements the broad economy/production perspective of the macro statistics articulated in the System of National Accounts (SNA), and many of the concepts are the same. However, there are some differences. For example, while (services from) consumer durables are not recognised in the SNA, these guidelines for micro data include consumer durables as assets yielding services to their own households. These assets are particularly important in the analysis of the wealth of poorer households and the focus of micro data on providing distributional information. On the other hand, the micro guidelines do not include some of the concepts included in the macro data which are of less relevance to a household perspective. The relationship between these Wealth Guidelines and the SNA is described in detail in the report, so that data prepared under the two frameworks can be analysed together in a meaningful way.

3. The Wealth Guidelines were developed under the auspices of the OECD Committee of Statistics (CSTAT). The work was carried out by the OECD Expert Group on Micro Statistics on Household Income, Consumption and Wealth, chaired by Bob McColl (Australian Bureau of Statistics) and whose members were drawn from a wide range of countries. The Expert Group undertook two complementary tasks at the same time. The first was the preparation of the Guidelines on Micro Statistics on Household Wealth; the second was the preparation of the companion report *Framework for Statistics on the Distribution of Household Income, Consumption and Wealth* (freely available at the following address: <http://www.oecd.org/statistics/icw-framework.htm>), which present the first internationally agreed comprehensive and integrated framework for the collection, analysis and dissemination of micro statistics on the different aspects of household economic well-being. The OECD Wealth Guidelines are fully consistent with the *Framework* publication.

4. Drafts of the two reports by the OECD Expert Group on Micro Statistics on Household Income, Consumption and Wealth were submitted to CSTAT for comments under the written procedure in January 2013. Both reports reflect the comments provided by CSTAT delegates, and are published under the authority of CSTAT. They are part of the OECD's *Better Life Initiative* – a pioneering project launched by the OECD Secretary General in 2011, which aims to measure well-being and progress by looking at both people's material conditions and quality of life through eleven dimensions ranging from income and

wealth, jobs and housing to health conditions, skills and social ties, from work-life balance civic engagement and personal security to environmental quality and life satisfaction.

### **Main points in relation to the Wealth Guidelines**

5. There has been increasing recognition in recent years that agreed international guidance for measuring household wealth at the micro level - that is, at the level of individual households – is essential to address the common conceptual, definitional and practical problems that countries face in producing such statistics as well as to improve the comparability of the currently available country data. They are also needed to facilitate the integration of micro statistics on household wealth with those relating to other dimensions of economic well-being, such as income and consumption.

6. The composition and distribution of household wealth at the micro level are also of particular interest to policy makers. Such information allows to understand the cross-sectional distribution of debts, the driver of homeownership for housing, the extent of liquidity constraints faced by households and other questions for which micro statistics on wealth constitute a critical input. They could also serve as a monitoring tool for Central Banks to understand how macroeconomic and financial shocks affect wealth structure and indebtedness, and how households with different characteristics might be affected by such shocks.

7. At the macro level – i.e. at the economy-wide or institutional sector level - the *System of National Accounts* already provides well-established international standards for measuring household wealth as well as other aspects of household economic resources. The SNA was drawn on extensively in the development of these guidelines. However, the primary focus of the SNA is on measuring the performance of the economy at a sector level and as a whole, using an integrated system of accounts. Conversely, the primary focus of micro-level wealth statistics is on measuring the level and composition of wealth held by individual households as well as its distribution across households with different characteristics. This leads to some differences in the concepts of interest and in the data that can practically be collected and used in compiling micro data compared to macro data. The report includes a comparison of the differences between these guidelines and the SNA in terms of the measurement of household wealth.

8. Micro statistics on household wealth refer to the level, composition and distribution of wealth held by households at a particular time. Wealth is understood in this report as ownership of the more traditionally defined economic capital and is viewed as a dimension of people's economic (or material) well-being, alongside income and consumption. There are other concepts of capital that are important to people's well-being and complement the concept of economic capital used in this report, such as human capital, social capital and collectively held assets. However, while they may have considerable economic value to the people that possess (or have access to) them, they are not material assets and liabilities over which people can exercise ownership rights. They are, therefore, outside the scope of this report.

9. As considered here, the level of wealth refers to the value of assets held after deduction of liabilities outstanding. Because the level of wealth is a *net* value, it is sometimes referred to as net worth. Assets can be either non-financial or financial. Non-financial assets include, for example, dwellings and other real estate, valuables, vehicles and other consumer durables. Financial assets include, for example, currency and bank deposits, equity in businesses and entitlements in pension funds<sup>1</sup>. Liabilities are all financial in nature and include loans used for housing, loans used to finance the purchase of shares,

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<sup>1</sup> The OECD Guidelines recommend including in household wealth all claims of members and account holders on pension schemes, retirement plans and superannuation schemes. In line with the SNA definition of financial assets, it recommends excluding entitlements accruing under government social security schemes, while noting that the recommended treatment should evolve if macro-level information on social security pension wealth becomes more widely available.

education loans and credit card debt. Assets and liabilities should be valued at current market prices or at similar prices where relevant markets do not exist<sup>2</sup>.

10. The household is generally the unit used for analysing wealth micro data. While traditional welfare analysis focuses on the individual, people share resources within households and most surveys gather information referring to households. A household is either an individual person or a group of persons who live together under the same housing arrangement, and who combine to provide themselves with food and possibly other essentials of living. Households are well suited to most analysis of economic well-being because of the sharing of some economic resources between household members and because of the economies of scale achieved when dwellings and other household facilities are shared.

11. For some analysis, however, it may be appropriate to use other units than households, such as the family or the individual. For data collection, it is most convenient to obtain data at the household level for some wealth items, especially those associated with housing, and to obtain other data at the individual level.

12. While most analysis relates to household variables, users of micro data are often more interested in analysing wealth levels and distribution in terms of the number of people living in different types of households rather than the number of households as such. Therefore it is recommended that tabulations of micro data report both the number of households with characteristics of interest and the number of people who live in those households. The latter are sometimes known as person weighted statistics.

13. Household surveys are usually the main source of micro-level data on household wealth. Household surveys often collect a core set of demographic and socio-economic information along with the topic or topics of particular interest, such as wealth. This core information can be used to classify households into groups and then show the distribution of total wealth or other aspects of wealth across these groups. Such classificatory information is generally not available from other sources.

14. Nevertheless, other data sources can play an important role in the collection of wealth data. The main challenge to data quality in household surveys comes from the response process. Data can be biased by non-response and misreporting, particularly for sensitive or conceptually complicated topics. For some items, households may not have ready access to the required information. More generally, there is a trade-off between perceived response burden and the amount of data collected. Other data sources can assist in addressing these problems.

15. Administrative data sources and private data bases, such as those of financial institutions, may be used, with survey respondent authorisation, to obtain details about certain assets of a respondent household. More general information, such as prices from a database of recent real estate sales, may be used to estimate the approximate current value of a household's real estate, or price indexes might be used to index the historic cost of an asset. The valuation of some assets, such as entitlements in a defined benefit pension fund, are conceptually complex and need to be estimated by the data collection agency using relevant information, some of which may be available from the respondent household and some of which may have to be obtained from elsewhere.

16. The report provides guidelines on how to conduct wealth surveys and on how to address issues likely to be faced when measuring individual asset and liability components.

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<sup>2</sup> The OECD Guidelines recommend that household liabilities should be valued at the amount outstanding at a certain point in time, that overnight deposits should be valued at their nominal (face) value, and that deposits redeemable at notice should be valued as the present value of the amount outstanding if notice of redemption were given today.

17. Generally, two types of analysis will be produced from a wealth survey – those oriented to a general audience and the more in-depth analysis of interest to academics or policy makers. The more general analysis is often made available at the time of the initial release of the wealth dataset, in order to publicise the release and provide the key highlights. In-depth analysis usually takes more time and is often conducted by more sophisticated users once the data is released by the organisation who conducted the survey. These analyses will be produced by a variety of users in various organisations and may be made available to the general public depending on the mandate of the individual or group sponsoring the analysis.

18. Data tables are one way to make a variety of data available to users who may not have the skills, resources or data access required to produce their own output from the micro-data file of wealth data. Often the tabulated data are produced in a publication or in an on-line database to allow users to browse the data tables and chose those statistics that are of interest to them. This is a way of providing broad access to a wide variety of data to a large number of users.

19. Data tables may include a number of analytic measures, such as basic means and medians, and a variety of distributional indicators such as Gini coefficients. When looking at the overall distribution of wealth, equivalised estimates should be considered because they recognise that larger households need more resources than smaller households to achieve the same level of economic well-being. However, there is no general agreement on the most appropriate way of equivalising household wealth estimates.

20. A life-cycle perspective is particularly important when analysing wealth data. Young individuals at the beginning of their working careers tend to have low (or negative) levels of wealth. As they age, wealth accumulation is increased through savings and higher income, and a stock is created that can be drawn upon during retirement. As a result, older households, near retirement, are expected to have wealth levels close to the maximum of their life-time wealth. As they enter retirement, individuals begin decumulation and use up at least some of their savings in order to supplement their income and maintain their desired level of consumption. At some point during their life, inheritance may be passed on to them providing a sudden large increase in their stock of wealth.

21. Some users will prefer to conduct their own analysis of the wealth data. The main challenge for the organisation that has produced the wealth data is making the data files available, while still ensuring the confidentiality of the individual survey respondents. Often survey organisations will need to provide researchers with various ways to access the individual records, for example produce two versions of the same dataset – i.e. a general file, suitable for wide distribution and extensively screened to ensure confidentiality, and a more detailed file, which can only be accessed by users in a way that allows the results of analysis to be vetted by the data custodian to ensure confidentiality is not breached.

22. As these guidelines are a new initiative, it is expected that they will be further developed and refined over time. Periodic review will also be necessary to keep them up to date with developments in wealth measurement methodology and analytical needs. Countries are encouraged to “road test” them in their own environments and gain experience with their use. Such experience will be invaluable when it comes to reviewing them at a future date.