

Measurement of property income in EU-SILC

Veli-Matti Törmälehto, Statistics Finland

*"Comparative EU-Statistics on Income and Living
Conditions: Issues and Challenges"*

Helsinki, 6-8 November 2006



Contents

- Concepts:
 - - EU-SILC definition and recommendations
 - - Assets, liabilities, property income

- Evidence from the EU-SILC 2004

- Comparability: processes, results

- (Extensions: realised capital gains, net imputed rent)

What do we expect?

- *“Household surveys are notoriously bad at measuring income from capital and self-employment income”*
- (Canberra Group, p 62)

- *“...microdata on incomes appear to capture too little property/investment income and this may lead to under-estimation of inequality”. (Canberra Group, p 54)*

National Accounts and EU-SILC definitions almost the same

- *(ESA95) Property income (D.4) is the income receivable by the owner of a financial asset or a tangible non-produced asset in return for providing funds to, or putting the tangible non-produced asset at the disposal of, another institutional unit*
- *(EU-SILC) Property income is defined as the income received less expenses accruing, during the income reference period, by the owner of a financial asset or a tangible non-produced asset (land) in return for providing funds to or putting the tangible non-produced asset at the disposal of another institutional unit*

National Accounts and EU-SILC definitions almost the same

- (ESA95) *Property income (D.4) is the **income receivable** by **the owner of a financial asset or a tangible non-produced asset** in return for providing funds to, or putting the tangible non-produced asset at the disposal of, another institutional unit*
- (EU-SILC) *Property income is defined as the **income received less expenses accruing, during the income reference period, by the owner of a financial asset or a tangible non-produced asset (land)** in return for providing funds to or putting the tangible non-produced asset at the disposal of another institutional unit*

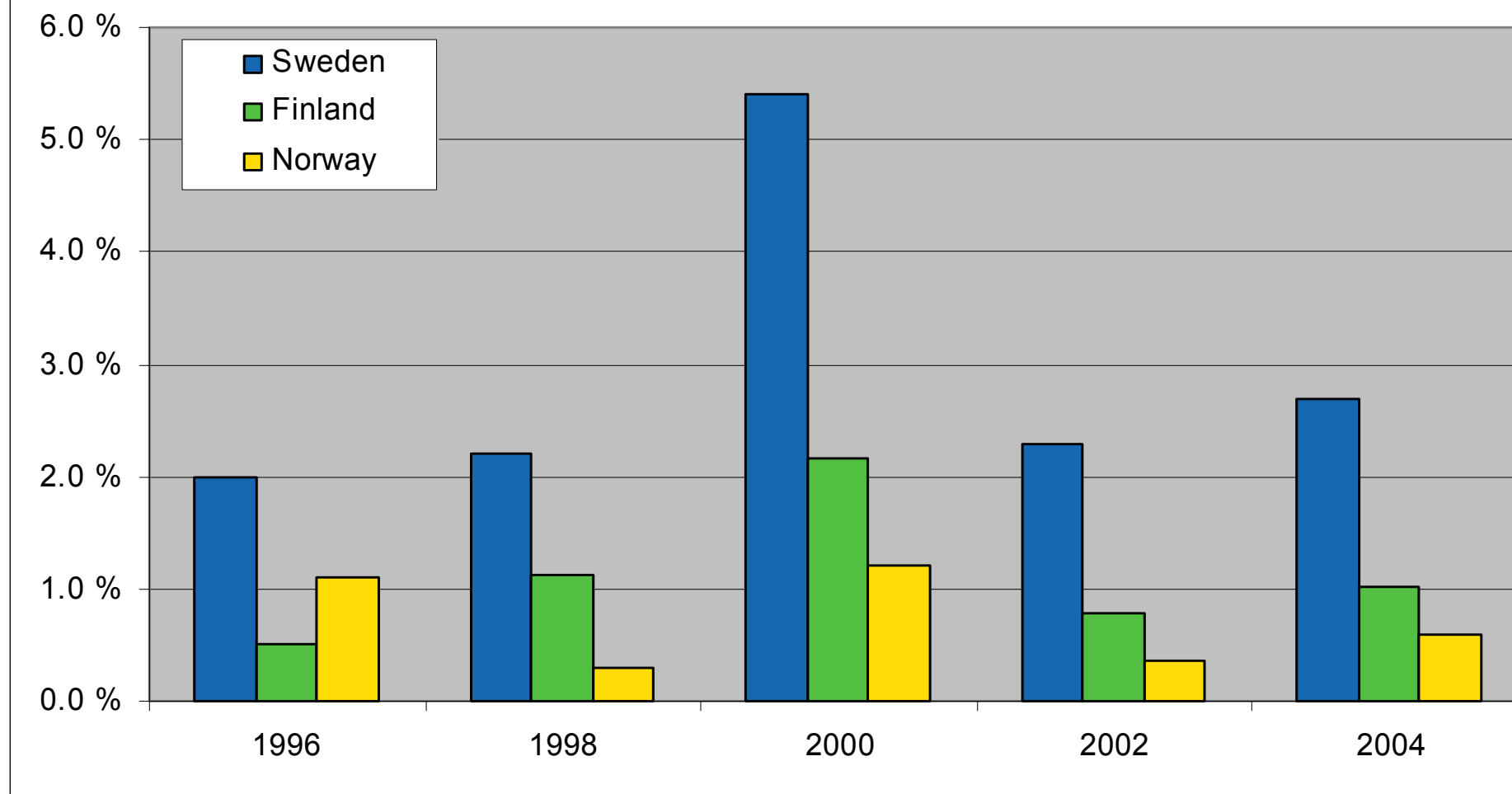
Concepts: EU-SILC definition and sub-components slightly inconsistent

- Definitions include only financial and tangible non-produced assets, not intangible or produced tangible assets
- Dwellings are tangible produced assets and therefore rents, actual and imputed, are self-employment income instead of property income in National Accounts
- - Definition of taxes (HY140) include taxes on capital gains

Sub-components of income derived from ownership of assets

	EU-SILC	NA	Canberra	ILO	LIS	National concept in Finland
<i>Interest received</i>	<i>P</i>	<i>P</i>	<i>P</i>	<i>P</i>	<i>P</i>	<i>P</i>
Interest paid	-	P	P	-	P	-
<i>Dividends and profits from capital investment</i>	<i>P</i>	<i>P</i>	<i>P</i>	<i>P</i>	<i>P</i>	<i>(P)</i>
<i>Rents from land</i>	<i>P</i>	<i>P</i>	<i>P</i>	<i>P</i>	<i>P</i>	<i>P</i>
Rents, actual	P	se	se/p	P	P	P
Rents, imputed, from owner-occupied dwellings	separate	se	se	separate	-	P
Royalties	se	se	se	P	P	se
Regular pensions and annuities from private voluntary schemes	-	(p)	P	P	P	P
Realised capital gains	-	-	-	-	-	P
Unrealised capital gains	-	-	-	-	-	-

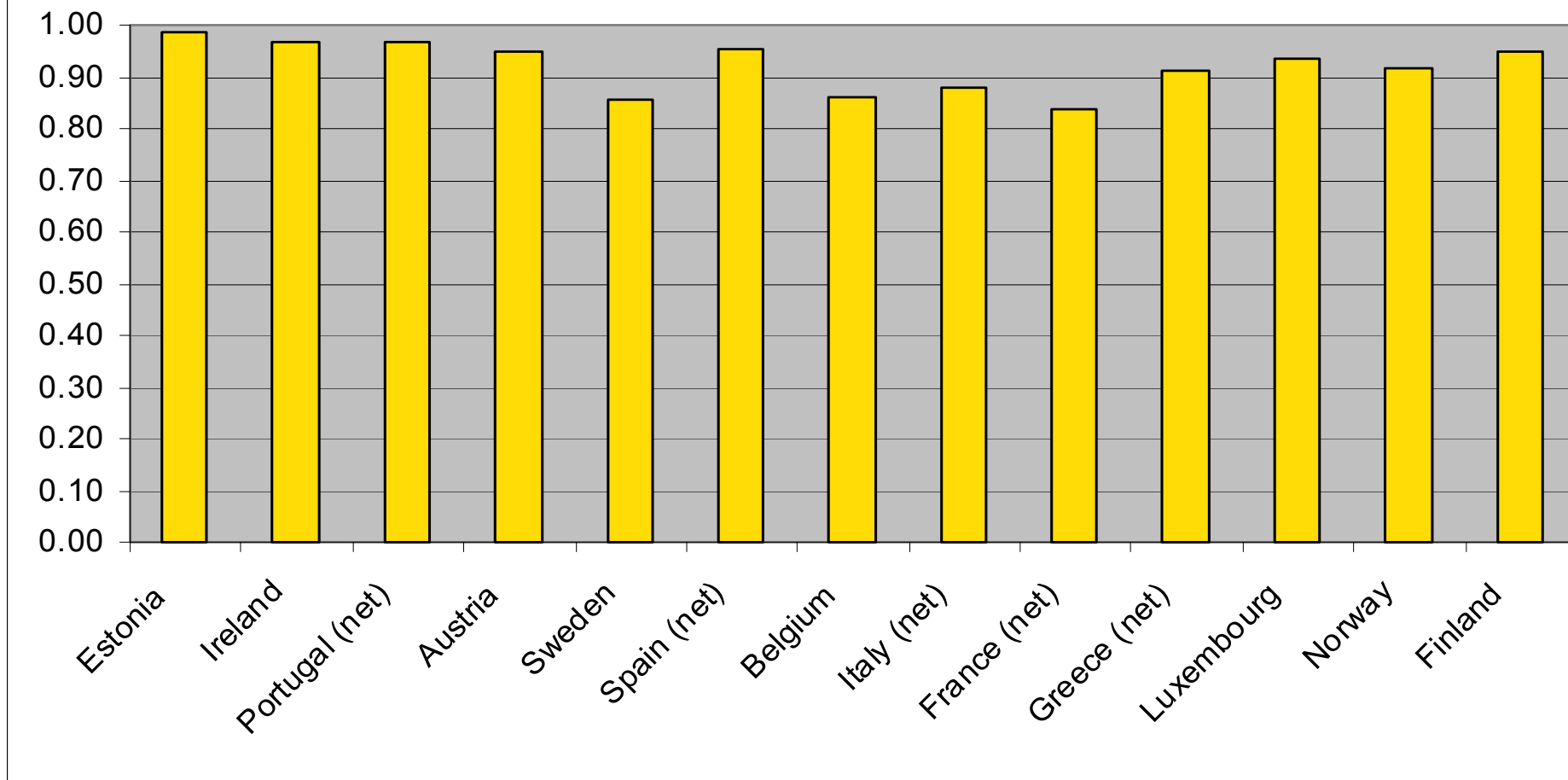
Figure 2. Increase in Gini-coefficient (%-points) when realised capital gains are included in disposable income

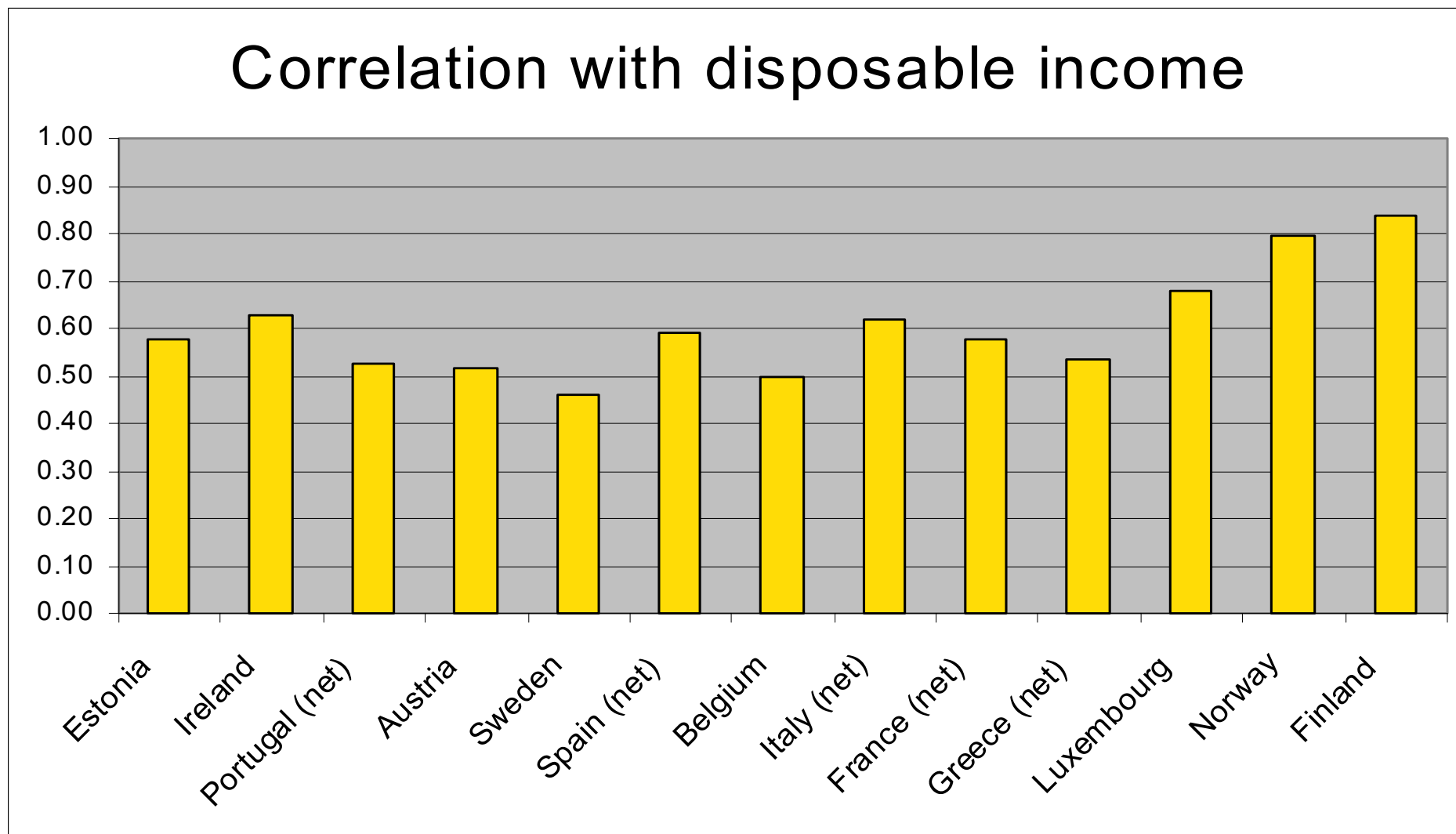


Evidence from the EU-SILC 2004 XUDB

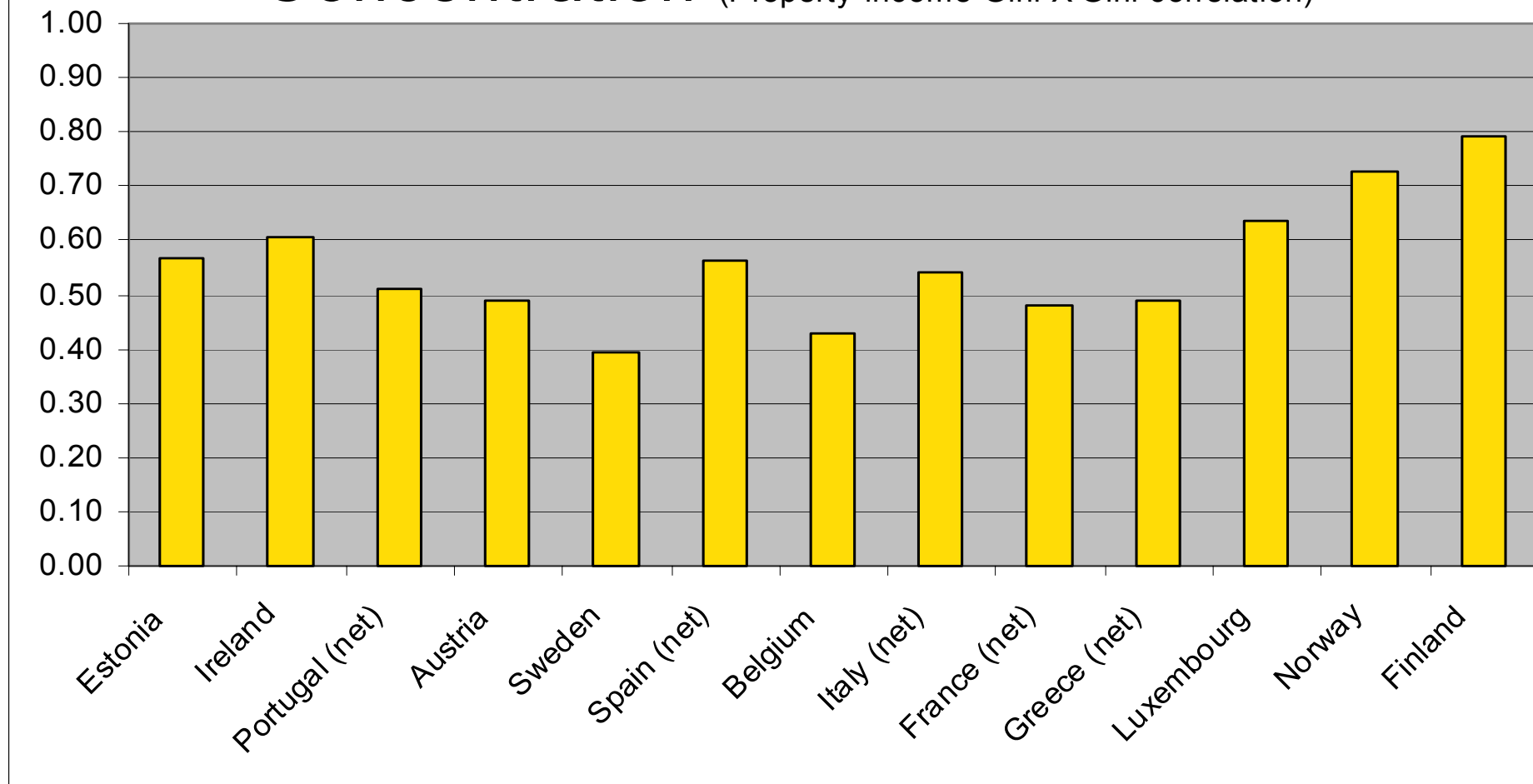
- Share of households with non-zero property income ranges from 6 to 99 percent
- Income shares range from 1 to 10 percent
- Spikes in density estimates in some countries, no negative values except in Denmark
- Gini decomposition by income source

Gini coefficient of property income

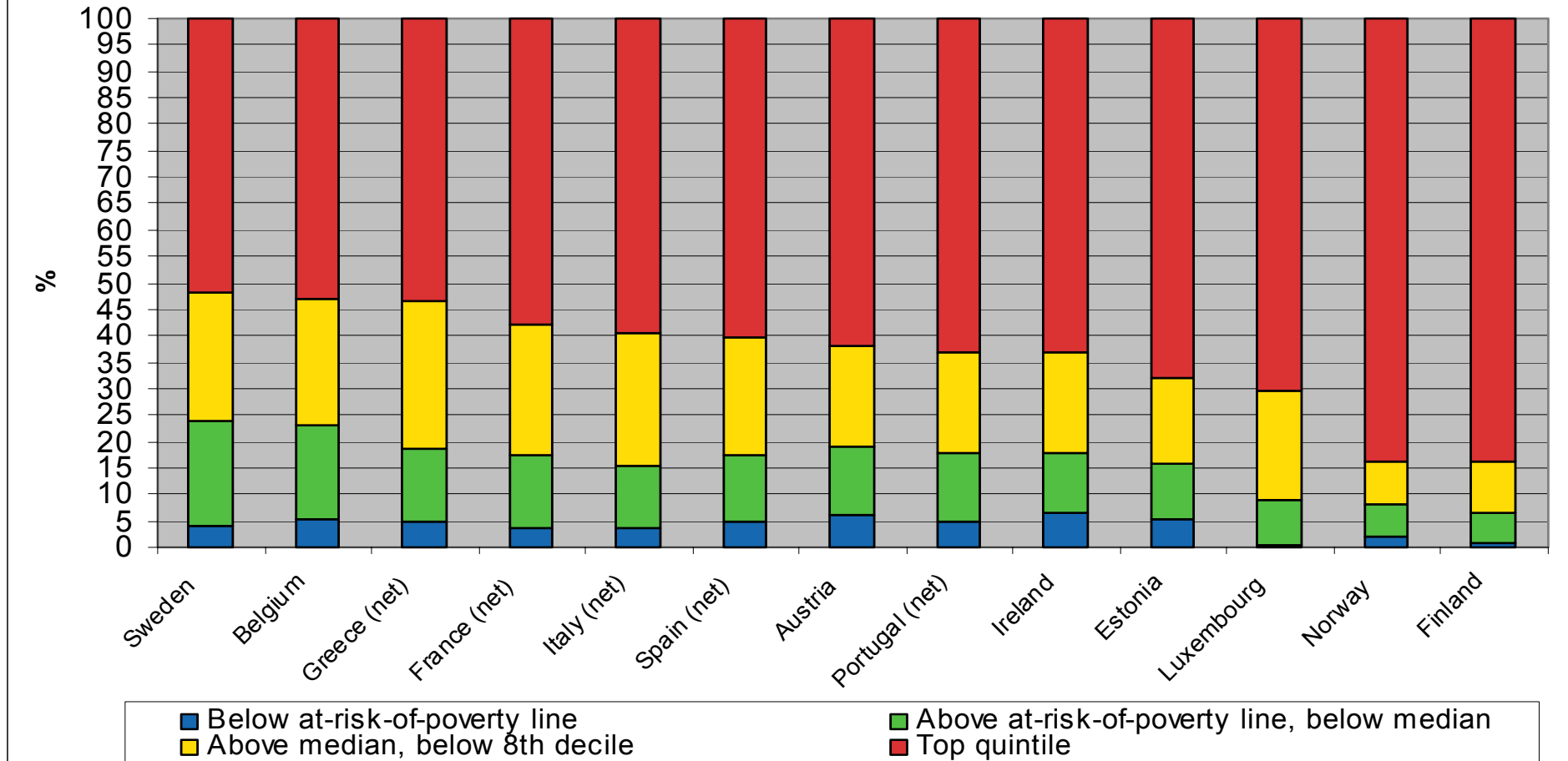




Concentration (Property income Gini X Gini-correlation)

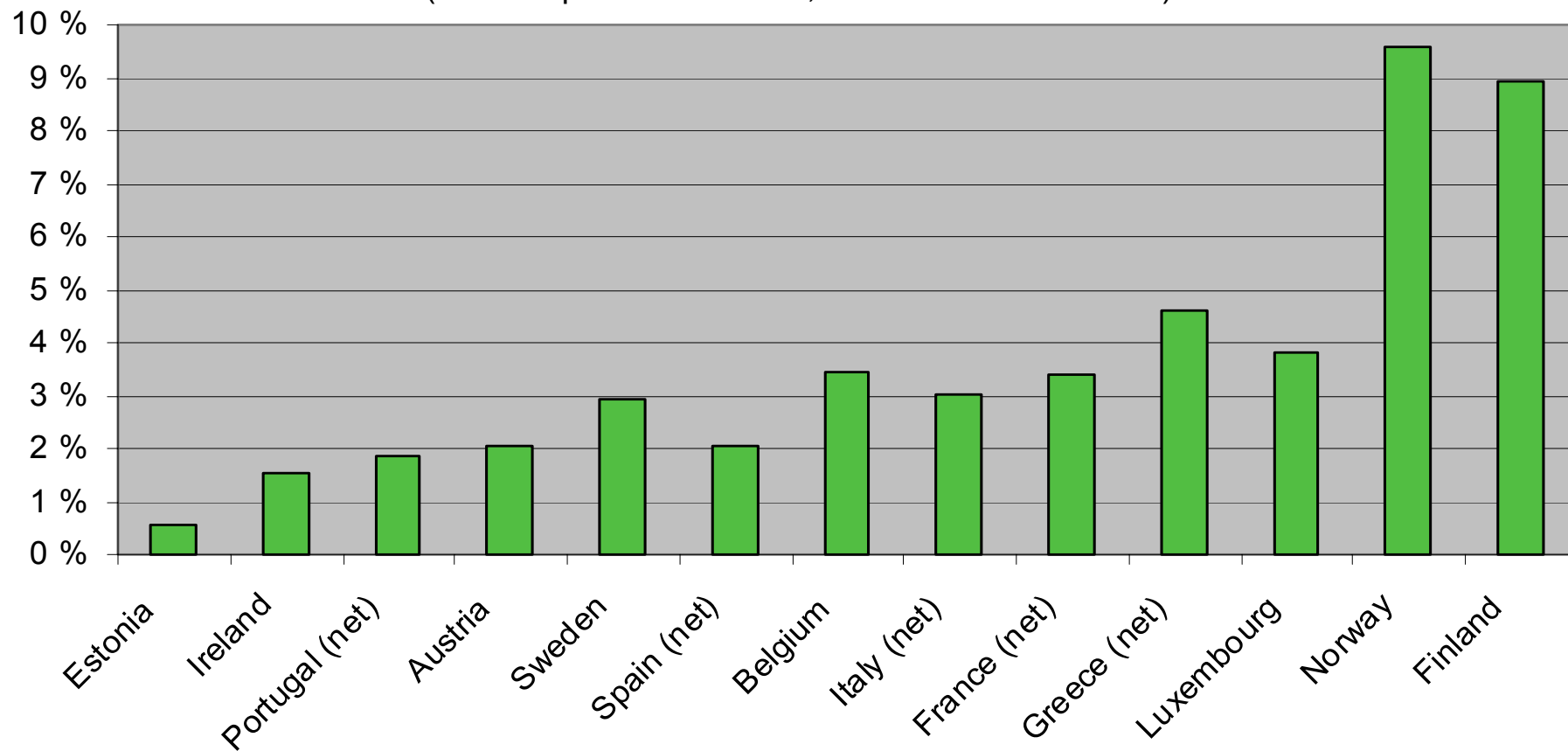


Concentration of property income (HY040+HY090)

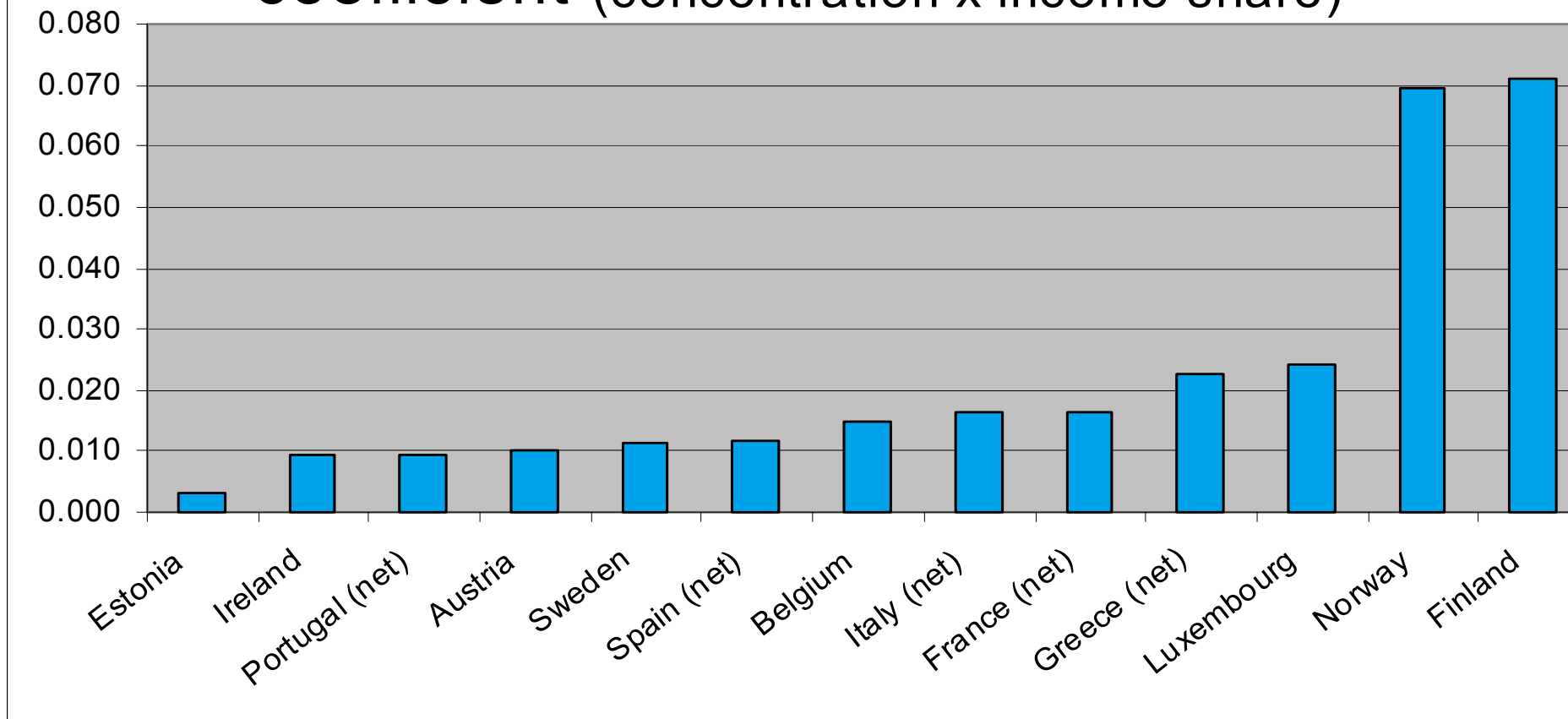


Income share of property income

(% of disposable income, modified OECD-scale)



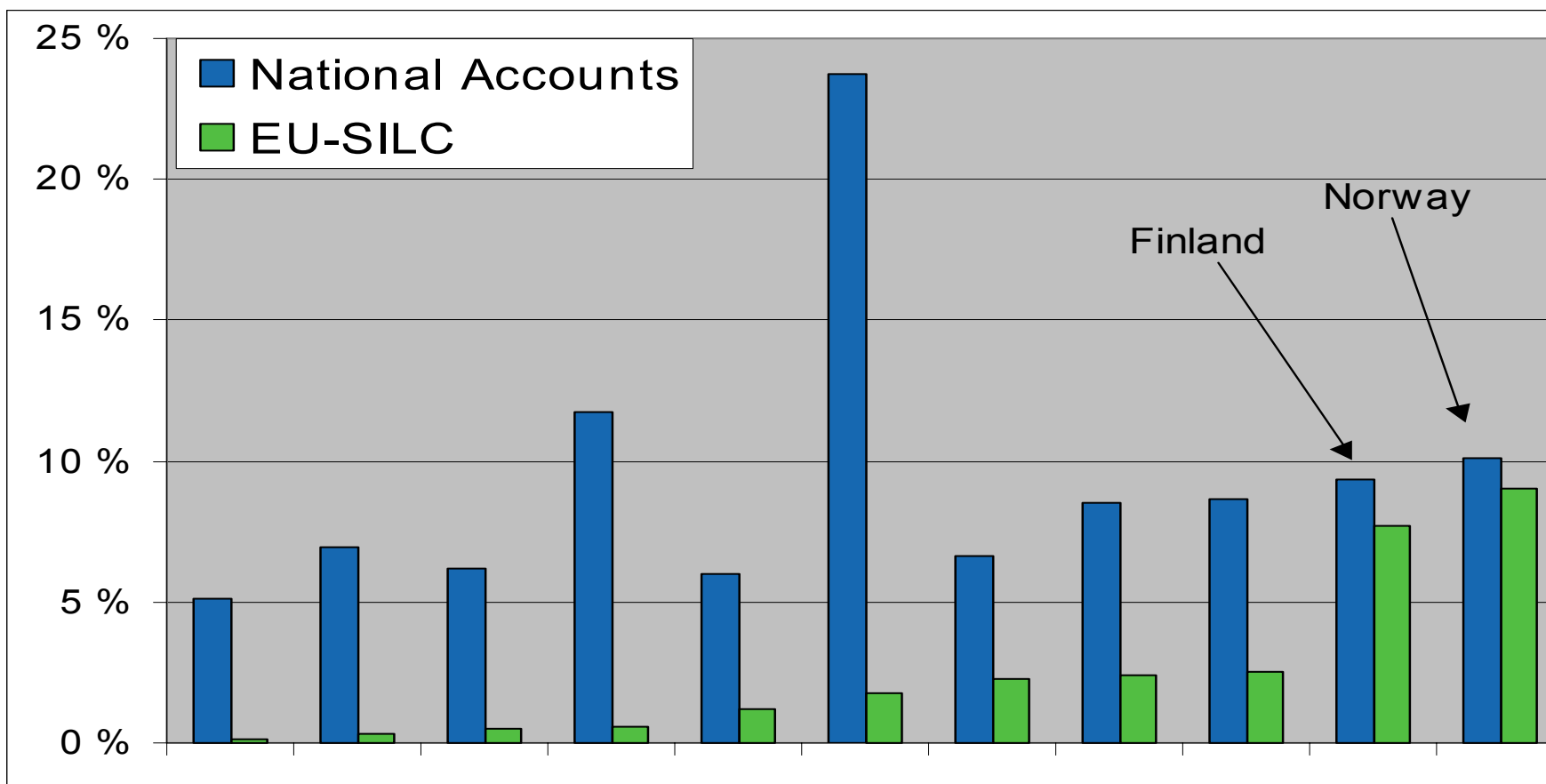
Contribution to disposable income Gini-coefficient (concentration x income share)



Issues in comparability of property income

- Conceptual validity (especially with register data)
- Sample stratification and allocation
- Very disturbing variation in item (and unit) non-response
- Auxiliary information used in calibration
- Benchmarking, coherence (National Accounts, LIS, OECD, best national sources...)

Interest and distributed profits in National Accounts and EU-SILC, % of disposable income (unadjusted)



Summary

- Property income potentially a very important income source
- Low coherence of EU-SILC results with other sources (National Accounts, real and financial) and intuition; low degree of comparability suspected
- Register vs. interview data not the whole story: remarkable differences also between the register countries
- It is wise to exclude (realised) capital gains from EU-SILC

Recommendations

- Small refinements to definitions to make them consistent
- Learn from the existing research (e.g. Chintex-project): are there concrete and feasible solutions/improvements to across-countries incomparability problems caused by use of register or interview data?
- Guidelines/more standardisation in imputation techniques, questionnaire design to reduce bias caused by item non-response

Recommendations

- Separate imputed rent (HY030) to employment income, property income, and transfers received
- Examine comparability of imputed rent with real EU-SILC data for two or more years for all countries
- --> Postpone the inclusion of imputed rent in disposable income, keep collecting the data

Recommendations

- Require standardised comparison with main unadjusted and adjusted National Accounts aggregates for the quality reports
- Comparability across countries should be first priority in National Statistical Institutes for EU-SILC
- --> EU-SILC income concept may be different from the national income concepts