6.3 Wealth and Portfolio Composition
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Introduction
Financial wealth, real estate, and other assets are key indicators of the well-being and quality of life of the elderly. This contribution provides basic facts on wealth amounts, wealth composition, and financial asset ownership of the elderly in Europe. Because of the demographic trends, the saving behaviour of the elderly and their portfolio holdings are central to the policy debate. While income and consumption are important determinants of current well-being, assets are a key indicator of future, sustainable consumption. SHARE allows the study of the composition of wealth around and after retirement, and the distribution of wealth in real and financial assets, and the extent to which the wealth of the elderly is annuitised through pensions, social security, and health insurance.

There are a number of further reasons for considering wealth as a key indicator of well-being in old age. Most people save for retirement, and reach retirement age with considerable amount of assets. These assets provide income for the elderly in the form of rents from real estate, interests on government and other bonds, dividends from stocks. The same assets can be spent during the retirement period and converted into a flow of consumption. Conversely, if people do not save enough for retirement, they will not have enough resources to finance later consumption, a problem that has come to be known as adequacy of saving at retirement. Furthermore, wealth can provide a buffer to protect the elderly against health and other risks, which is very important at times when the length of life is increasing together with the cost of health care.

A related issue is the appropriate asset mix during retirement between low-risk saving vehicles, insurance policies, and risky financial assets. People do not rely solely on financial assets in order to provide for their old age but also on real assets, with housing being the most important among them. With respect to portfolio choice, the elderly face higher mortality and morbidity risks compared to the young, which should make the portfolio of the elderly different from that of the rest of the population. How large is this difference and how it varies across Europe depends on the public coverage of health care and the working and generosity of public pension systems. On these and related issues, SHARE provides fresh evidence in comparative fashion.

Data
Respondents in SHARE are all household members aged 50 and over, plus their spouses, regardless of age. Financial and housing respondents are those household members most responsible for financial and housing matters, respectively. This is done to save time and avoid duplications. For instance, in a couple the financial questions are preferably answered by one person only, unless finances are not jointly managed, in which case each household member is treated as a separate financial unit.

The questionnaire covers a wide range of financial and real assets, from which one can calculate wealth and its components, and is designed to make the asset definition comparable across countries. Financial assets include seven broad categories: bank and other transaction accounts, government and corporate bonds, stocks, mutual funds, individual retirement accounts, contractual savings for housing, and life insurance policies. The real assets are primary and other residences, own business and vehicles.

For each financial asset category respondents are asked whether they hold any assets in
this category. If so, they are asked to give a value for their total holdings in the category. Respondents who refuse to respond or answer “don’t know” at this stage are then routed into unfolding brackets—a short series of follow-up questions of the form “Is it more or less than... euro?” For instance, survey participants in Germany who do not report their bank account balance are asked if the amount is larger or smaller than €3,600. If it is larger, they are asked if it is larger than €7,100.

The asset module in SHARE has also questions on household liabilities, such as mortgages and other debts on cars, credit cards or towards banks, building societies and other financial institutions. For both mortgages and housing, if the point value is not available, the respondents are routed into the unfolding brackets.

**Net Worth and Gross Financial Assets**

The detailed asset and liabilities questions contained in SHARE can be used to construct several indicators of the well being of the elderly. A first indicator refers to resources that are liquid, or can be sold in the market. Thus, we define total gross financial assets, as the sum of the seven categories of financial assets listed above. A second indicator is total real assets, defined as the sum of the four real assets categories. In case of need or financial distress, real assets can be sold and their value converted in financial assets, but this very often requires time and effort. A third indicator is total liabilities, defined as the sum of all household debts; this is an indicator of financial obligations of the household, and in some cases of financial distress. Finally, total net worth, defined as the sum of all financial and real assets, minus liabilities, is a summary indicator of all resources that are available to household members. These can be used to finance normal retirement consumption, to buffer health and other risks the elderly face, or can be left as a bequest to future generations.

This contribution focuses primarily on total net worth and financial wealth as key indicators of the well being of the elderly in Europe. To ensure cross-country comparability, the amounts are corrected for differences in the purchasing power of money across countries. Some definitions and imputations are provided in Chapter 7. In order to avoid the effect on cross-country comparison of households with influential values for wealth, we report medians rather than means of the relevant indicators.

Figure 1 plots median net worth across European countries. Countries can be divided in four groups. In a first group, the elderly have relatively high wealth: Switzerland, Spain, and Italy (above €140,000). The second group, with wealth between €120,000 and €140,000, includes France and the Netherlands. The third group, with wealth between €100,000 and €120,000 includes Austria, Denmark and Greece. Finally, in Germany and Sweden median net worth is below €100,000. It has to be noted however that the purchasing power adjustment has a significant negative effect on the net worth of Swiss, Danish and Swedish households because of the high price levels that prevail in their respective countries. Without this adjustment the median net worth in these countries would be substantially higher. The opposite holds for countries like Greece and Spain, which have lower price levels than the average of the SHARE countries.
Figure 1 Median net worth (thousands of PPP euro)

Note: The map displays median total wealth (real plus financial) in Europe. Total wealth is the sum of real and gross financial wealth minus liabilities. Amounts are expressed in thousands of euro and adjusted for the difference in the price levels across countries (purchasing power price (PPP) adjustment).
Figure 2: Median gross financial assets (thousands of PPP euro)

Note: The map displays median gross financial assets in Europe. Gross financial assets are the sum of bank and other transaction accounts, government and corporate bonds, stocks, mutual funds, individual retirement accounts, contractual savings for housing, and life insurance policies. Amounts are expressed in thousands of euro and adjusted for the difference in the price levels across countries (purchasing power price [PPP] adjustment).
The cross-country comparison of total net worth hides significant differences in the composition of net worth. Figure 2 documents that total financial wealth is generally higher in the North than in the South of Europe. According to this indicator, the first group of countries (financial wealth above €30,000) includes Denmark and Switzerland. Next come Sweden (between €20,000 and €30,000), and Germany and Netherlands (between €10,000 and €20,000). The group of countries with lower level of median financial wealth per household (less than €10,000) includes Austria, Italy, Greece, France and Spain. These low amounts for the Mediterranean countries and Austria reflect in part the very low ownership rate in those countries of any financial assets other than bank accounts (e.g., in Greece) and in part the relative high weight of residential and other real estate wealth (e.g., in Italy and Spain).

A comparison between the two pictures makes it clear that the cross-country distribution of gross financial assets does not parallel that of net worth. While the elderly have relatively little financial wealth in Italy and Spain, it is precisely in these countries that we see the highest levels of total net worth. The reason is that real estate, and primary residence in particular, makes for a large chunk of wealth in Italy, Spain and other countries. This raises an issue of adequacy of saving if pension income is limited and reverse mortgage markets are underdeveloped, since financial assets can be a very important vehicle for countering the financial difficulties of old age.

On the whole, whether this pattern of net worth and financial wealth reflects different attitudes toward saving between Southern and Northern Europe, different intensity of bequest motives, different features of the mortgage markets, or different characteristics and transaction costs in housing and financial markets is an interesting issue to be investigated. In particular, the balance between private and public pensions and the availability of public health care is likely to affect the desired amount of wealth of the elderly, a possibility that the multi-domain and cross-country nature of SHARE will help to explore.

The Composition of Financial Wealth

Figure 3 plots the proportion of households owning bonds, stocks, mutual funds and life-insurance policies. For bonds, stocks and mutual funds, the graph shows that ownership increases from South to North, with countries like The Netherlands, Germany and Austria lying often in the middle. The proportion of households holding bonds ranges from 0.1 percent in Spain to 24 percent in Denmark; the proportion holding stocks ranges from 3.0 of Spanish households to 38 percent of Swedish households. The ranking is similar for mutual funds, while for life insurance policies the dispersion across European countries is much lower. Except for Italy, Spain and Greece, the proportion of households with life insurance exceeds 10 percent in all countries.

Other financial assets are less widely owned across Europe. Individual retirement accounts are common only in Sweden, Denmark and France, while contractual savings for housing are extremely popular in Austria, to a lesser extent in Germany, France and the Netherlands and practically non-existent everywhere else (see Banks and Smith 2001 for comparative evidence for the UK).
The mix between risky (stocks) and relatively safe assets (transaction accounts and bonds) signals the overall riskiness of financial portfolios. This can be measured by the ratio of total risky assets—defined as direct holding of stocks and indirect holdings through mutual funds and investment accounts—and total financial assets. Figure 4 shows that in Sweden (more than 40% of financial wealth invested in risky assets) and Switzerland (between 20 and 30%) the elderly are more exposed to financial risk. In all other countries risk exposure is more limited: between 10 and 20% of total financial assets in Denmark, Germany, Netherlands, France, Austria, Italy and Greece, and less than 10% in Spain. These countries are characterised by low direct and indirect stockholding, which is often explained as a result of transaction and information costs, an issue that SHARE data are particularly well suited to investigate.

In most countries the share of risky assets around retirement age is higher than in old age. This general pattern agrees with intuition. The elderly face increasing health risks, and should try to balance these risks holding a safer portfolio. Moreover, the investor’s horizon for an old person is shorter. For an old person it is much more difficult to recover from negative stock market returns, a prominent reason why they should tilt their financial towards safer assets. This is discussed extensively in Hurd (2001), who provides evidence on the portfolio of the elderly in the US.

Figure 3 Asset ownership

Note: The graph displays the proportion of households owning bonds, stocks, mutual funds and life insurance policies. The numbers are expressed in percentage points. 95% confidence intervals are shown as black bands.
SHARE also provides considerable evidence that stock market participation is affected by financial sophistication and literacy of individual investors. The proportion of individuals who spend some time in managing their financial portfolio at least once a week, as an indicator of how much time and effort people spend in understanding financial markets, is relatively high in the Netherlands (9.5 percent), Sweden (9.4 percent) and Germany (8.6 percent). Conversely, the proportion is much lower in Italy (4.1 percent), France (5.3 percent) and Spain (5.8 percent). For most countries the pattern of time spent in managing portfolios matches with that of asset participation in Figure 3. For instance, in the Neth-
erlands and Sweden the elderly exhibit high rates of financial market participation and monitor their portfolios more frequently. Conversely, in Italy and Spain the relatively low degree of monitoring goes hand-in-hand with lower financial market participation. This association may happen because monitoring financial wealth improves investors’ knowledge and sophistication and portfolio diversification. An equally valid explanation is that more complex portfolios require more time to be managed.

Conclusions
SHARE data indicate that total net worth varies much less than total financial wealth across Europe. In addition, we find that a high percentage of households holds virtually no financial assets. Asset ownership exhibits considerable variability across countries, as bonds, stocks and mutual funds are much more popular in Nordic than in Mediterranean countries. Exposure to financial risk is higher in Sweden and Switzerland, and comparatively low in Southern Europe.

References