

DISCUSSION

**Paul L. Menchik, Michigan State University and
and Nancy A. Jianakoplos, Colorado State University**

Before making our substantive comments, we would like to commend the authors for their valuable efforts. Very few researchers are studying the distribution of wealth -- many more study income distribution. We would encourage them to keep up the good work!

As the authors point out, there are three methods to estimate the distribution of wealth: 1) the estate multiplier method; 2) the income capitalization approach; and the survey method. These two papers employ all three of these methods. The Johnson-Woodburn (JW) paper uses the first method, while the Kennickell-Woodburn (KW) paper employs the other two approaches. These comments consider issues specific to each method of estimating the distribution of household wealth.

Estate-Tax Multiplier Method

Research using the estate tax method is particularly valuable, because it is often the case that surveys under-include wealthholders at the top of the wealth distribution, where so much of wealth is concentrated. One of the important issues in this method is use of the appropriate mortality rates, since the wealthy have lower death rates than the average. Ideally, the research should seek a mortality rate associated with each level of wealth for estate tax filers.

JW use the Metropolitan Life Tables for those with large life insurance policies based upon the firm's experience. One might ask why these rates? Evidence from the Survey of Consumer Finances shows wealth and life insurance value do not correlate very highly -- household in the top 1/2 percentile of the wealth distribution have a smaller percentage of life insurance than of net worth. An alternative strategy would be to use mortality differentials derived from panel data surveys in which people are grouped by wealth and their exit from the panel is noted. (Jianakoplos, Menchik, and Irvine (1989) find a continuous decline in death risk with initial wealth.)

The authors could improve mortality rates by differentiating by marital status, as done by other practitioners of this approach (Smith, 1975). It would be interesting to see how the wealth distributions of single as opposed to married households compare across the JW and KW studies. One approach would be for the authors to use the KW data for only singles, to get percentile cutoffs and amount for each wealth interval. Then, they could compare the wealth held among singles in the estate data (at the higher percentiles, of course) to compare distributions.

Additionally, we wonder why JW use 5-year mortality intervals for their mortality rates. Certainly, 75- and 79-year olds do face different mortality risks and ignoring this injects avoidable error into the estimates.

With regard to mortality rates, the authors present a result which they, themselves, term "surprising." That is, they use the same mortality differential for both men and women. This is the adjustment made to average mortality rates to account for the observation that the rich live longer. Using the same adjustment factor implies that rich men live longer than non-rich men by the same proportion that rich women live longer than non-rich women. The difference in male-female longevity may already be incorporated in the average mortality rate. When viewed this way, it may not be such a surprising result, but certainly deserves further investigation.

There are a number of issues related to missing wealth or missing people that should be mentioned. Suppose a couple holds \$1,200,000 in jointly held stock, with all the stock passing to the surviving spouse at the death of the predeceasing spouse. It is plausible that the JW estimate of household wealth would be correct if the estate of the predeceasing spouse was registered with the estate tax authorities. However, since there is no tax liability, what makes us think the estate tax return would ever be filed? Failure to file, I believe, would distort the household wealth imputation.

Asset composition at death may be affected by tax strategies, e.g., the concentrated holding of appreciated assets at death, to take advantage of the basis step up. These strategies should make the observed asset composition differ from that gleaned from the survey approach. Consequently, since all assets do not appreciate equally, the wealth distribution estimated from the estate multiplier method might, even with perfect data, differ from the distribution gleaned from household surveys. Use of testamentary trusts should lead to missing wealth. Suppose the husband bequeaths \$600,000 to a family trust for his wife's benefit (then the children's benefit upon her death), and leaves the rest to his wife. On her death, the accumulated wealth in the trust would not be counted in the JW approach, even though the wealth in trust offers her no less an income stream than if it was bequeathed directly to her.

In addition, wealth at death differs from wealth of the living in terms of the valuation of not only life insurance, but of both public and private pensions and annuities. Linking estate-tax returns to income tax returns and Social Security records might permit an estimate of the distribution of a broader definition of household wealth. The collation studies planned by the IRS suggest exciting future possibilities in this area.

Income Capitalization Method

There are some difficulties worth mentioning with the income capitalization approach. Wealthholders with a heavy concentration of assets in certain securities, e.g., municipal bonds, would not be correctly included with other wealthholders. Consider, also, the case where grandma only owns a big house but has little cash income, perhaps relying solely upon social security. Given the lack of taxable income, she might be a high wealthholder but be "too poor to file" an income tax return. Hence, there would be both missing wealth and missing people when using the capitalization approach.

Survey Method

There are issues of missing people and missing assets which also affect survey estimates of wealth.

We are very impressed by the imputation procedure used in the KW paper to deal with missing asset values. One question we have, however, is to what extent, if any, is the increase in wealth concentration between 1983 and 1989 attributable to the difference in imputation procedures between the two years? With respect to missing people, we applaud KW for presenting the very interesting tabulation of response in the survey of high-income households, which clearly reveals that nonresponse increases with estimated wealth. This is not a particular fault of the design of the survey. As the authors point out, the additional information embodied in the high-income sample makes this nonresponse bias explicit, while it can only be surmised to bias the area probability sample.

As researchers, we are firm believers in giving data users maximal choice. KW and Kennickell (1991), explained the complex procedures used to fill in missing values. They reveal that it requires 100,000 lines of computer code and two months of processing time to fill in the blanks. It is most unfortunate that the custodians of this survey are only releasing the survey results with the values imputed by this method. We are told that for each value a corresponding variable will indicate whether this value was the actual value reported or obtained through the imputation method. Thus, we are told that it should be possible to re-construct the data set as originally obtained from the surveys. The release of the originally obtained responses (as done with previous such surveys) would allow data users a chance to make their own decisions regarding how to deal with missing data and not merely accept the very complex decisions made for them.

Perhaps, we should leave this subject with a healthy respect for the problems inherent in estimating household wealth. On the one hand, in a free society in which we depend on voluntary disclosure from the living, survey data will always be fraught with problems of both unit and item nonresponse. On the other hand, at death, disclosure of wealth data becomes mandatory, but then only for those who were the very wealthiest. It is best to look at wealth from both sides -- for now.

REFERENCES

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