

Capital Income Flows and the Relative Well-Being of the Elderly

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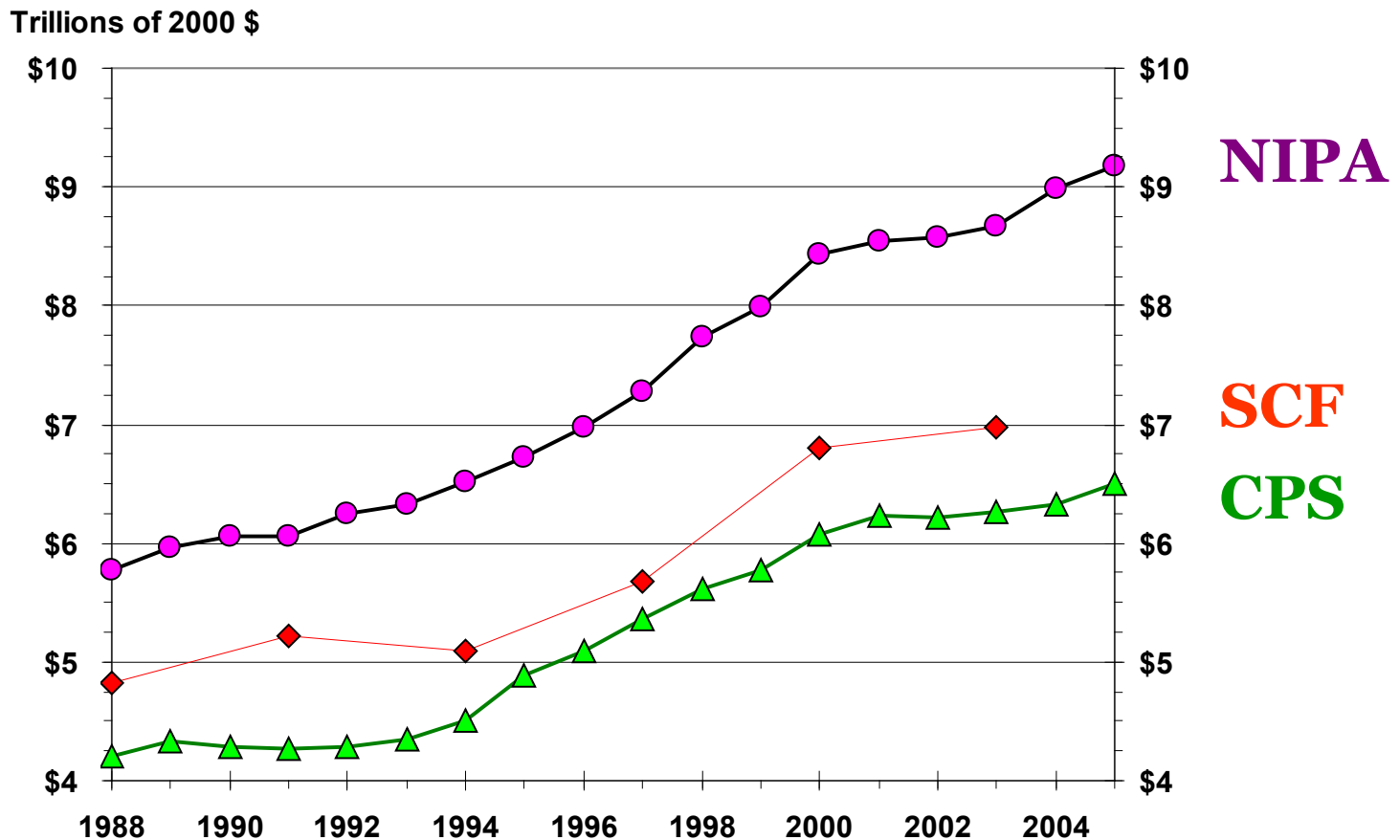
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Capital income in household surveys

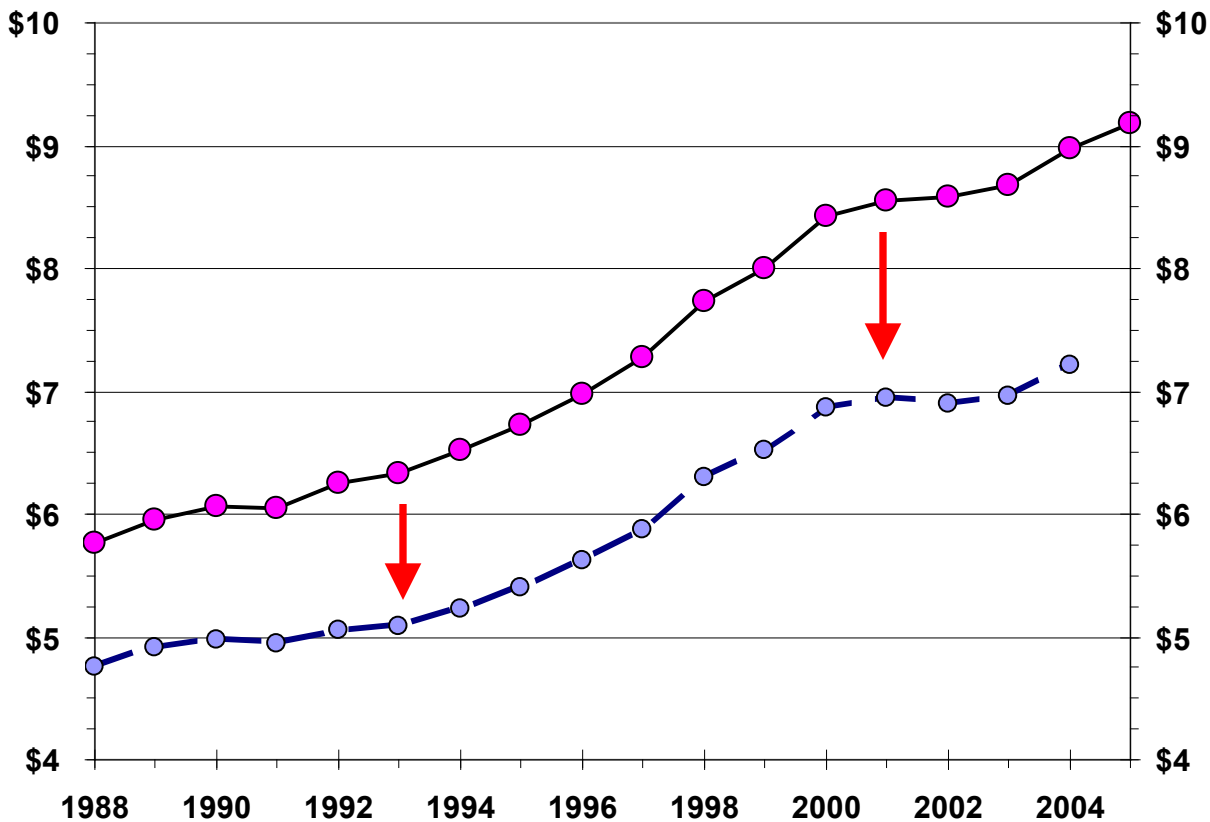
- How accurate are money income reports in household surveys?
- How should we treat pension savings and income when counting up the resources of young and old?
- How should we treat the flow of housing services families derive from owning their homes?

Aggregate Household Income Estimated in the NIPA and Two Household Surveys, 1988-2005



Aggregate Household Income Estimated in the NIPA : Original and Adjusted

Trillions of 2000 \$

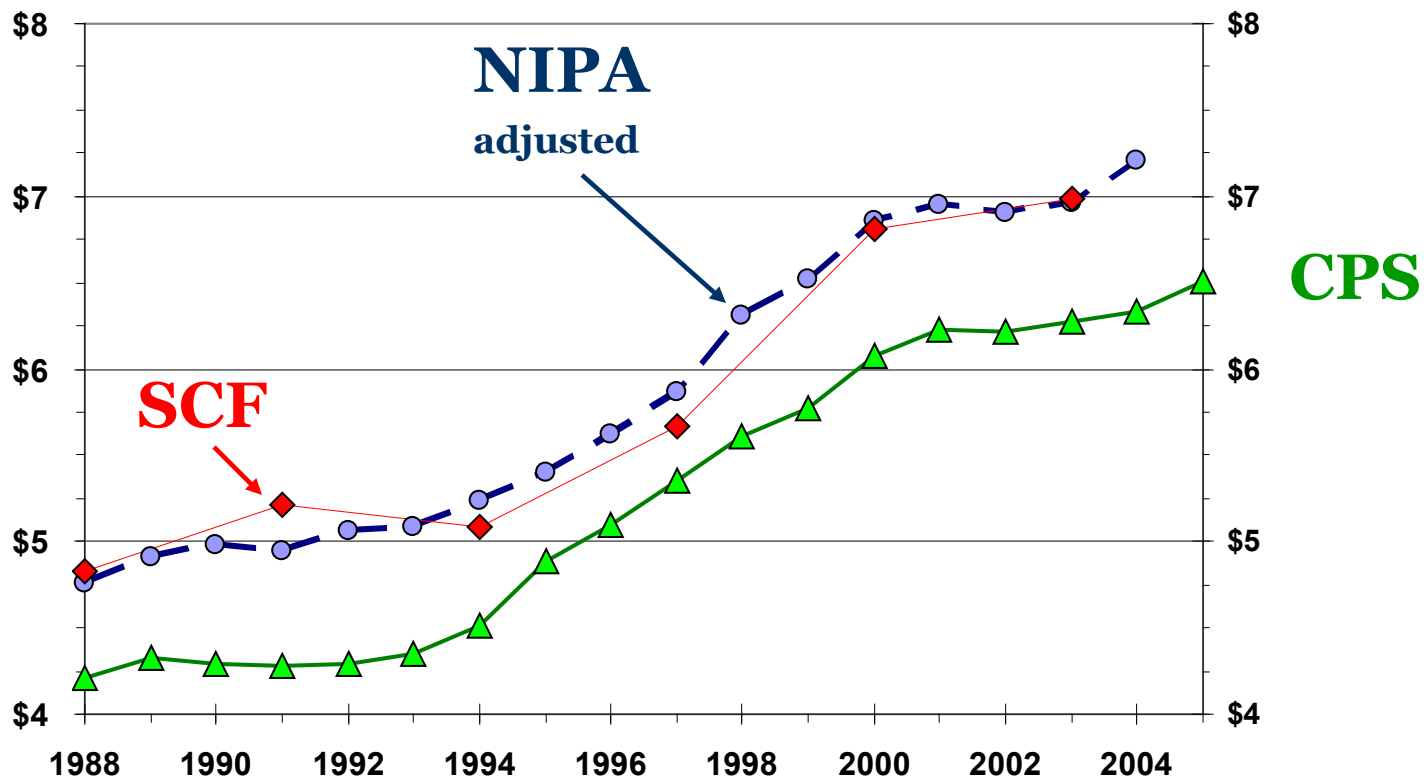


NIPA --
original

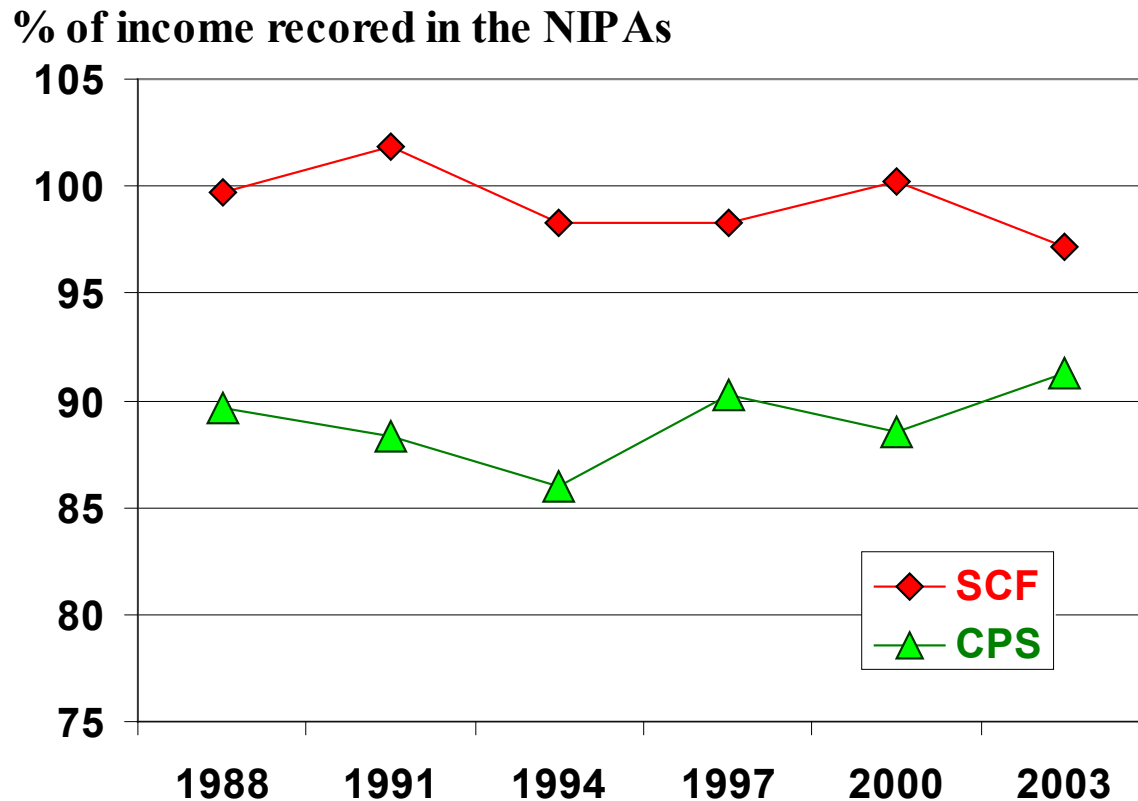
NIPA --
adjusted to
"money income"
concept

Aggregate Household Income Estimated in the NIPA and Two Household Surveys, 1988-2005

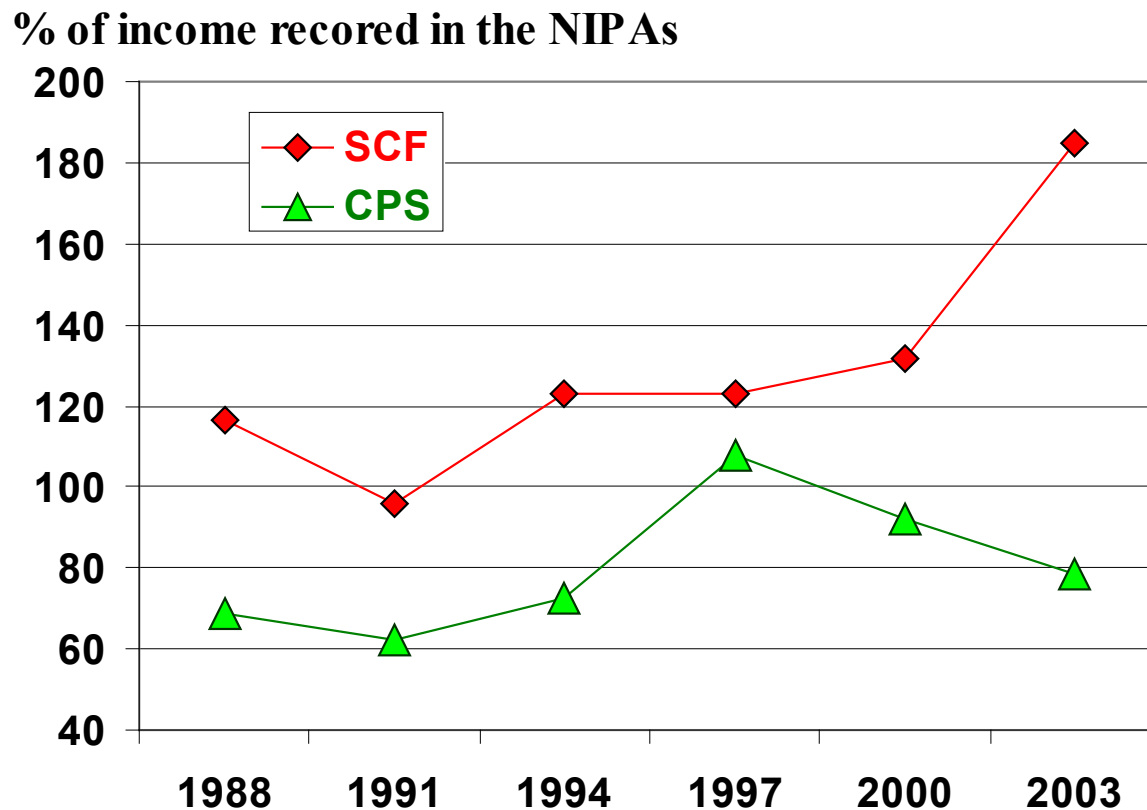
Trillions of 2000 \$



Labor earnings reported on the SCF and CPS: Wage & salary plus self-employment income

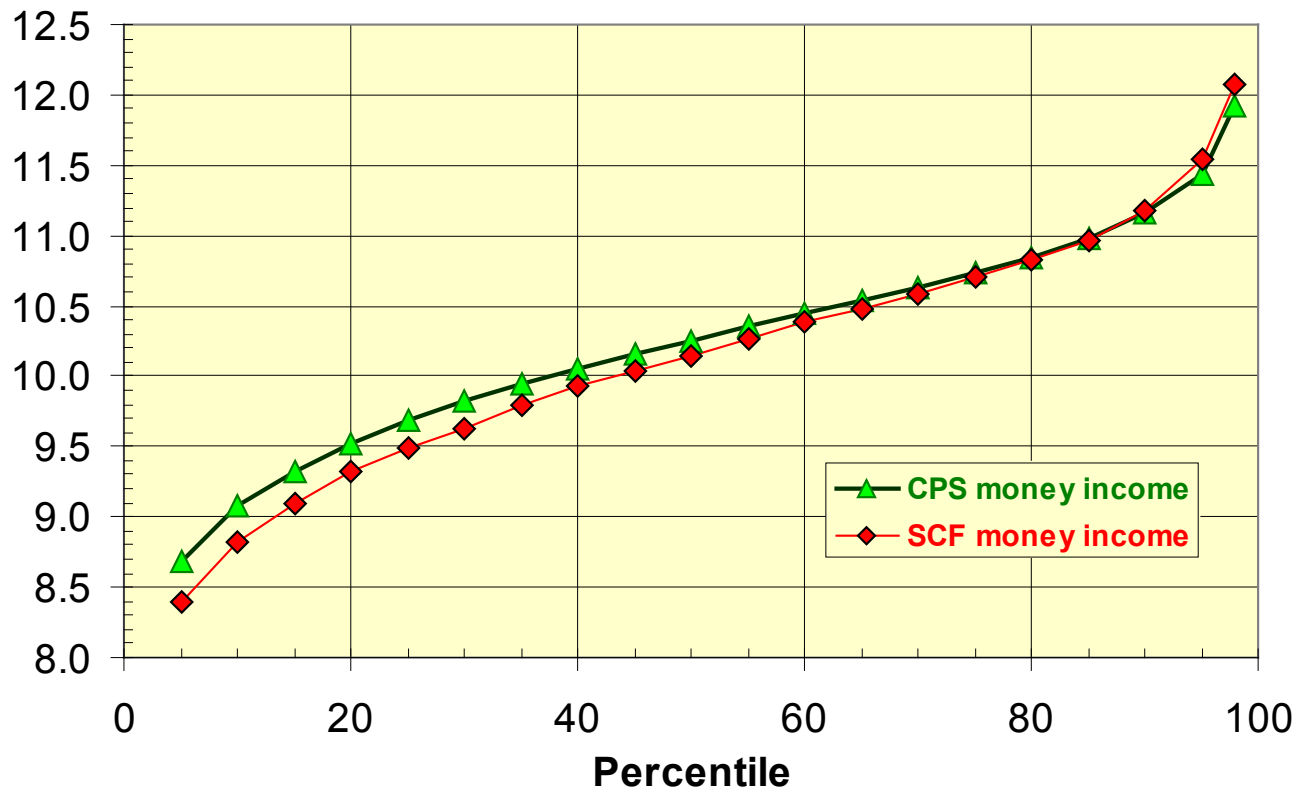


Capital income reported on the SCF and CPS: Interest, dividends, rent and royalties



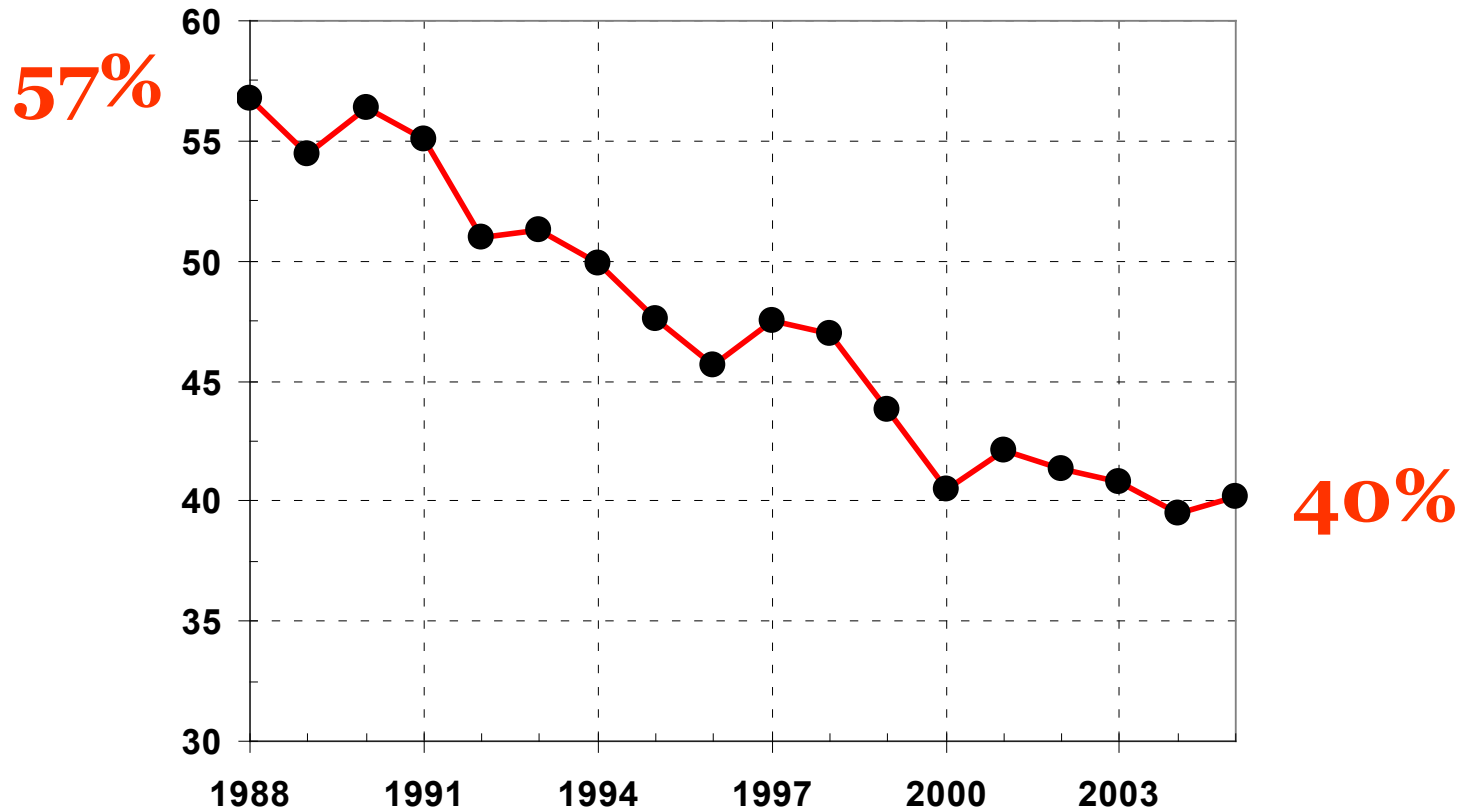
Size-adjusted income distribution in CPS and SCF files, 2000

Natural logarithm of size-adjusted money income



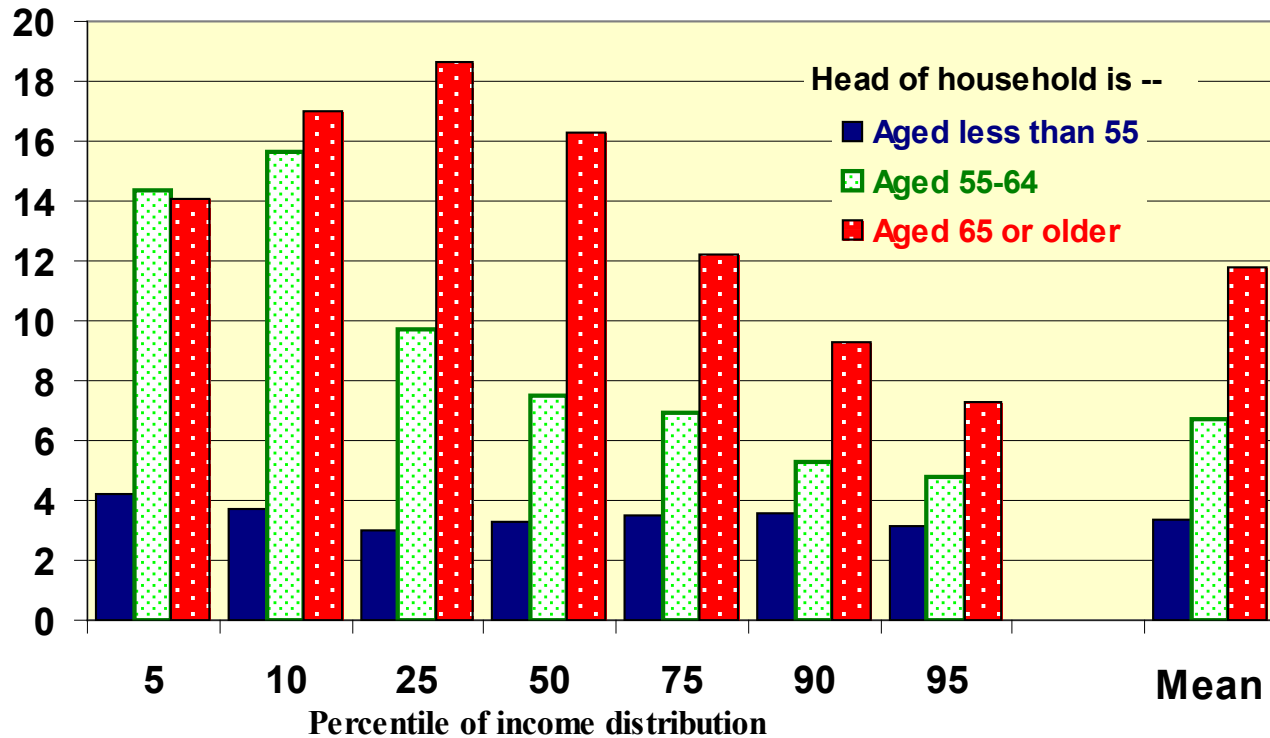
Pension income reported on the CPS: Benefits from government-employee plans

Percent of NIPA-recorded pensions



Impact of Including Return on Home Equity in Income Definition, by Age and Position in the Income Distribution, 1988-2000

Income change when return on home equity is included in income (in %)



DC pension measurement

- Most DC payouts excluded from “money income”
- Result: Increased exclusion of income from funded pensions
- Remedy:
 - Use survey information on household DC wealth holdings
 - For retirees, calculate annuity that can be purchased with DC assets

Summary

- Most under-reported income source: Labor earnings
 - Leads to under-statement of income of non-aged and top-end earners
- Large proportional under-reporting: Government transfers
 - Reduces measured incomes of low-income recipients, but not aged
- Including returns on net home equity boosts relative income of aged
- Defensible treatment of DC pensions will boost relative income of aged