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DATA CENTER  
*in Luxembourg*

# Assets and income integration for poverty measurement

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# Motivation (1)

- ❑ In developed countries, income is mostly used to define poverty, while in developing countries, it is consumption.
- ❑ Thus, income and consumption have been good proxies for determining and assessing poverty and guiding policy actions.
- ❑ But, income and consumption alone do not fully constitute the well-being of households.



# Motivation (2)

- ❑ Household material well-being is also determined by the possession of wealth, specifically assets that contribute to living standards and can be sold out in case of income shortfall or unexpected events.
- ❑ According to Brandolini, Magri, and Smeeding (2010), the role of wealth in the definition of poverty is twofold:
  - wealth affects current well-being
  - *the possession of assets is a major determinant of the longer-term prospects of households and individuals*
- ❑ Comparability of wealth data across countries and over time from the Luxembourg Wealth Study (LWS) Database allows empirical implementation of assets into poverty indicators.



# Data source and country coverage

## Luxembourg Wealth Study (LWS) Database:

- **Austria:** 2011 2014 2017
- **Canada:** 1999 2005 2012 2016
- **Estonia:** 2013 2017
- **Finland:** 2009 2013 2016
- **Germany:** 2002 2007 2012 2017
- **Greece:** 2009 2014 2018
- **Italy:** 1995 2000 2004 2008 2010 2014 2016
- **Luxembourg:** 2010 2014 2018
- **Norway:** 2010 2013 2016
- **Slovakia:** 2010 2014 2017
- **Slovenia:** 2014 2017
- **Spain:** 2002 2005 2008 2011 2014 2017
- **United Kingdom:** 2007 2009 2011 2013 2015 2017
- **United States:** 1995 1998 2001 2004 2007 2010 2013 2016 2019



# Definitions

- ❑ Relative Poverty Rate at 50% of the median is the percentage of the population whose income falls below the poverty line defined as half of the median of gross household income.
- ❑ Financial Assets refer to the market value of financial investments (bonds and other debt securities, stocks and other equity, investment funds and alternative investments), deposit accounts, cash, and other financial assets owned by household members.



# Methodological remarks (1)

- ❑ We do not utilize pension assets and other long-term savings (life insurance) since these cannot be easily cash-out and used during hardship times.
- ❑ We do not top- and bottom-code the financial assets and we equalise by household size.
- ❑ We show figures for entire population and two types of households:
  - *Couples with children*
  - *Single parents*



# Methodological remarks (2)

We employ 3 measures, that interlink financial assets and income:

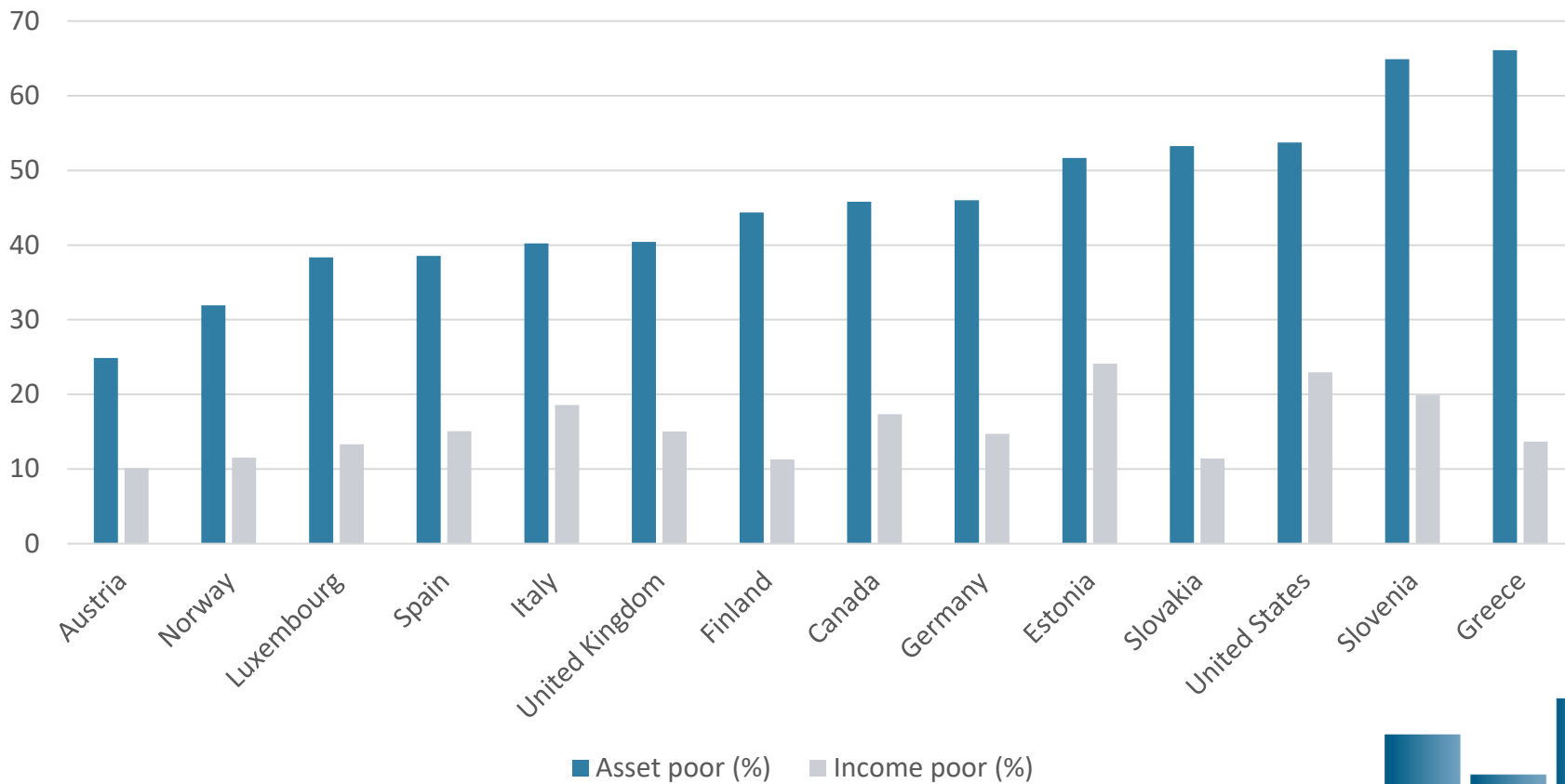
- ❑ (1 & 2) Households whose equivalised gross household income falls below the relative income poverty line at 50% of the median
  - ... and (1) who do not have sufficient financial assets to cover consumption for at least 3 months: *Income and Asset Poor*
  - ... and (2) who have sufficient financial assets to cover consumption for at least 3 months: *Income Poor, but not Asset Poor*
  
- ❑ (3) Households whose equivalised gross household income does not fall below the relative income poverty line at 50% of the median ...
  - ... but who do not have sufficient financial assets to cover consumption for at least 3 months: *Not Income Poor, Asset Poor*



# Income poverty and financial asset poverty for total population (measured separately)

source: Luxembourg Wealth Study (LWS) Database

## Income poverty and financial asset poverty (population)

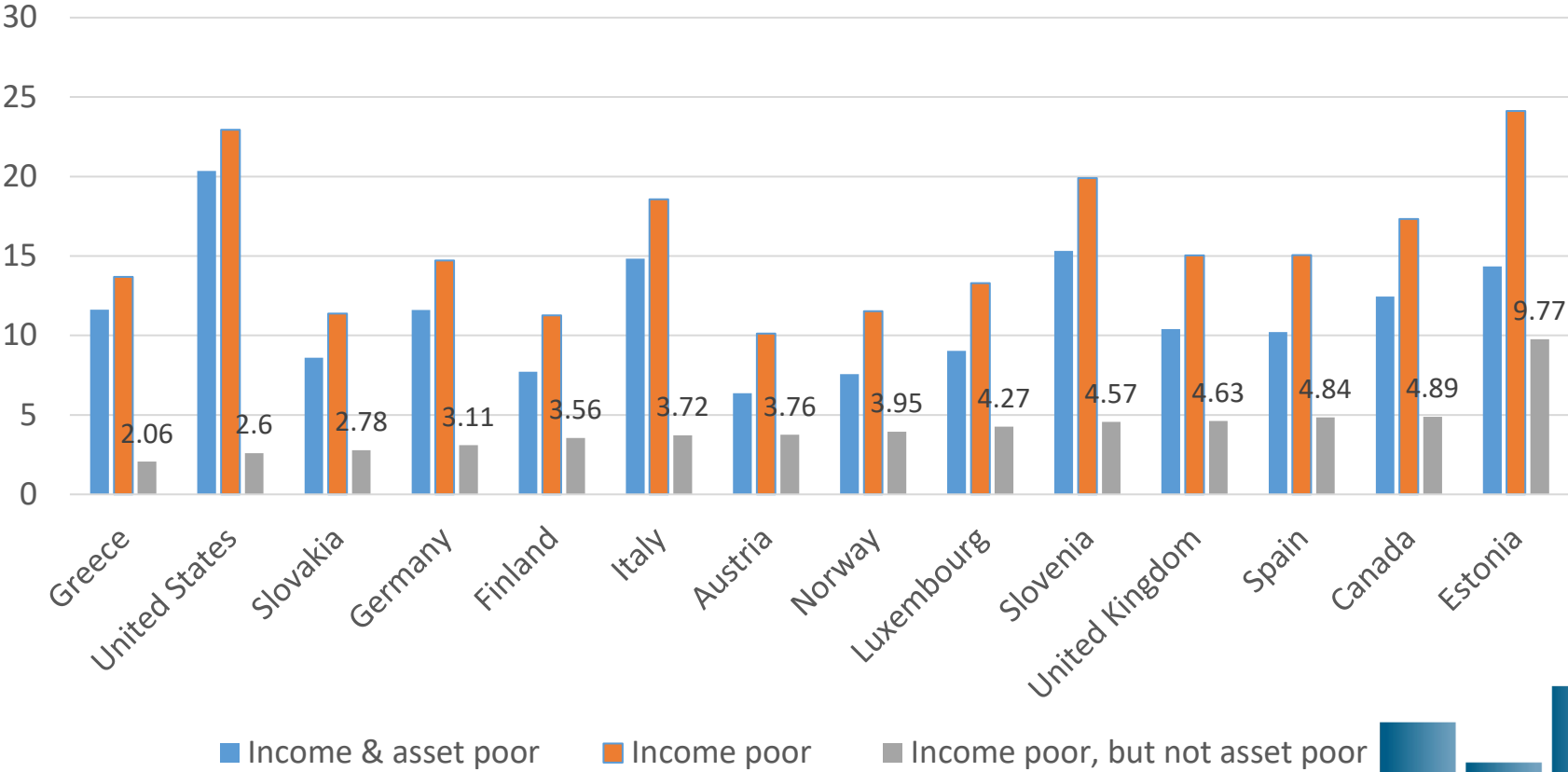




# Income and Asset Poor

source: Luxembourg Wealth Study (LWS) Database

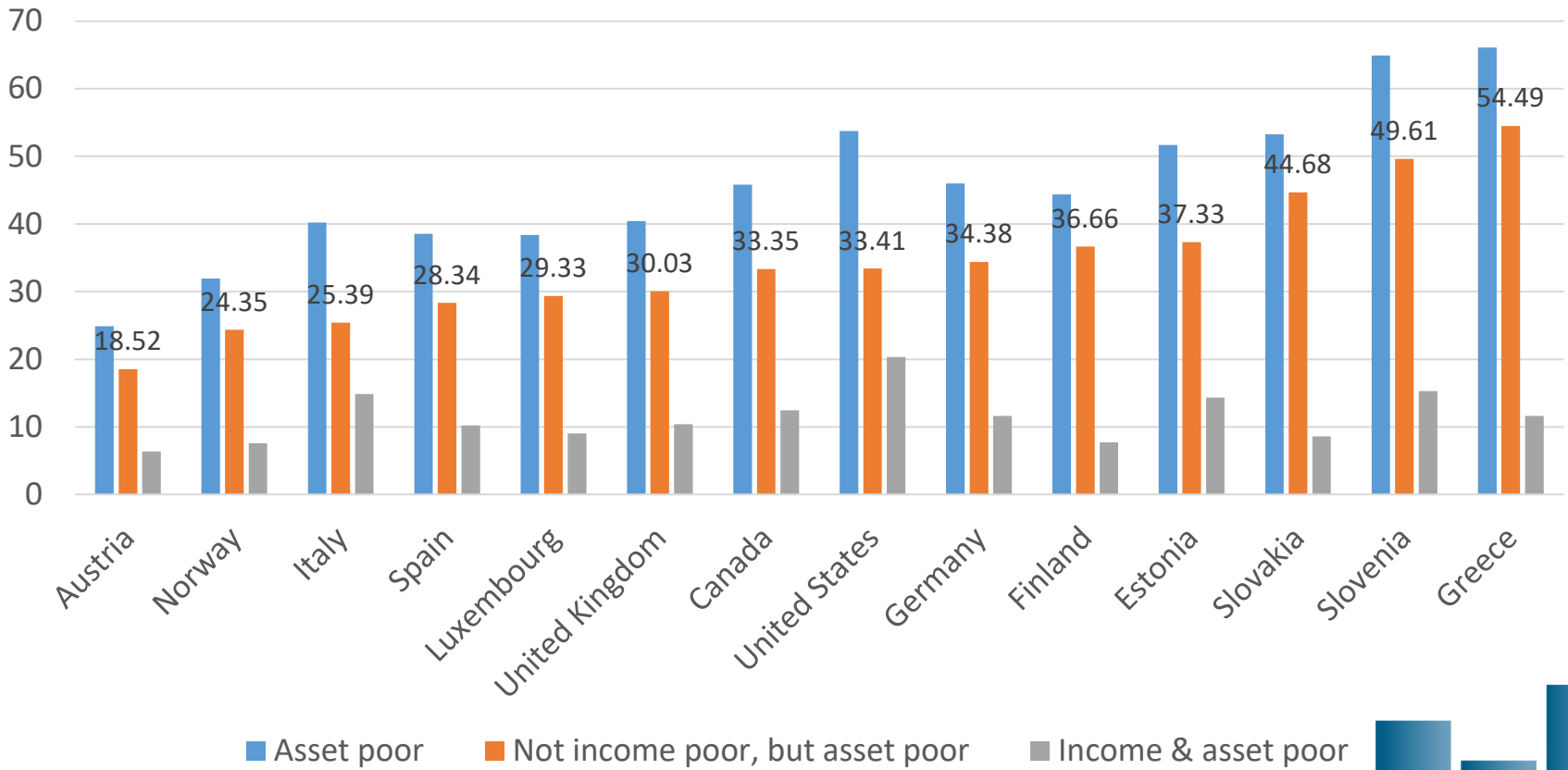
## Focus: Income and Asset Poor



# Not Income Poor, but Asset Poor

source: Luxembourg Wealth Study (LWS) Database

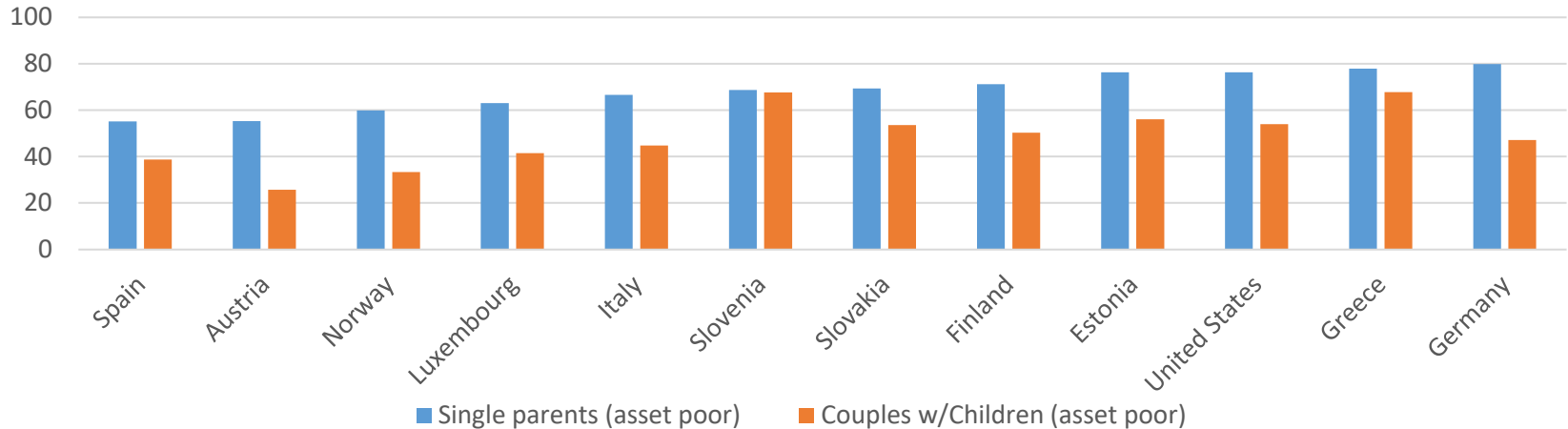
## Focus: Not Income, but Asset Poor



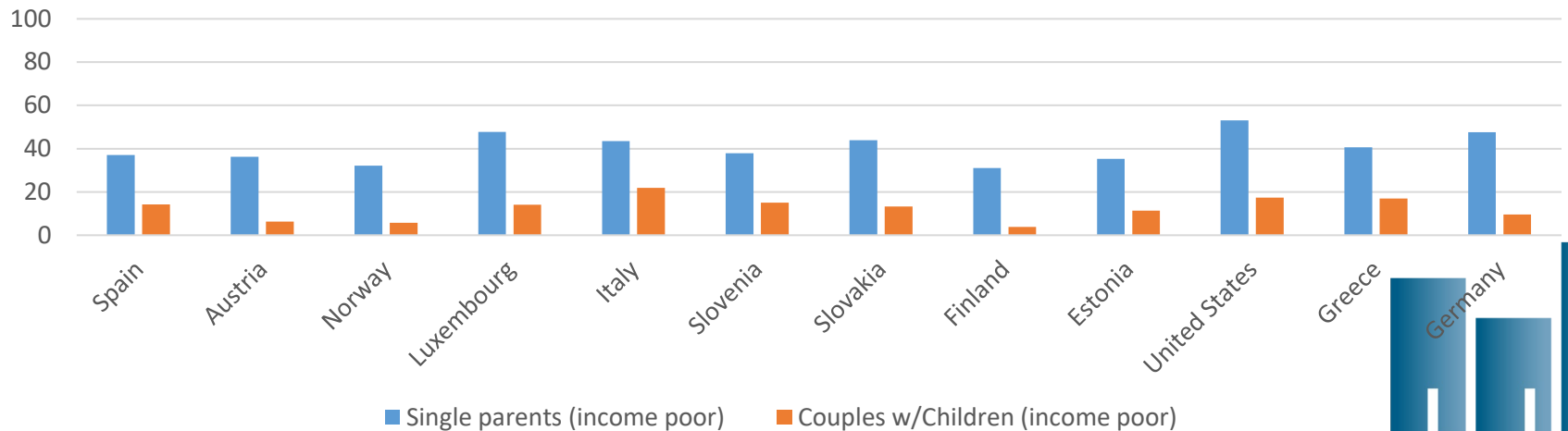
# Income poverty and asset poverty by household type (measured separately)

source: Luxembourg Wealth Study (LWS) Database

## Financial asset poverty



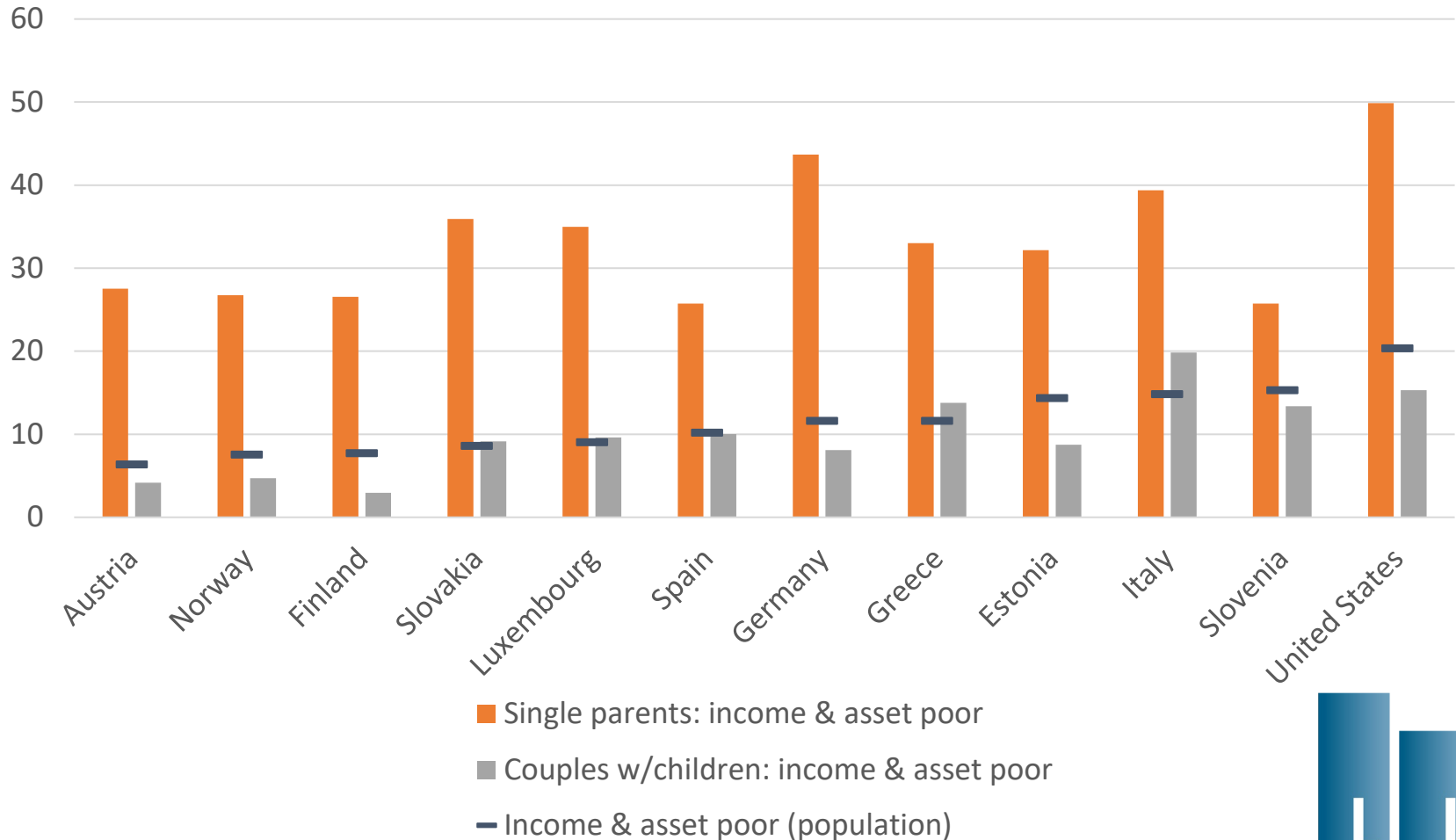
## Income poverty



# Income and asset poverty by household type

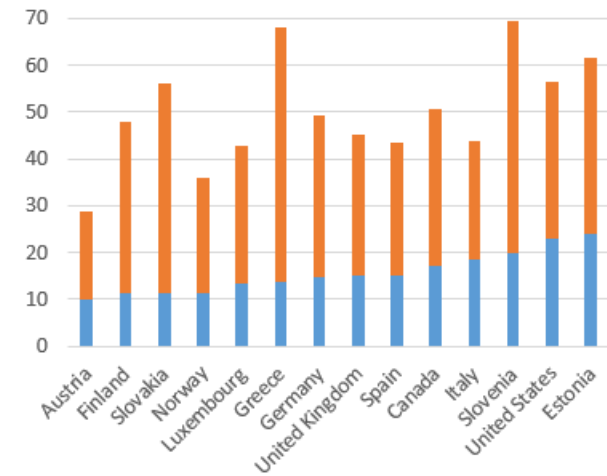
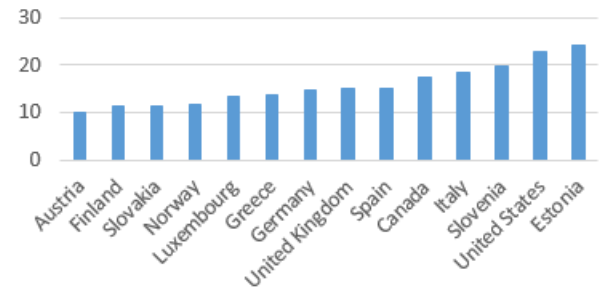
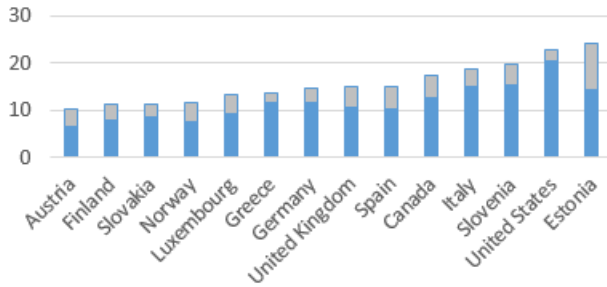
source: Luxembourg Wealth Study (LWS) Database

## Income and Asset Poor by Household Type

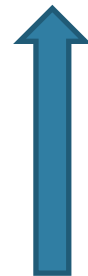


# The ranking of countries: Combining income and asset poverty

source: Luxembourg Wealth Study (LWS) Database

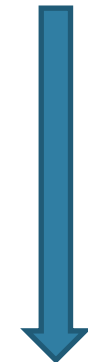


Income poor **AND** asset poor



reduced by 'vulnerable' group 2  
*income poor, but not asset poor*

Income poor



extended by 'vulnerable' group 1  
*asset poor, but not income poor*

Income poor **OR** asset poor



# Conclusions

- ❑ We used wealth household-level data (LWS) harmonized with standardized methods and definitions of assets; this ensures comparable results.
- ❑ Following Brandolini, Magri, and Smeeding (2010), after a slight complement, we showed how financial assets can be integrated into the measure of poverty.
- ❑ We demonstrated that joint income-asset integration better describes the living standards of households than income poverty alone, showing not only a more considerable heterogeneity between countries, but also shifting the ranking of countries in terms of percentage of the poor.
- ❑ Analyzing income together with assets might have policy interest. For instance, policymakers could use income-and-asset poverty measures to assess eligibility for means-tested programs to accomplish the anti-poverty strategy better.



Thank you for your attention  
Any questions are welcome !

