Statistical Insights: New evidence shows that almost 40% of people are economically vulnerable in the OECD

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Looking at poverty and vulnerability through an assets lens

Households' economic well-being is usually measured by income. But what if there is an interruption in the flow of income? Or an unexpected expense? Such events highlight the importance of wealth accumulation to sustain people's economic well-being. New evidence on the distribution of wealth shows that in the OECD many people, who are not considered income poor, are nevertheless economically vulnerable in the event of a sudden loss of income, e.g. through unemployment, family breakdown, or disability. If they were to suddenly stop receiving income, such people would not have enough ready assets to keep living above the poverty line for more than three months.

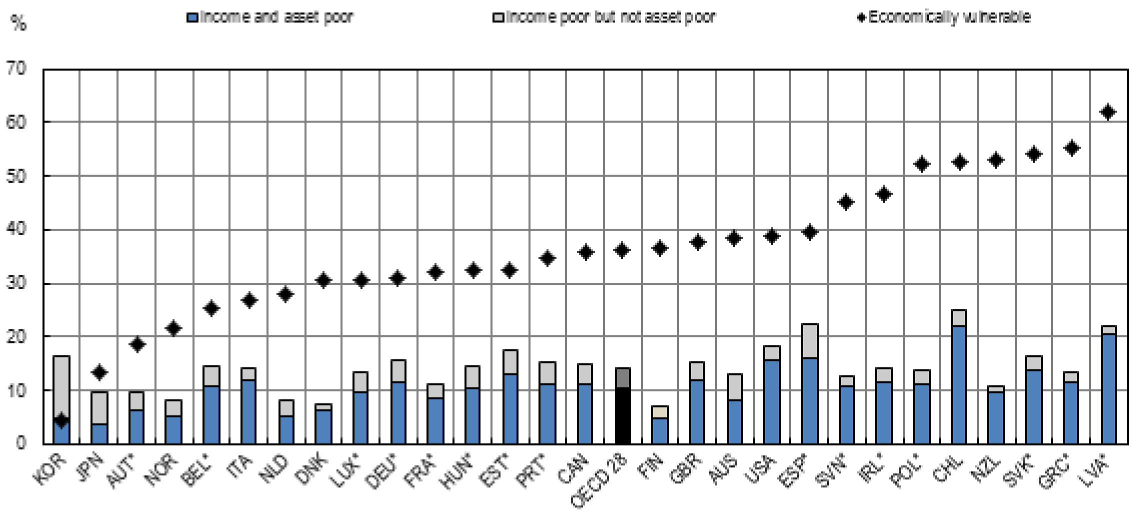
Key findings

Since incomes can be saved and assets can generate returns, one might expect households' incomes and assets to be closely correlated. However, OECD data on wealth distribution shows that this correlation is far from perfect. In particular, the elderly tend to have substantial assets, but lower incomes. Overall, in the OECD area, less than one in three households belongs to the same quintiles for both income and wealth.

Figure 1 shows that, on average in the OECD, 11% of people are both income and asset poor, and another 36% are not income poor but are economically vulnerable because of insufficient ready assets.

Figure 1. Income and asset-based poverty

Share of individuals who are income poor, asset poor or economically vulnerable, by country, latest available year



Note: Countries are ranked in ascending order of the share of individuals who are "economically vulnerable". Because of different sources and income definitions, the income poverty rates shown in this figure differ from those reported in the OECD Income Distribution Database. * means that income is defined as household gross income instead of household disposable income.

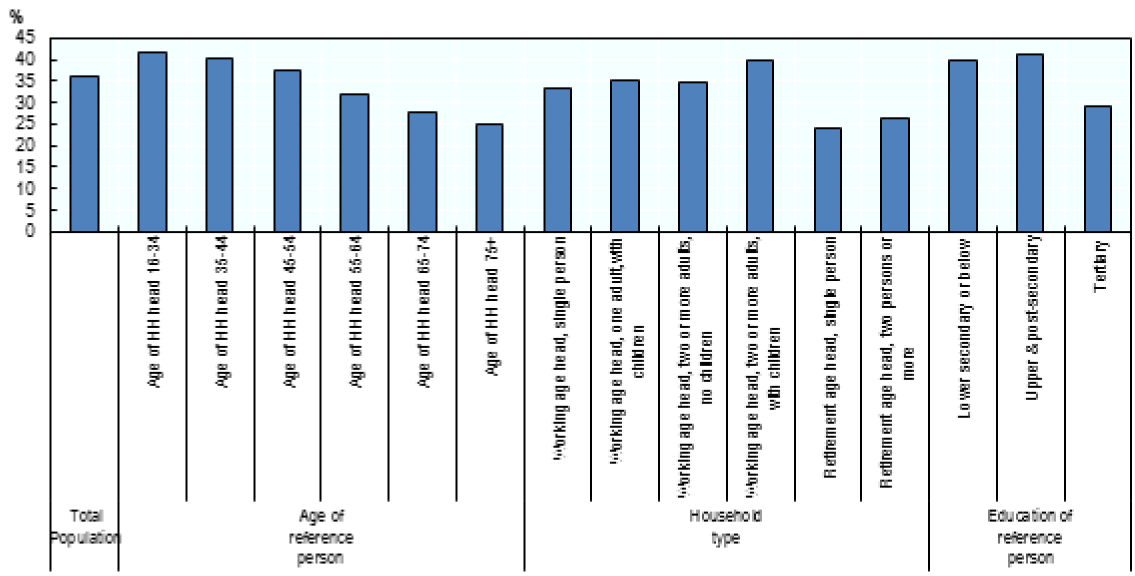
Source: OECD Wealth Distribution Database, https://stats.oecd.org/Index.aspx?DataSetCode=WEALTH

The scope of the problem varies widely across countries. In Greece and Latvia, for example, more than half of the population lacks enough liquid financial wealth to maintain just above poverty-level income for three months. By contrast, the share is much lower in Korea and Japan.

Figure 2 shows how different population groups are affected by economic vulnerability. Vulnerability tends to be highest among working-age two-parent households and those headed by a person with only a primary or secondary education. Economic vulnerability also diminishes with the age of the head of household, as assets are generally accumulated over one's life.

Figure 2. Economic vulnerability by population group

Share of individuals who are economically vulnerable, by population group, latest available year, OECD average



Note: The OECD average is a simple average of the 28 countries with available information.

Source: OECD Wealth Distribution Database, https://stats.oecd.org/Index.aspx?DataSetCode=WEALTH

The fact that so many individuals who are not income poor are still vulnerable to sudden losses of regular income – whether from losing their jobs, family breakdown, disability or other causes – needs to be factored into policies. One issue that may need addressing is waiting periods. While most OECD countries have social safety nets, access to relief may involve a significant delay to establish or assess eligibility, during which families may incur significant distress.

The measure explained

Definitions of asset-based poverty vary, depending on which assets are considered, what income level is deemed necessary for an adequate standard of living, and how long that income level could be maintained from cashing in available assets. We define relevant assets as excluding housing wealth, since people still need a place to live even when they have no income. An adequate income level is defined as the standard OECD poverty line of 50% of median disposable income; and we assume that assets would need to yield three months of that income. So individuals are “asset poor” if they do not have enough liquid financial wealth to keep them above the standard poverty line if their incomes stopped for three months. Evidence on alternative asset-based poverty measures is available in the *OECD Wealth Distribution Database*.

In the *OECD Wealth Distribution Database*, household net wealth means the real and financial assets held by private households resident in the country, net of liabilities. Assets and liabilities are classified based on the nomenclature in the *OECD Guidelines for Micro Statistics on Household Wealth*, which distinguishes five categories of non-financial assets, eight categories of financial assets, and three categories of financial liabilities. The data in the *OECD Wealth Distribution Database* are by household, rather than by persons or adults: contrary to the convention when analysing household *income*, no adjustment is made for differences in household size.

Where to find the underlying data?

OECD Wealth Distribution Database, https://stats.oecd.org/Index.aspx?DataSetCode=WEALTH

Further reading

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