Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Home Affairs FDHA

Swiss Federal Statistical Office FSO
Division Health and Social Affairs

8 June 2020

Poverty measurement integrating wealth

FAQs

Table of contents

1 Purpose of this document 2
2 Why experimental statistics? 2
2.1 What is experimental about these statistics? 2
2.2 Why is the FSO publishing experimental statistics? 2
2.3 Can the statistical results in the discussion paper be quoted? 2
2.4 I would like to see additional analyses. 2
2.5 When can we expect an official publication on poverty including wealth? 2
2.6 Which bodies have been consulted so far? 2
3 Questions on the selected approach (unidimensional versus two-dimensional) 2
3.1 What are the poverty rates with the unidimensional approach? 2
3.2 What are the advantages of the two-dimensional approach? 3
3.3 Would the unidimensional approach not be better suited to the pension age population? 3
3.4 Are the results comparable at cantonal level? 3
3.5 Are the results internationally comparable? 3
4 Questions on operationalisation 3
4.1 How are liquid assets defined? 3
4.2 Why is real estate not incorporated? 4
4.3 What about 2nd pillar assets? 4
4.4 Why are debts hardly mentioned? 4
4.5 Are the reference periods not too short for the population of pension age? 4
4.6 What do the results look like with other wealth components? 4
4.7 What about health insurance premiums? 4
5 Questions on the data 4
5.1 Where can I get the SILC asset data? 4
5.2 What is the quality of the SILC wealth data 2015? 4
5.3 What improvements will the 2020 SILC module bring? 5
5.4 Why doesn't the FSO use tax data? 5
6 Terminology questions 5
6.1 Why is it not called asset poverty? 5
6.2 So what is poverty? 5
6.3 How does the FSO define income poverty? 5

1 Purpose of this document

The discussion paper 'Poverty measurement integrating wealth'[1] has been submitted to interested parties from various organisations since early 2019. This document responds to the most common and most important questions and feedback that the FSO has received.

2 Why experimental statistics?

2.1 What is experimental about these statistics?

Up to now, monetary poverty has been measured purely using income in most countries. The data available on wealth have improved in recent years, so wealth can now increasingly be incorporated in poverty measurement. There is no standardised approach yet, however, which means that the methodology first has to be developed. In this sense, experimental statistics means that the methodology still has scope for improvement and can thus be further developed. In addition, the analyses in the discussion paper are based on experimental data (see 5.2).

2.2 Why is the FSO publishing experimental statistics?

In order to incorporate the needs and feedback of users early on, the FSO has decided to publish its considerations on the topic at an early stage. This is primarily about developing and consolidating the methodology: the aim is to have the methodology ready as soon as data are available with the required level of precision and quality. The transparent process will allow researchers and cantonal bodies to coordinate their own analyses with the FSO standard and thus improve the comparability of results.

2.3 Can the statistical results in the discussion paper be quoted?

No. Reference may only be made to the experimental form of these statistics and results. The experimental analyses were integrated in the publication to show how changes in the method and in the way the approaches are put into operation impact the results. The experimental results primarily serve to test the chosen approach. In this form, they do not fulfil the high quality standards that the Federal Statistical Office usually applies and cannot be used as a basis for planning and management purposes.

2.4 I would like to see additional analyses.

The results primarily serve to test the chosen experimental approach. In this form, they do not fulfil the high quality standards that the Federal Statistical Office usually applies. For this reason, the FSO has not planned to compile any additional analyses for the time being.

2.5 When can we expect an official publication on poverty including wealth?

It is not possible to give a time indication at present. Before a regular indicator on poverty measurement integrating wealth can be published, the methodology first has to be revised and consolidated on the basis of the compiled feedback. This will only be possible after the consultation period has ended (late 2020). The transition to regular statistical production will also only be possible once data are available with the required level of detail and which meet the FSO's quality requirements.

2.6 Which bodies have been consulted so far?

The topic has already been presented at various events and to various bodies, both in Switzerland and internationally: social statistics expert group (November 2018), UNECE's Expert Meeting on the Measurement of Poverty and Social Exclusion (December 2018), national anti-poverty platform advisory group (June 2019), Swiss Employers Association (September 2019), round table discussion with experts from the science community and academia (October 2019), Swiss Trade Union Confederation (February 2020). Once the topic is published on the experimental website, interested members of the public should also have the opportunity to submit feedback.

3 Questions on the selected approach (unidimensional versus two-dimensional)

3.1 What are the poverty rates with the unidimensional approach?

As wealth data with the requisite quality are not yet available every year, the unidimensional approach is not currently a priority for official statistics. The discussion paper does not contain any empirical assessments on the unidimensional approach as it can also be defined and operationalised differently. For example, upper limits for wealth and/or percentages for the annuitisation of wealth would need to be determined, and decisions would have to be made regarding which wealth components should be incorporated. This would involve a whole series of sensitivity analyses.

[1] The discussion paper is available here: www.experimental.bfs.admin.ch/en

The literature contains a multitude of studies that compare the unidimensional and two-dimensional approach. Irrespective of how the two approaches are put into operation, it is clear that the unidimensional approach leads to higher poverty rates than the two-dimensional approach. Ravazzini et al. (2017) drew the same conclusion on the basis of SILC 2015.[2]

3.2 What are the advantages of the two-dimensional approach?

In the two-dimensional approach, the time series remain unchanged: the existing statistics are not revised, but are supplemented with additional information. Annually-updated information on poverty could therefore still be published. As the OECD and Eurostat use the same approach, internationally comparable results are possible.

Another advantage of the two-dimensional approach concerns the possibility of considering income and wealth both separately and in a combined manner. By selecting different reference time periods, the indicator can be adapted to the relevant question in a targeted manner. In the unidimensional approach, all information is aggregated in one indicator. It is thus less transparent than the two-dimensional approach.

3.3 Would the unidimensional approach not be better suited to the pension age population?

Compared to working-age people, retired people have significantly fewer opportunities to improve their income situation. For this population group, it is less about bridging a short-term drop in income, and more about securing needs in the longer term. This can be achieved by further extending the reference period to several years (see 4.5), or applying the unidimensional approach.

In the case of even longer reference periods, the types of assets to be incorporated (e.g. real estate) would have to be reassessed. It could therefore be appropriate to analyse the different age groups separately. If need be, more precise age categories could also be used for the pension age population as e.g. the need for care and thus the necessary funds to pay for it increase with age.

3.4 Are the results comparable at cantonal level?

Certain cantons already publish poverty reports on the basis of tax data and therefore already have information on household wealth. In general, they take a unidimensional approach. However, this is implemented differently, either through the use of an upper limit on assets (e.g. Lucerne), asset depletion (e.g. Vaud), or a combination of the two (e.g. Bern).[3]

To be able to obtain comparable results on poverty taking into account wealth, the relevant stakeholders (FSO, researchers, cantonal authorities) must first agree on a common standard. This could be achieved through a methodology that is as broadly supported as possible and which is also made available to cantons for their own poverty reports.

3.5 Are the results internationally comparable?

International comparability is achieved by applying international concepts. The proposed methodology is geared to recommendations and existing analyses by the OECD, the UN and Eurostat and is thus in principle internationally comparable. For example, the OECD already discloses relevant analyses for 28 countries and Eurostat for 15 countries (both excluding Switzerland).

4 Questions on operationalisation

4.1 How are liquid assets defined?

In the discussion paper, liquid assets are defined in line with international recommendations as financial assets (OECD 2013). In SILC, this corresponds to bank or postal account balances as well as assets in the form of equities, bonds and other securities. Deviating from this, assets that can be sold quickly could be taken into account, but they would have to be recorded sufficiently accurately (which is not the case in SILC). But this would also reduce international comparability.

Alternatively, it can be argued that equities and bonds cannot always be sold at short notice without a loss of value and therefore do not constitute liquid assets per se. However, in SILC it is not possible to distinguish between different types of securities, which is why securities are classified overall as liquid in accordance with international recommendations.

[2] Cf. https://www.unece.org/fileadmin/DAM/stats/documents/ece/ces/ge.15/2017/Expert-meeting-Montenegro-2017/Switzerland_paper_formatted.pdf

[3] Lucerne: households with assets of over CHF 4,000 per person or CHF 10,000 per household are not considered poor (regardless of income); Vaud: asset depletion of 1/15 (6.66%) of net assets; Bern: asset depletion of 5%, in addition, households with assets of CHF 120,000 or more (CHF 150,000 for married couples) are not considered poor.

4.2 Why is real estate not incorporated?

When it comes to bridging losses of income in the short term, selling real estate is usually not possible or involves significant losses in value. In addition, home owners often have lower housing costs than tenants. Even to receive social assistance or supplementary benefits, people do not necessarily have to sell their own homes. In SILC 2015, it is not possible to distinguish owner-occupied residential property from other real estate. This will be possible in the 2020 module. As a basic rule the longer the reference period selected, the more real estate should be incorporated.

4.3 What about 2nd pillar assets?

Paid-out pension fund assets are no longer tied and as such are considered as reserves. Pension assets that are still tied are not incorporated, however, as they are not available to bridge financial bottlenecks. In addition, tied assets are not recorded in SILC or in tax data and would have to be estimated using other information.

4.4 Why are debts hardly mentioned?

Debts are only addressed as an aside in the discussion paper as only mortgage debts are included in SILC 2015. Internationally it is undisputed that all debts must be deducted from net assets. The liquid asset figures are currently gross data. The role and potential incorporation of certain types of debt will be added later.

In connection with the integration of wealth in poverty measurement, no specific indicator on debts is planned as the FSO already publishes indicators on household indebtedness.[4]

4.5 Are the reference periods not too short for the population of pension age?

It was suggested that much longer reference periods should be selected for the pension age population than for the working age population. Retired people have significantly fewer opportunities to improve their income situation and therefore require bigger reserves than those who are in gainful employment. In the case of even longer reference periods, the types of assets to be incorporated (e.g. real estate) would have to be reassessed. It could therefore be appropriate to analyse the different age groups separately. Depending on case numbers, more precise age categories could be used for the retired population as the need for care and thus the necessary funds to pay for it increase with age.

4.6 What do the results look like with other wealth components?

The proportion of people without reserves is higher the narrower the notion of wealth and the longer the reference period used. However, the at-risk groups remain quite stable in all these variants and do not differ greatly from those for income poverty (except for the population of pension age population). The conclusions therefore remain relatively robust even though the rates change.

4.7 What about health insurance premiums?

Health insurance premiums for compulsory basic insurance are a key component of Swiss household budgets. As income poverty involves comparing the disposable household income to the poverty line (absolute poverty concept), health insurance premiums are not explicitly included as they are already deducted from disposable income as compulsory expenditure. In absolute terms, this does not make a difference. If the poverty line is compared with wealth, however, premiums have to be included in the threshold. This is not yet the case in the analyses in the discussion paper, but in future they will be included. According to additional analyses, this would only have a minimal impact on results.

In the relative poverty concept (at-risk-of-poverty), health insurance premiums are included in the at-risk-of-poverty threshold as this is calculated on the basis of disposal equivalent income (in other words after deduction of compulsory expenditure including health insurance premiums).

5 Questions on the data

5.1 Where can I get the SILC asset data?

The asset data from the SILC module are classified as experimental and it is not planned to make these available.

5.2 What is the quality of the SILC wealth data 2015?

The 2015 SILC module has a number of key constraints which mainly affect real estate values. For example, it is impossible to distinguish between owner-occupied residential property and real estate that is used as investment property. Furthermore, we do not have any information on debt, apart from mortgage debt. In addition, there are still reservations about the quality of imputation (insertion of missing values on the basis of a mathematical model). The proportion of missing values lies between approximately 10% and 19% for the five wealth variables.

[4] Cf. https://www.bfs.admin.ch/bfs/de/home/statistiken/wirtschaftliche-soziale-situation-bevoelkerung/einkommen-verbrauch-vermoegen/verschuldung.html

5.3 What improvements will the 2020 SILC module bring?

The SILC wealth module will be conducted once again in a revised form as a European module in 2020. At the same time, information will also be collected on consumption and debt in 2020. This data will be available from 2022.

The most important improvements in the 2020 module concern new questions on the size of assets in the case of missing data, which can be used for imputations; the separate collection of data on owner-occupied property; and a newly-developed model to convert various real estate values (market value-tax value-purchase price). The quality of wealth data should thus be considerably improved. As it is a European module, the information will also be comparable with other European countries.

5.4 Why doesn't the FSO use tax data?

Various cantonal poverty reports can draw on detailed tax data and therefore have asset information which they can partially include in the poverty rate. However, there are no harmonised tax data with the required level of detail at national level. Since 2020, harmonised tax data from currently 11 cantons are available in the WiSiER dataset of the Federal Social Insurance Office (FSIO).[5]

6 Terminology questions

6.1 Why is it not called asset poverty?

The vast majority (some 90%) of persons without sufficient financial reserves have sufficient income to secure their livelihoods. It would therefore be misleading to talk about poverty in relation to this group. Instead, terms such as 'vulnerability' are often used in the literature to characterise this group of people.

The term 'wealth' can also lead to misunderstandings as it is often associated with fortune (unlike the term 'assets'). However, the selected concept only requires a relatively low level of liquid assets (from approx. CHF 2,500) to not fall below the asset limit. We therefore prefer the neutral term 'financial reserves'.

6.2 So what is poverty?

The terms 'poverty'/'monetary poverty' serve as umbrella terms for a lack of income and wealth. Accordingly, monetary poverty can be broken down into income poverty and a lack of financial reserves.

In addition, the FSO also publishes non-monetary poverty indicators, such as material deprivation and subjective evaluations by respondents themselves.[6]

6.3 How does the FSO define income poverty?

The publication 'Armut in der Schweiz: Konzepte, Resultate und Methoden'[7] (*Poverty in Switzerland: Concepts, results and methods*; German and French only) describes in detail the various approaches and methods used in the FSO's poverty statistics.

[5] Cf. https://www.bsv.admin.ch/bsv/en/home/publications-and-services/forschung/forschungsbereiche/WiSiER.html

[6] Cf. https://www.bfs.admin.ch/bfs/en/home/statistics/economic-social-situation-population/economic-and-social-situation-of-the-population.html

[7] https://www.bfs.admin.ch/bfsstatic/dam/assets/348360/master