New findings about wealth inequality in Switzerland

Avenir Suisse Think Tank Summit
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21st January 2019

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Wealth inequality in Switzerland

- What we know so far (tax data)
- Data sources
- Findings using survey data
- Pension wealth

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Wealth in Switzerland

- Switzerland has highest per capita wealth in the world
- Many top wealth-holders reside in Switzerland
  Density of millionnaires is highest in the world (19,6% of all adults)[1]
- What about wealth inequlality?
  So far: Analysis of tax records

1 Global wealth report 2018

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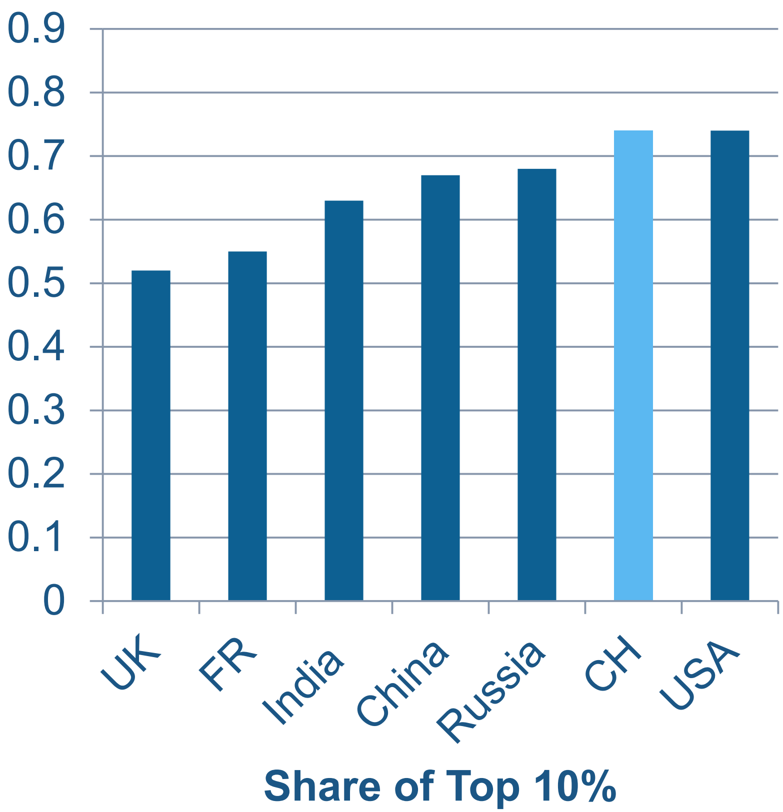
Wealth inequality from a comparative perspective



Source: wid.world, Föllmi & Martinez 2017

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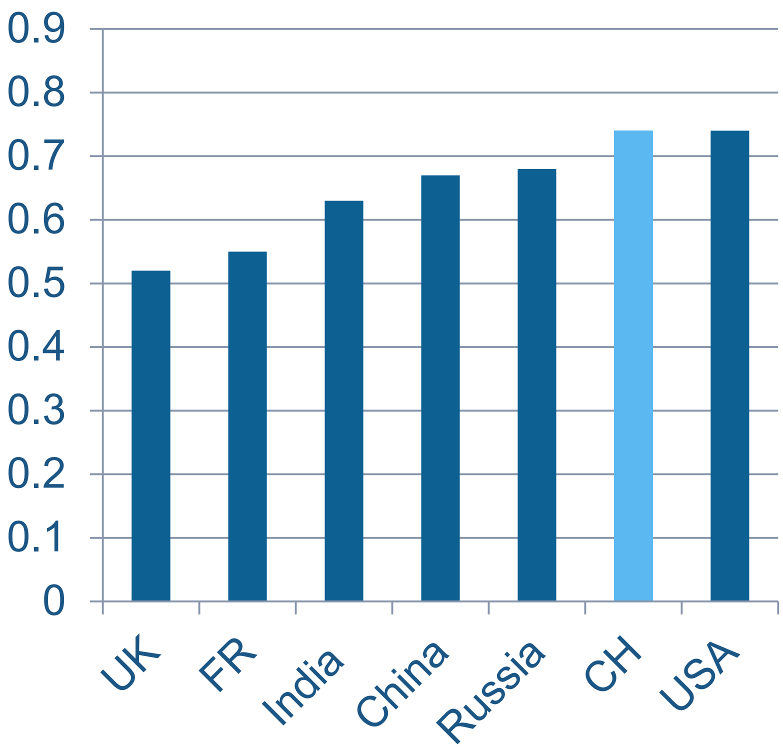
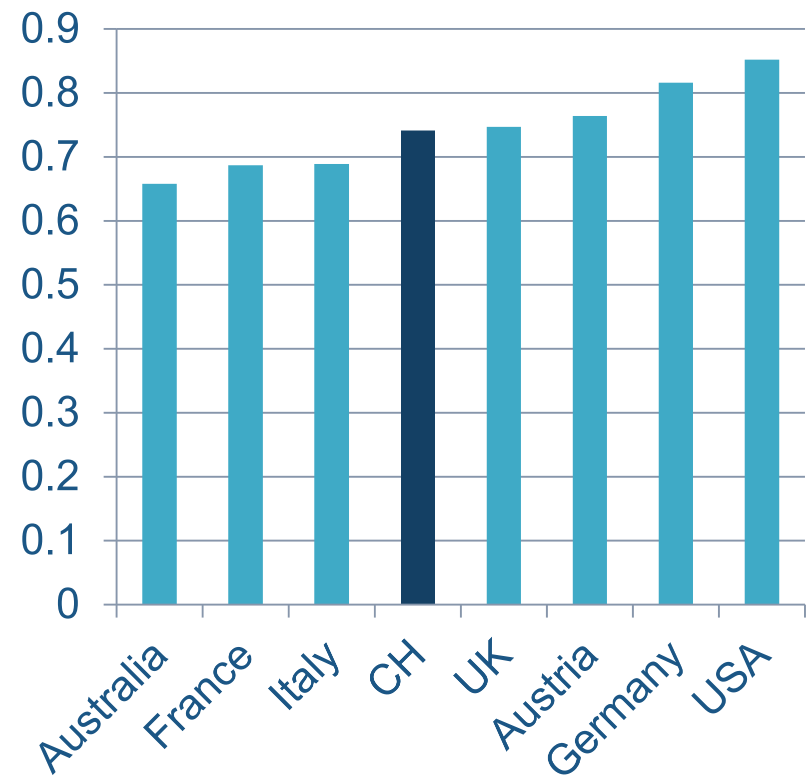
Wealth inequality from a comparative perspective



Share of Top 10%

Source: wid.world, Föllmi & Martinez 2017



Gini

Source: Global wealth report 2018

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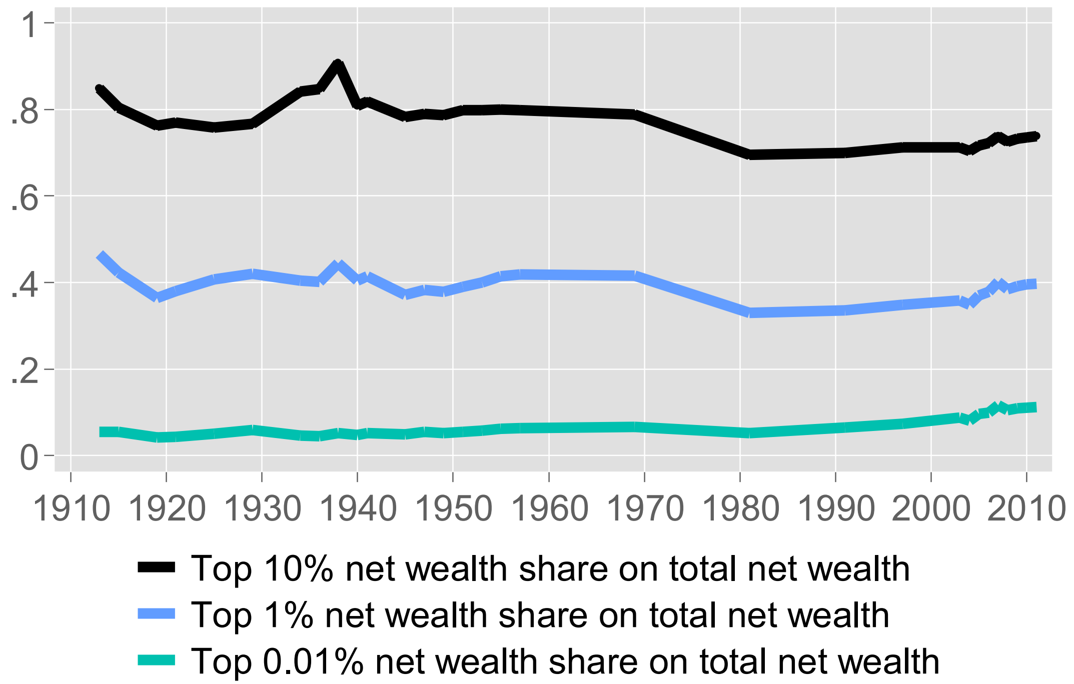
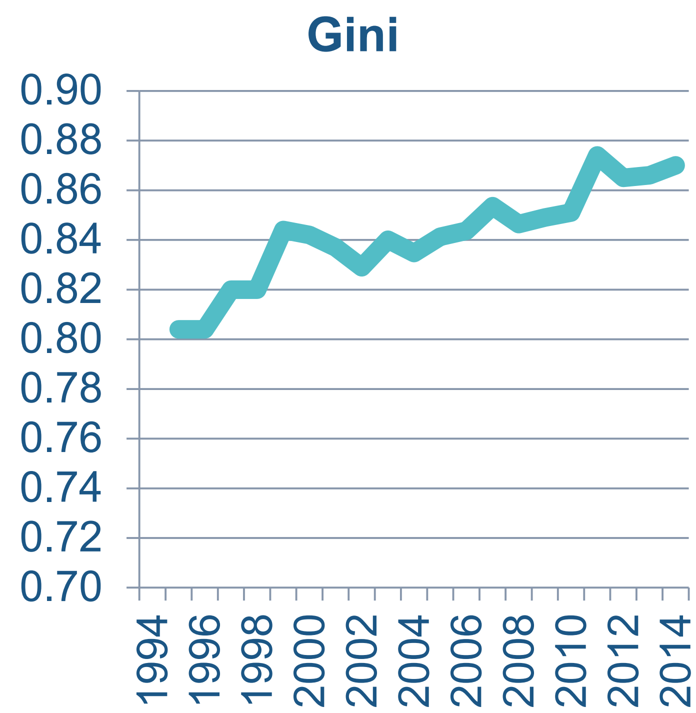
Evolution of wealth inequality over time





Source: Föllmi & Martinez 2017, Swiss Federal Tax administration 2014

Data sources to measure wealth inequality

Tax statistics (wealth tax)	Surveys
+ Full information + Coverage of top wealth (but wealth inequality still underestimated) + Time trends ☹ Breaks in series ☹ Cantonal data or wealth brackets ☹ Lower part of the distribution not well covered ☹ Missing wealth components (3rd pillar, real estate underestimated) ☹ Tax units ☹ Lacking socio-economic and demographic information	+ Wealth components + Socio-economic and demographic characteristics ☹ Coverage of top wealth holders ☹ Non-response

Data corrections/adjustments necessary
Pension wealth (1st & 2nd pillar) missing

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Project
“Wealth distribution in Switzerland and Germany: Evidence from Survey Data”

01
Data quality

02
Pension entitlements

03
Migration and life events

04
Life satisfaction

Comparative project Switzerland (SNF) – Germany (DFG)
Duration: 2017 – 2019

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Surveys with wealth data in Switzerland

SHP 2012, 2016	SILC (2011, 2015)	Share (population 50+)
Net home wealth	Real estate assets Mortgages	Real estate assets Mortgage primary home
Other wealth	Financial wealth 3rd pillar Cars, jewelry, art	Financial wealth 3rd pillar Cars Business wealth Loans

Missing:
-Business wealth
- Loans

Missing:
- Mortgage of other real estate

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Quality of wealth data in CH-SILC

- First round 2011, evaluation by Ecoplan (2014)
- Second round in 2015, good coherence with national accounts

	Real estate assets	Mortgages	Net housing wealth	Financial wealth	Net worth
NA 2014	220,381	89,800	130,581	137,630	288,850
CH-SILC 2015	235,216	79,309	155,907	102,763	264,897
Ratio CH-SILC/NA	**107%**	**88%**	**119%**	**75%**	**92%**

Notes: Preliminary version of wealth data of 07.06.2018.

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Wealth inequality using survey data

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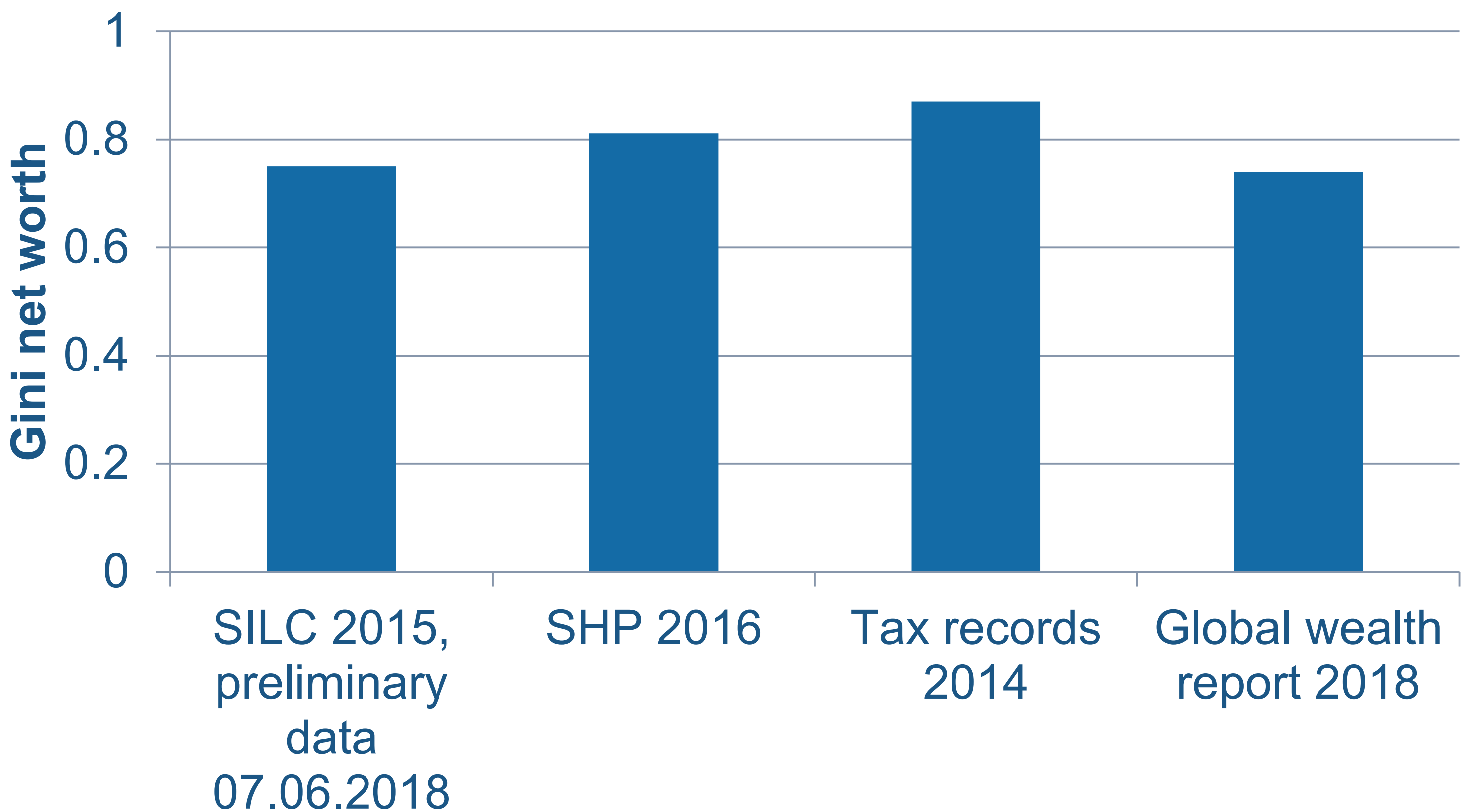
Wealth inequality in Switzerland by data source



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Why should we consider pension wealth?

- Better comparability of wealth between different groups
- Better compariability between countries
- If we ignore pension wealth, we overestimate wealth inequality
- Important role for various wealth functions

	Financial wealth	1st pillar	2nd pillar	3rd pillar
Insurance	✓	(✓)	(✓)	(✓)
Income	✓	(✓)	(✓)	(✓)
Utility	✓		(✓)	(✓)
Inheritance	✓	(✓)	(✓)	✓
Social status	✓			
Power	✓			

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Estimation of augmented wealth

$\left.\begin{array}{l}\text{Real estate, mortgages}\\ \text{Bank accounts, bonds, shares}\\ \text{Own business (not measured in SILC 2015)}\\ \text{Loans (not measured in SILC 2015)}\\ \text{Car, Jewellery, Art}\\ \text{3}^{\text{rd}}\text{ pillar}\end{array}\right\}$ net worth

Second pillar entitlements (occupational pension)

First pillar entitlements (social security pension)

(all of the above) augmented wealth

Accrual method to estimate entitlements

- The pension benefit that individuals would receive from current scheme at retirement time
(no additional benefits between the current time and retirement)

$$PV_p = \sum_{t=0}^{T-a} pension_{t'}^{p} \times s_{a,t} \times \frac{1}{(1+i)^t}$$

$s_{a,t}$ probability of a person of age a in year 2015 surviving until year t;

$T - a$ remaining maximum lifespan differentiated by sex and birth cohort

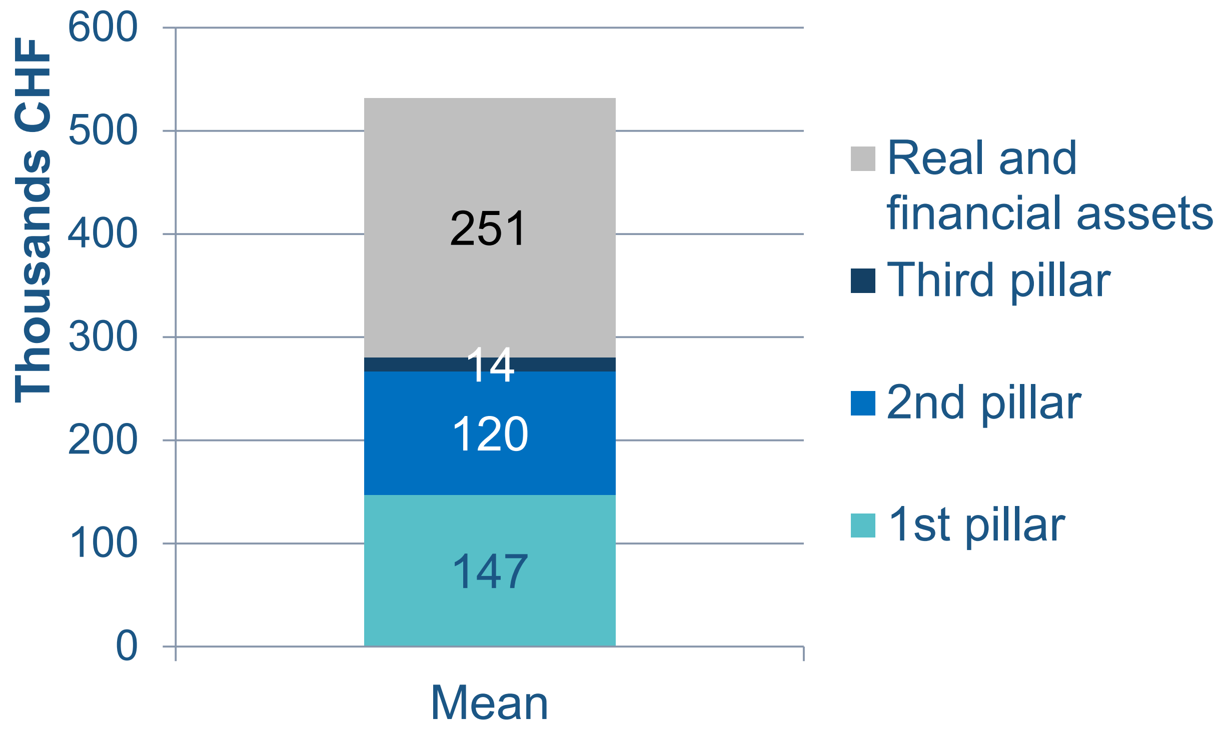
I constant discount rate (i=2%) to derive present value of the benefit at retirement (PV)

Measurement of pension entitlements in Switzerland: The present value approach

First pillar retired	Second pillar retired
Pension stream from observed pension	Pension stream from observed pension (0 for capital withdrawal)

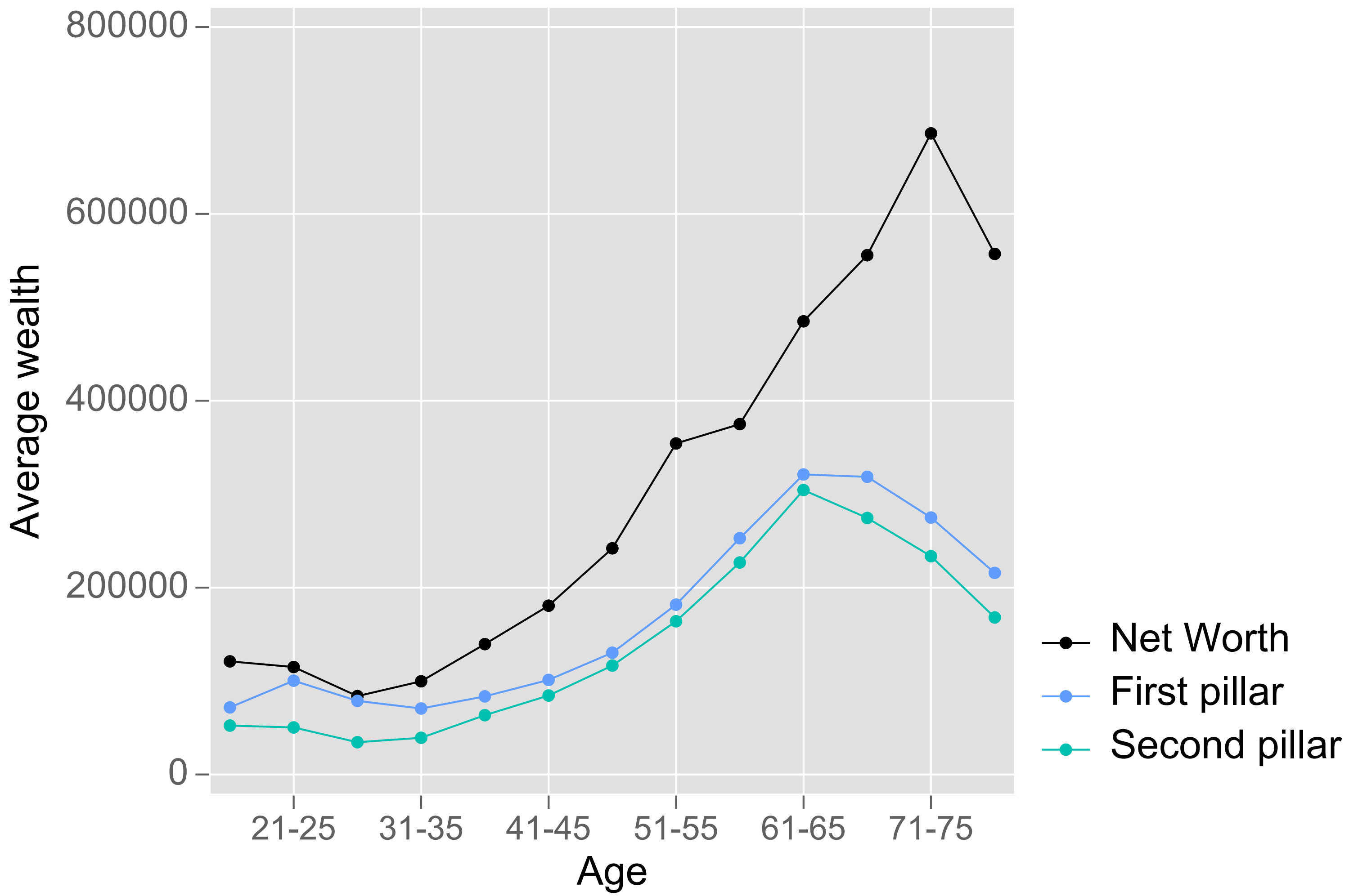
First pillar non-retired	Second pillar non-retired
1. Estimate pension from - employment income history, - employment income of married partner during marriage, - birth year of children 2. Pension stream	Estimate accumulated capital from employment income history

Augmented wealth



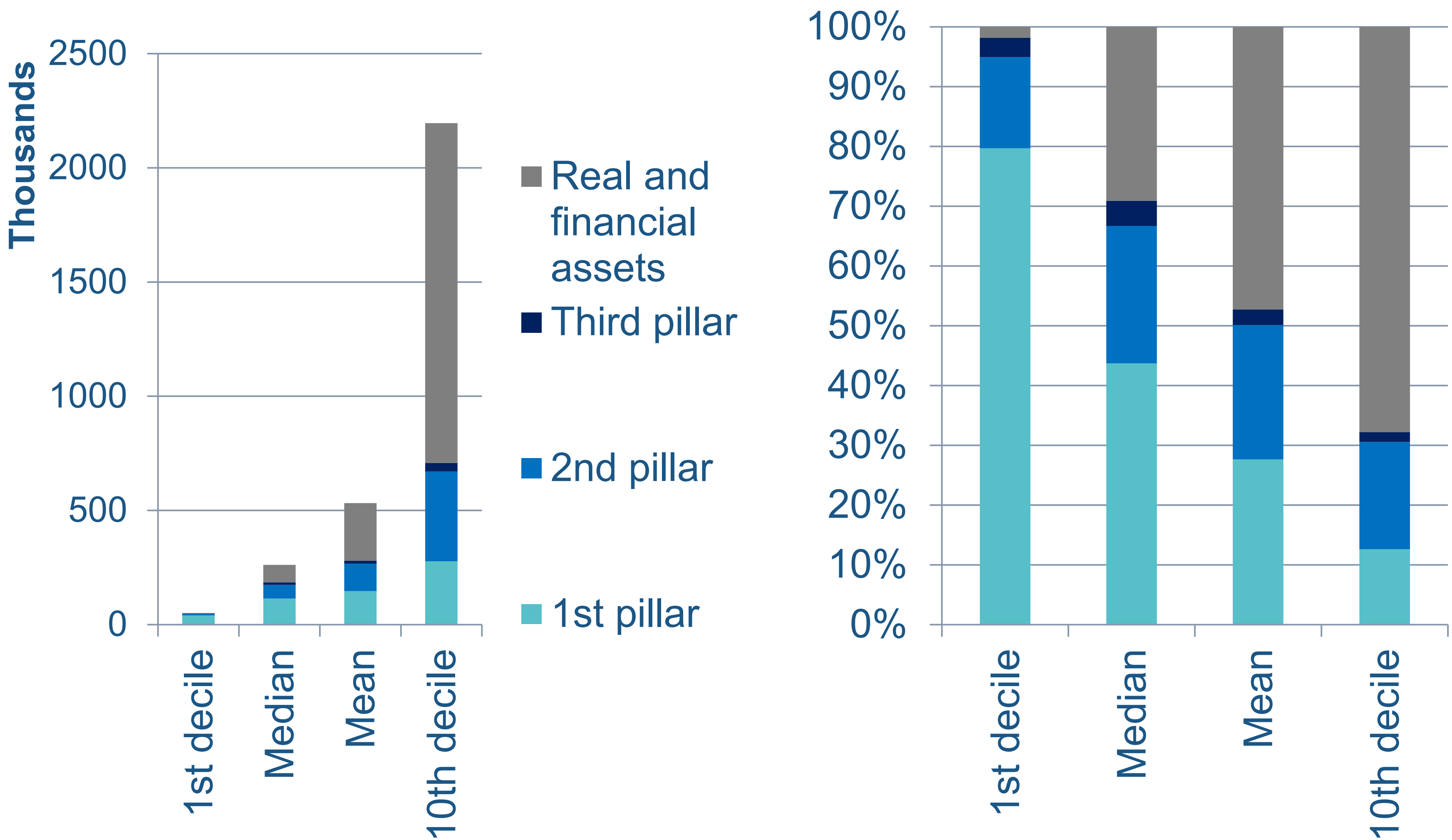
SILC 2015, Preliminary version of wealth data of 07.06.2018.

Wealth by age group



SILC 2015, Preliminary version of wealth data of 07.06.2018.

Augmented wealth: Portfolio



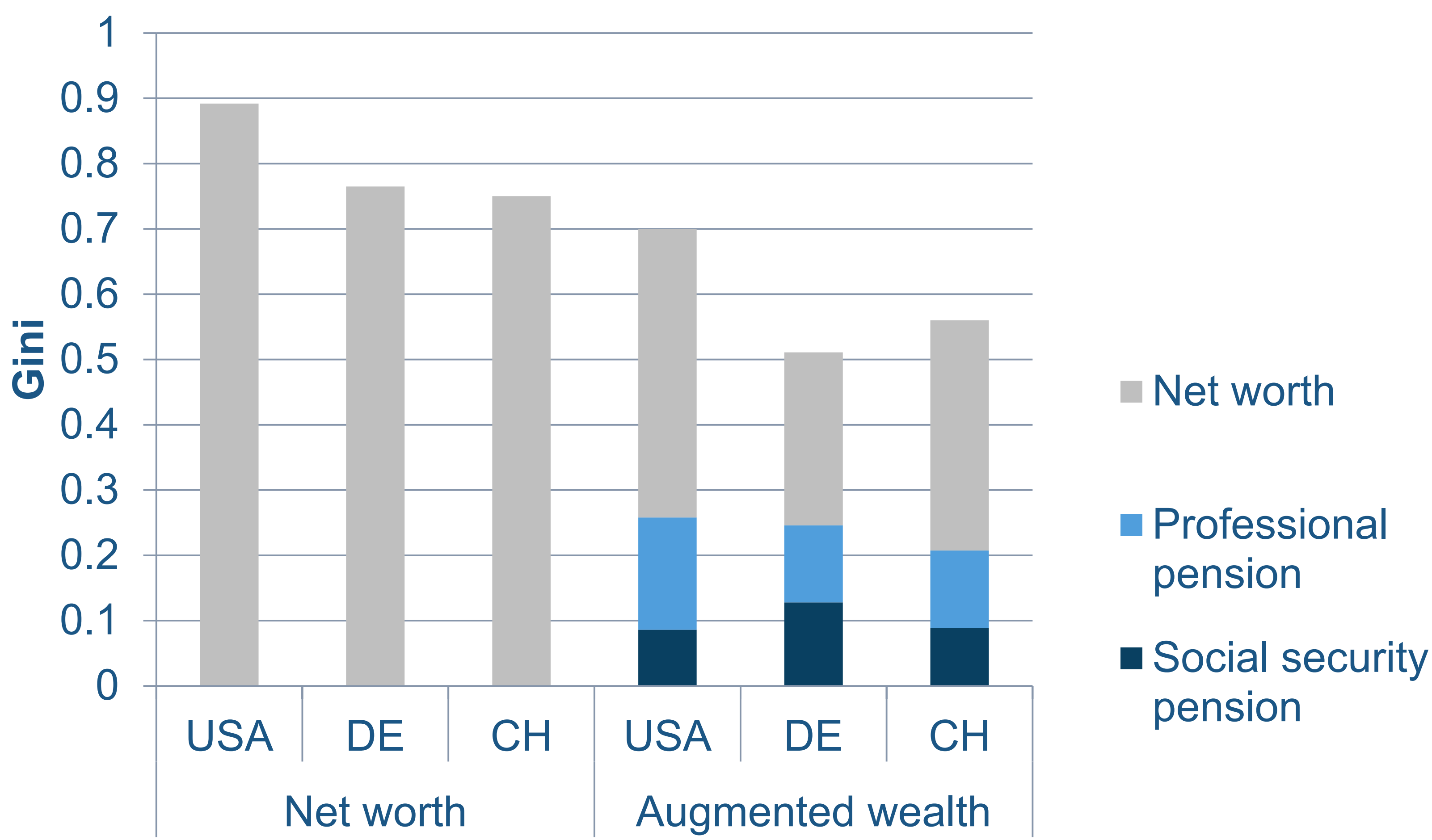
Inequality of augmented wealth

- Notes: Preliminary version of wealth data of 07.06.2018.

	Mean	% augmented wealth	Gini
Net worth	265.181	49%	.75
1st pillar	147.054	28%	.39
2nd pillar	119.666	23%	.61
Augmented wealth (1st and 2nd pillar)	528.943	100%	.56
Augmented wealth (2nd pillar only)	381.888		.66

Do countries become more comparable?

Inequality decomposition



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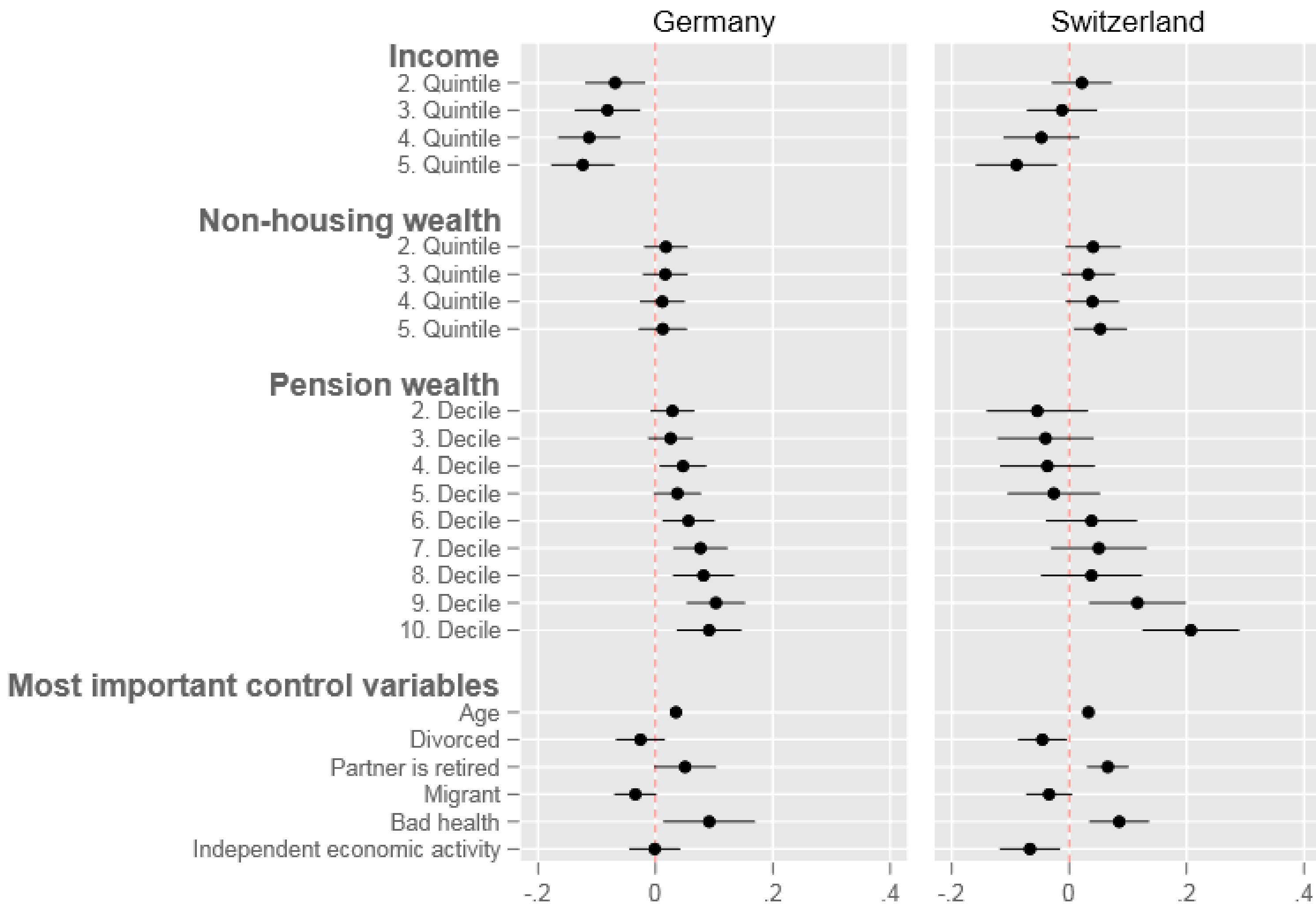
Financial resources and early retirement

Marginal effects (predicted probabilities)



Conclusions

- Survey data as complements to administrative data
  (good data quality for the lower 99%)
- Wealth inequality is lower for augmented wealth than for net worth
  But wealth inequality is nevertheless high (much higher than for income)
  - Large redistributive effect of the first pillar
  - Weak positive correlation between pension wealth and net worth
- Pension wealth does not explain differences between countries (wealth gap and inequality)
- Wealth inequality has important social consequences
  (educational attainment, possibility of early retirement, political power)

Thank you!

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References

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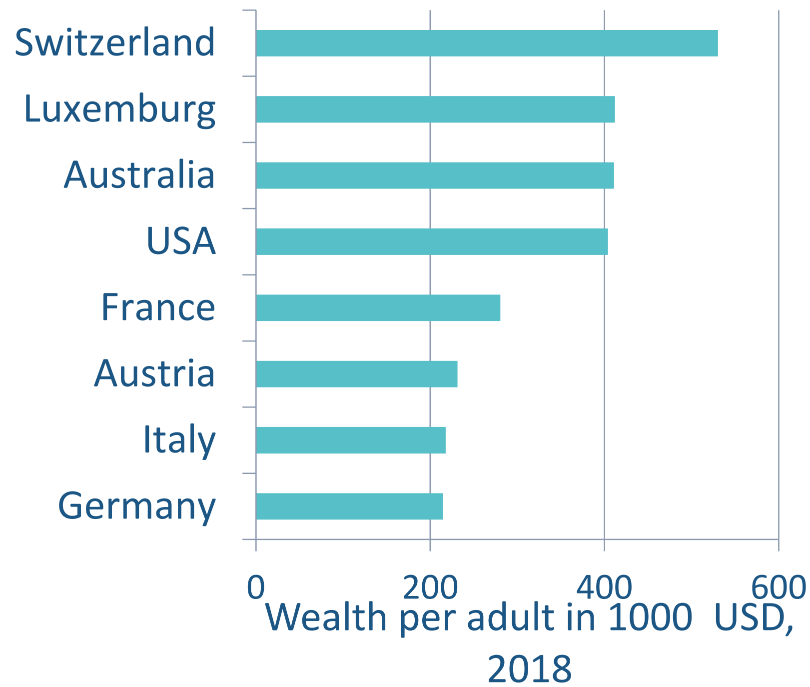
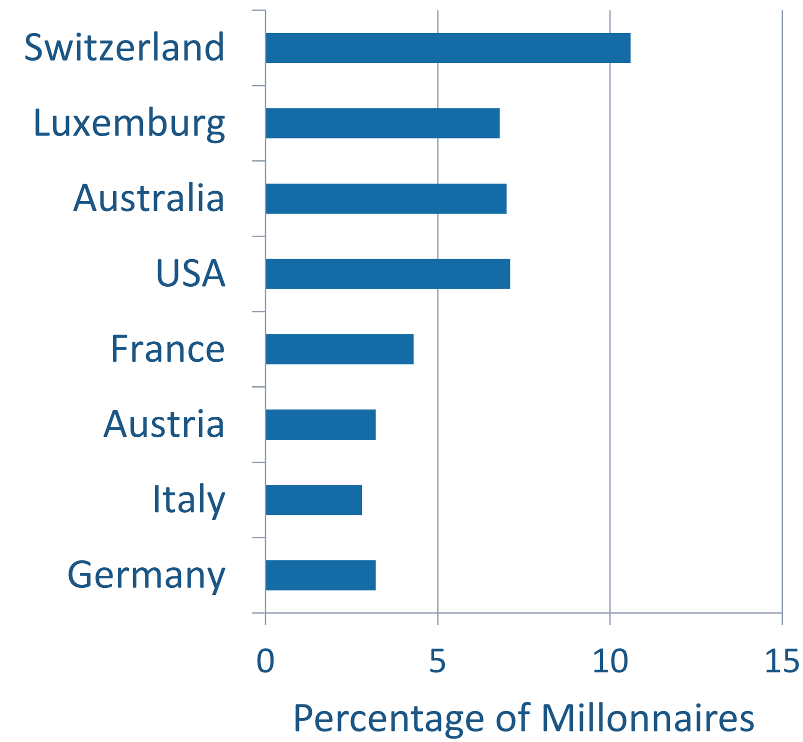
Wealth in Switzerland

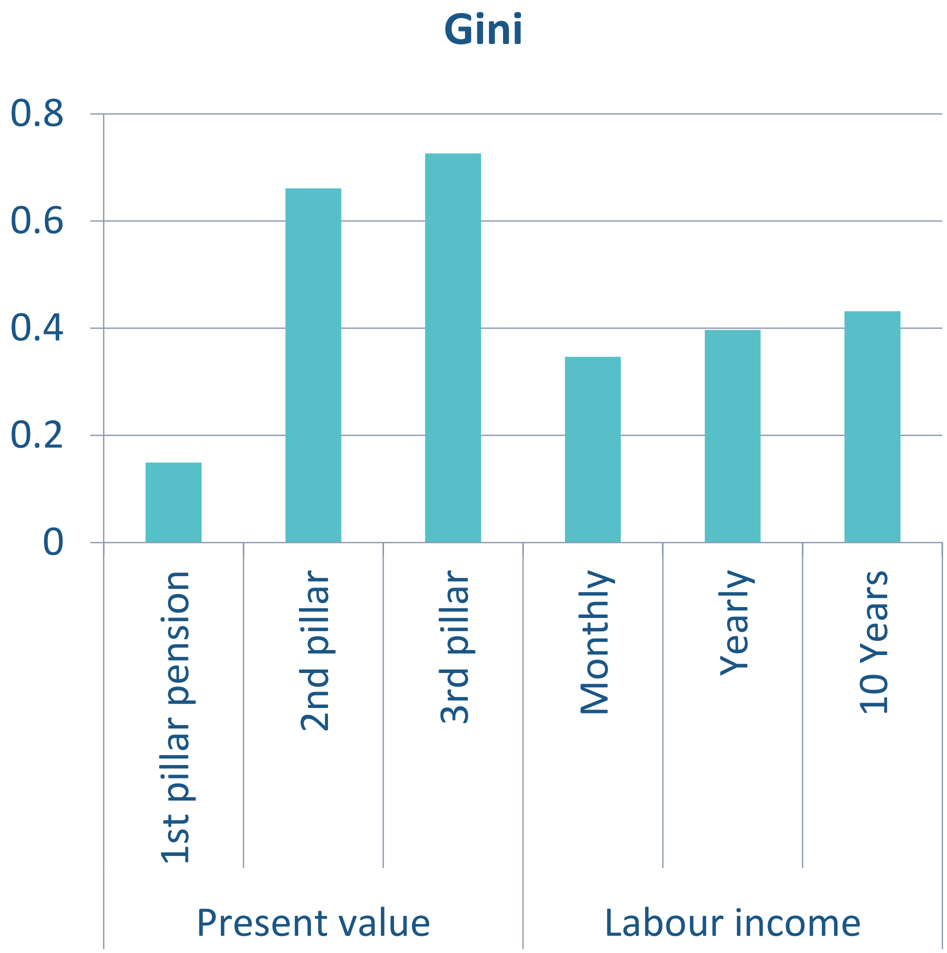
- Switzerland has the highest average wealth levels
- And highest share of Millionnaires





Source: Credit Suisse wealth databook

Inequality of pension entitlements and labour income



Tax records in Switzerland

Source: Swiss Federal Tax administration

Classes de fortune nette en 1'000 francs	Nombre de contribuables
0	1'289'034
0 - 50	1'589'149
50 - 100	490'868
100 - 200	518'306
200 - 500	646'857
500 - 1'000	337'568
1'000 - 2'000	166'665
2'000 - 3'000	46'778
3'000 - 5'000	32'190
5'000-10'000	19'867
10'000 et plus	13'246
T o t a l	5'150'529

Data sources used to estimate pension entitlements

SILC 2015 CH

Wealth module,
Socio-demographic information

**CdC registry (AVS)
:**

Earnings by calendar year since 1981 (lifetime earnings)

Population registry (Statpop & BEVNAT):

Date of marriage,
date of divorce,
birth year of children

Linkage by AVS number, date of birth, marriage date…

In addition:
Life expectancy tables to estimate pension stream