

**“Trends in Australian Wealth – New Estimates
for the 1990s”, Simon Kelly, NATSEM,
September 2001**

NATSEM

National Centre for Social and Economic Modelling

• University of Canberra •

**Trends in Australian Wealth –
New Estimates for the 1990s**

Simon Kelly

**Paper Presented to the
30th Annual Conference of Economists
University of Western Australia
26 September 2001**



National Centre for Social and Economic Modelling

• University of Canberra •

The National Centre for Social and Economic Modelling was established on 1 January 1993, and supports its activities through research grants, commissioned research and longer term contracts for model maintenance and development with the federal departments of Family and Community Services, Health and Aged Care, and Education, Training and Youth Affairs.

NATSEM aims to be a key contributor to social and economic policy debate and analysis by developing models of the highest quality, undertaking independent and impartial research, and supplying valued consultancy services.

Policy changes often have to be made without sufficient information about either the current environment or the consequences of change. NATSEM specialises in analysing data and producing models so that decision makers have the best possible quantitative information on which to base their decisions.

NATSEM has an international reputation as a centre of excellence for analysing microdata and constructing microsimulation models. Such data and models commence with the records of real (but unidentifiable) Australians. Analysis typically begins by looking at either the characteristics or the impact of a policy change on an individual household, building up to the bigger picture by looking at many individual cases through the use of large datasets. It must be emphasised that

NATSEM does not have views on policy: all opinions are the authors' own and are not necessarily shared by NATSEM or its core funders.

Director: Ann Harding

© NATSEM, University of Canberra 2001
National Centre for Social and Economic Modelling
University of Canberra ACT 2601 Australia
170 Haydon Drive Bruce ACT 2617

Phone + 61 2 6201 2750 Fax + 61 2 6201 2751

Email natsem@natsem.canberra.edu.au

Website www.natsem.canberra.edu.au

NATSEM research findings are generally based on estimated characteristics of the population.

Such estimates are usually derived from the application of microsimulation modelling techniques to microdata based on sample surveys. These estimates may be different from the actual characteristics of the population because of sampling and nonsampling errors in the microdata and because of the assumptions underlying the modelling techniques. The microdata do not contain any information that enables identification of the individuals or families to which they refer.

For additional information contact:

Simon Kelly

NATSEM

University of Canberra

CANBERRA ACT 2601

Ph : 61-2-6201-2784

Fax : 61-2-6201-2751

E-mail : simonk@natsem.canberra.edu.au

This paper is available at:

www.natsem.canberra.edu.au

Table 7 Wealth Assets as a Proportion of Income Unit Portfolio, Australia, June 1998

Decile Or Percentile	Shares					
	Interest Bearing Deposits (%)	And Other Investments (%)	Home (net) (%)	Rental Properties (net) (%)	Business (net) (%)	Super (%)
1 st	10	0	n.a.	n.a.	0	90
2 nd	13	0	1	n.a.	0	88
3 rd	14	1	0	1	1	83
4 th	10	2	14		2	73
5 th	7	2	46	3	5	38
6 th	6	1	56	4	6	27
7 th	6	2	61	4	7	21
8 th	6	2	53	4	12	23
9 th	7	2	49	5	17	20
10 th	13	15	34	8	14	17
91-95	9	5	44	6	18	18
96-99	11	10	34	7	18	19
100	20	33	23	10	3	11
Average	10%	8%	43%	6%	13%	22%

n.a.: not applicable

Source: Author's calculations based on ABS 1998 Survey of Income and Housing Costs

Note: Rows may not add to 100% due to rounding

Superannuation is the next most significant asset. It forms 22% of the wealth of the average family. The proportion for the poor is much higher. In the first decile it represents almost all their wealth and even up to the fourth decile it represents 73%. Although the rich may have considerably more money in superannuation, it represents only a small proportion of their wealth portfolio. Conversely, the poor do not have much in superannuation but often it is the only wealth asset they own. The introduction of award-based superannuation in 1986 and the Superannuation Guarantee (SG) in 1992 appear to have helped all people to make some savings. With contributions being made for almost every employee under SG and these funds not being available until retirement, people who formerly would have had no assets at all are now saving a percentage of their earnings each year. As noted above, for the least wealthy, this forced saving is very significant and often represents almost all of their wealth.

While superannuation and home equity are reasonably widely distributed across the entire adult population, this is not true for all assets. Shares are particularly concentrated, with 86% being owned by the wealthiest 10 percent of families (see Table 8). Rental properties, cash deposits and business assets are also highly concentrated in the hands of the rich. The proportions owned by the richest ten percent are 62%, 60% and 50% respectively. The end result of this concentration is that the wealthiest one-tenth of Australian families has 45% of the wealth and the top half has 93% of the wealth. The bottom half of families have only seven percent.

Table 8 Proportion of Income Unit Wealth by Type of Asset and Wealth Percentile, Australia, June 1998

Decile or Percentile	Proportion of Income Units	Interest	Shares and	Rental			Super (%)	Wealth (net) (%)
		Bearing Deposits (%)	Other Investments (%)	Home (net) (%)	Properties (net) (%)	Business (net) (%)		
1 st	10	0	0	0	0	0	0	0
2 nd	10	1	0	0	0	0	1	0
3 rd	10	1	0	0	0	0	3	1
4 th	10	2	1	1	0	0	6	2
5 th	10	3	1	4	2	2	7	4
6 th	10	4	1	8	5	3	8	6
7 th	10	6	2	13	6	5	9	9
8 th	10	9	3	16	9	13	14	13
9 th	10	15	6	22	18	27	18	20
10 th	10	60	86	36	62	50	34	45
91-95	5	14	10	15	16	22	12	15
96-99	4	21	25	15	24	27	16	18
100	1	25	52	6	22	2	6	12
Total	100	100	100	100	100	100	100	100

Source: Author's calculations based on ABS 1998 Survey of Income and Housing Costs

Note: Columns may not sum correctly due to rounding

Changes in the Distribution

The last section showed quite clearly that there has been significant growth in household wealth since 1986. In the next few paragraphs we consider whether the growth has contributed to greater wealth inequality. To study this question we need to examine changes in the distribution of wealth and there are a number of ways this can be done. I will use three – the Gini coefficient, the top five percent and examination of selected groups.

Gini

One method is to derive the Gini coefficient. In the introduction I noted that a coefficient of one represents all wealth held by one person while a value of zero represents total equality across the population. Therefore, if the Gini coefficient increased between 1986 and 1998, there would be a higher concentration of wealth in the hands of the rich, while if it decreased the wealth would be redistributed from the rich to the poor.

Table 9 shows the Gini coefficients for overall wealth and selected assets in 1986 and 1998. The overall wealth figures show that there has been no change in the distribution of wealth. The Gini coefficient was 0.64 in both years (Row 1). This is despite increases in the concentration of wealth held as interest bearing deposits, home equity and net business assets (Rows 3, 4 and 5). The significant decrease in the concentration of superannuation (Row 6) is the counterbalance to these three increases. If superannuation is removed from the overall wealth calculation, the picture changes significantly. In Row 2, the Gini coefficient for wealth excluding superannuation has been calculated. The 1998 value is now higher than the 1986 figure signifying that the concentration of wealth (excluding superannuation) has increased. In summary, the key reason that overall wealth inequality has not increased in the twelve years to 1998 is the Superannuation Guarantee, which has offset growing inequality in many other forms of wealth.

Table 9 Estimated Gini Coefficients for Wealth, Australia, 1986 and 1998

Row		1986	1998
1	Wealth (net)	.64	.64
2	Wealth (excluding superannuation)	.67	.70
3	Interest Bearing Deposits	.88	.90
4	Housing (net)	.66	.69
5	Business (net)	.91	.93
6	Superannuation	.83	.67
7	Shares and Other Investments	.99	.98
8	Rental Properties (total value)	.94	.94

Sources: 1986 data from NATSEM Tech Paper No.14 (Bækgaard, 1998),
1998 data are author's calculations based on ABS 1998 Survey of Income and Housing Costs

Superannuation in 1986 was generally only available to government employees and those employed in some large white-collar industries. This is reflected in the high Gini coefficient for 1986 superannuation of 0.83. As mentioned earlier, since 1986 two initiatives have greatly increased the coverage of superannuation. The first was the introduction of award-based superannuation in 1986

and second was the introduction in 1992 of the Superannuation Guarantee (SG). The SG extended superannuation cover to almost all employees. The impact of this widespread coverage and consequent wealth accumulation is reflected in the lower Gini coefficient of 0.67 for 1998.

It seems counter intuitive to say the rich got richer, the poor stayed at zero and that wealth inequality did not change. Comparison by decile between 1986 and 1998 suggests that the reason for it is the much higher superannuation estimates for deciles 2 to 4 (see the tables in the Appendix). The improvement in the financial position of these people is balancing losses in other areas.

In summary, wealth in the form of home equity, business assets and cash deposits became more concentrated between 1986 and 1998 and it appears that the inequality of wealth would have increased had it not been for the introduction of superannuation. Superannuation has neutralised the concentration of wealth in other areas and the overall result is the concentration of wealth has not changed.

Top Five Percent

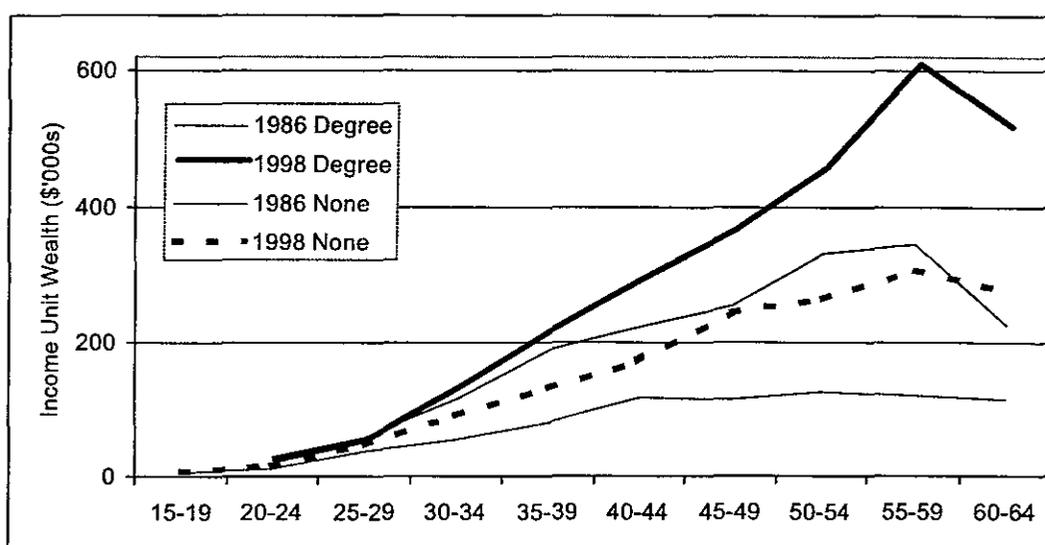
A second method of examining changes in the distribution of wealth is to look at the proportion of wealth owned by the richest five percent. Greater wealth inequity will be reflected in a high proportion being held by the top five percent, while a low proportion suggests wealth equity. In Table 10 the proportion of wealth held by the wealthiest five percent in 1986 and 1998 are compared.

Table 10 Proportion of Wealth Held by Wealthiest Five Percent, Australia, 1986 and 1998

Proportion of assets owned by wealthiest five percent		
	1986	1998
Interest Bearing Deposits	36%	46%
Shares and Other Investments	77%	76%
Housing (net)	23%	21%
Rental Properties (net)	45%	46%
Business (net)	37%	29%
Superannuation	18%	22%
Wealth (net)	29%	30%

Sources: 1986 data are author's calculations based on ABS 1986 Income Distribution Survey, 1998 data are author's calculations based on ABS 1998 Survey of Income and Housing Costs

Figure 5 Selected Family Head Qualifications by Age, Australia, 1986 and 1998, (\$)



Source: Author's calculations based on ABS 1986 Income Distribution Survey and 1998 Survey of Income and Housing Costs

Overall, qualifications clearly impact on the accumulation of wealth. A clear relationship exists between the level of education and the wealth decile. The linkage is clear in both 1986 and 1998.

5. SUPERANNUATION AND WEALTH

It has already been mentioned that superannuation coverage increased during the period 1986-1998. Over the same period the Gini-coefficient fell from 0.83 to 0.67, the biggest improvement in wealth equity of any family asset. The primary reason for this improvement is the greatly increased coverage of superannuation. Coverage for both men and women has increased dramatically since the introduction of the three percent industrial award superannuation in 1986 and the Superannuation Guarantee in 1992. The latter of these, with its compulsory employer contributions for every employee earning more than \$450 per month, is having a dramatic impact on the coverage of superannuation. Using the superannuation data imputed onto the 1986 families (Bækgaard, 1998), four in ten families had some superannuation assets in 1986. The 1998 model estimates that this has doubled to eight in ten families. The techniques used to model this imputation were discussed briefly in Section 2, are discussed in more detail in Kelly, Percival and Harding, 2001 and are in line with ABS estimates. ABS estimates that 50% of adults in 1993 were covered by superannuation (ABS 1995) and 88% of people aged 15 to 54 with a job had superannuation in 2000 (ABS 2001).

Table 12 Income Units with Superannuation by Sex of Reference Person, 1986 and 1998

Family Reference Person	Covered (%)	Avg Balance of Superannuation a/c (\$)
1998		
Male	87.4	58,261
Female	66.6	27,811
Overall	81.6	51,391
1986		
Male	49.4	33,433
Female	19.7	15,429
Overall	42.0	31,326

Source: see text

Note: Reference person is the male partner in a couple income unit, the parent in a one-parent income unit and the person in a one-person income unit.

The improvement for families headed by females was even more impressive. The ratio of families with coverage rose from one-fifth to two-thirds (Table 12). This is particularly encouraging given that female-headed families represent a significant proportion of the poor.

The improvement in wealth for the poor through superannuation is welcome but it may mean an eventual improvement in their living standards rather than an actual one right now. There may not be any improvement of the day-to-day living standards of these families. Superannuation cannot be accessed until at least age 55 except in a very limited range of circumstances. This means the wealth of poor families may be increasing but it may be of little practical value, as the family cannot use it. The superannuation will provide a better living standard in retirement, and this is the primary purpose of superannuation, but until that time it really is of no help to struggling families.

For female lone parents, the build-up of superannuation assets may be overstating their current financial situation by allocating an asset to them that they cannot use. A 1998 study of female single parents would show that those with superannuation are an average \$28,000 better off than their no-superannuation peers. In practice both these groups of women are in the same financial position until retirement.

6. CONCLUSION

It is often said that the rich are getting richer and the poor are getting poorer. This paper discussed whether it is true.

Over the period 1986 to 1998 overall household wealth increased at a rate of 8.6% per annum from an estimated \$645 billion in 1986 to \$1,743 billion in 1998. At the same time the number of millionaires rose from 20,000 to 180,000 (i.e. they doubled every four years). Shares and superannuation grew at even higher rates while cash deposits, business assets and housing related assets were lower. All of the assets grew at rates above the rate of inflation (4.0%). However, this does not tell us if the rich got richer and the poor got poorer. The richest ten percent of Australians increased their wealth from \$403,000 in 1986 to an estimated \$852,000 in 1998. The rich thus did get richer. The poorest decile of Australian families had no wealth on average in 1986 (in fact, they had an average debt of \$2,000) and still had none in 1998 (their debt decreased slightly). The poor are thus not getting absolutely poorer; they couldn't, because they already had nothing.

The introductory statement implies the gap between rich and poor is growing and hence the distribution of wealth is becoming more inequitable. The paragraph above confirms that the gap is large but it does not tell us if the gap is growing. Three techniques were used in this paper to investigate if it was growing – the Gini coefficient, the share held by the top five percent and examination of selected groups

The Gini coefficient is a summary measure of inequality. This paper found that the coefficient did not change between 1986 and 1998. While there has been no overall change, wealth in the form of home equity and cash deposits is more concentrated today and it appears that the inequality of wealth would have increased had it not been for the introduction of compulsory superannuation. Superannuation neutralised the growing concentration of wealth in other areas.

The second technique for measuring a trend in the gap was to measure the proportion of wealth held by the richest five percent in 1986 and 1998. This technique provides the same conclusion as the Gini co-efficient – there is no significant change in the overall distribution of wealth.

The third method of examining change in wealth inequity does not look at the overall change but rather looks at selected groups. An examination by family type suggests that one-parent families have moved from the very poorest wealth deciles to a slightly less poor decile (from the 1st and 2nd to the 3rd decile). Inequity has been reduced for this group, although they are still poor.

Examination of the various assets held by the group suggests that the movement may be due to increasing superannuation assets. While technically true that they have increased wealth, the

inability to access the funds until retirement limits its day-to-day value. As single parents moved up, 'Couple' families also moved. 'Couple Only' families moved out of the middle and towards the wealth end, while 'Couples with dependent children' at the lower end of the spectrum moved up slightly. Some single person families moved down into the lowest decile.

The influence of certain variables on the distribution and accumulation of wealth were investigated in the latter part of the paper. Age and education were found to influence the accumulation of wealth. On average, as age increases towards 60, family wealth increases. After age 60, wealth remains steady or declines. The level to which wealth increases is dependent on the type of family. For the average "Couple" family, wealth will level off at around \$400,000, while for the average single person or single parent family it will be around \$200,000. Qualifications also clearly impacted on the accumulation of wealth. Higher education resulted in higher wealth in both 1986 and 1998 and across almost all ages.

Compulsory superannuation has resulted in dramatically increased coverage. For women the proportion covered has risen from an estimated 20 percent to 66 percent. This increased coverage is contributing to a reduction in wealth inequity. But the improvement may be a technical improvement rather than an actual one. While superannuation is increasing wealth, it may not be providing better living standards for the poor right now, because of the inability to access superannuation until retirement.

The gap between the rich and poor is large but, in overall terms, the inequality of wealth appears to have remained stable since 1986 and 1998. As noted earlier, this appears to be due to reductions in the inequality of superannuation wealth offsetting increases in the inequality of most other forms of wealth.