

# Social origin and wealth mobility

The case of Britain's younger generation

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Full paper: [SSRN Abstract 3583023](#)

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# Introduction

**Wealth** has become an important policy agenda

- Asset-based welfare
- Income and wealth
- Substantial housing and pension wealth
- Inter- and intra-generation inequality

The younger half of working age population

- Wealth is likely to become more important
- Current economic environment not too favourable
- Increasing intergenerational link in wealth outcomes

# Accumulation as a **process**



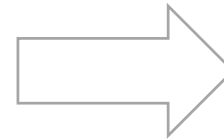
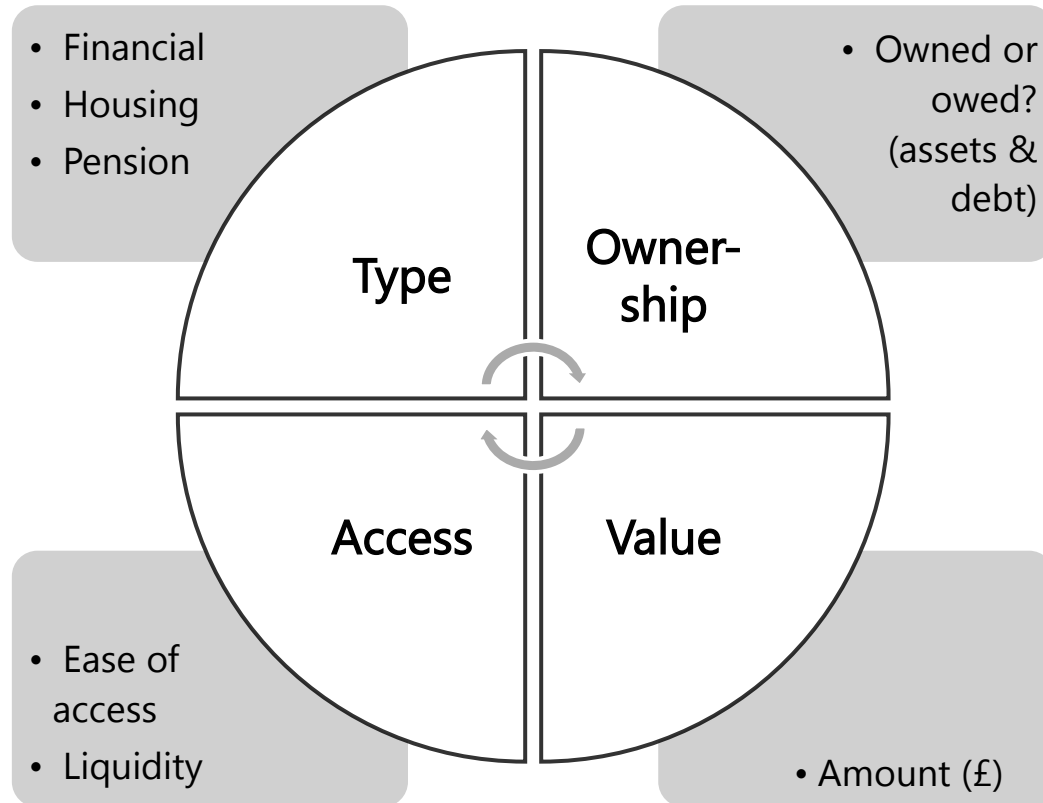
- **Wealth:** cumulative in nature
- Important to look at **early/mid stages** (aged 25 – 49)
- **How** does the younger generation accumulate wealth?
  - Systematic (dis)advantages?
- Why important:
  - Different wealth outcomes
  - Central to the principles of asset-based welfare

# Data & analytical strategy

- Wealth and Assets Survey (WAS), 2010/12 – 2014/16 (w3-w5)
- Longitudinal sub-sample, aged 25-49 (n=2,456)
- Methodological details
  - Individualised Balance Sheet Approach\*
  - **Saver types**: Factor Mixture Modelling (FMM)
  - **Wealth mobility** by parental home-ownership: Multi-group Latent Transition Analysis (LTA)

# Wealth as data

## Four aspects to consider



We can learn about how individuals engage with the 'system' through:

**Risk perception**

**Preferences**

**Patterns of engagement**

# Individualised Balance Sheet Approach

	Wealth Type	DATA - 9 variables	Amount
↑ Assets	Financial Asset	Cash savings	Reported
		Investments	Estimated
	Property Asset	Housing (main residence)	Value if sold today
	Pension Asset	DB Pension	DB – Estimated
		DC Pension	DC - Reported
		Private pension	Reported
↓ Debt	Financial Debt	Consumption debt	Reported
		Personal loans	Reported
	Property Debt	Mortgages (main residence)	Reported

# Two-part approach in FMM

- Non-negative, zero-preponderance in data
- **Two-part approach:** break every variable into two parts (binary:  $u_i$  & continuous:  $v_i$ )

$$u_i = \begin{cases} 1, & \text{if } y_i > 0 \\ 0, & \text{if } y_i = 0 \end{cases}$$

$$v_i = \begin{cases} \log(y_i), & \text{if } y_i \neq 0 \\ (\text{irrelevant}), & \text{if } y_i = 0 \end{cases}$$

- **Factor Mixture Modelling**

- Use the binary part ( $u_i$ ) for establishing typology – LCA

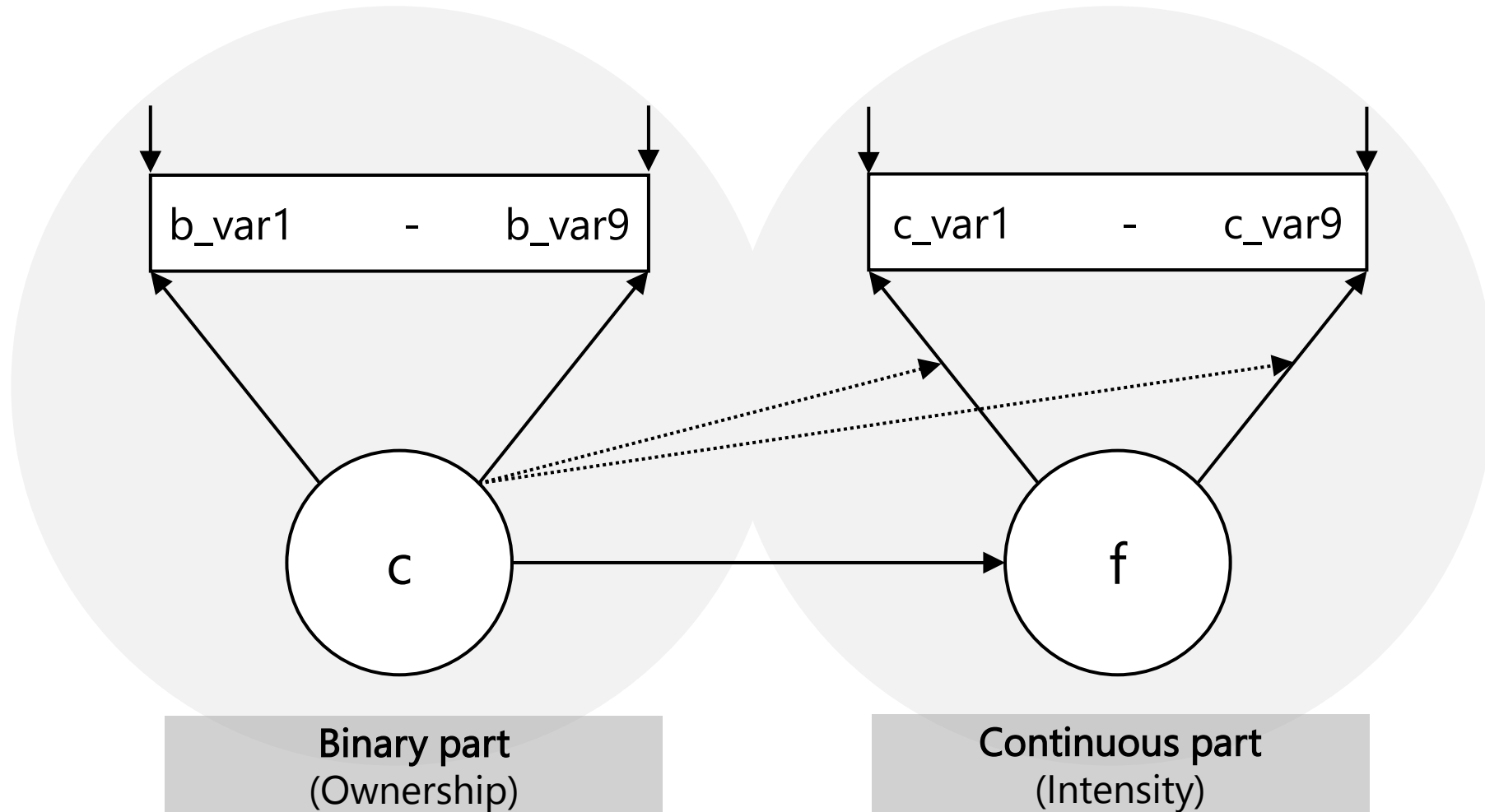
$$P(\mathbf{U} = \mathbf{u}) = \sum_{c=1}^C \gamma_c \prod_{j=1}^J \prod_{r_j=1}^{R_j} \rho_{j,r_j|c}^{I(u_j=r_j)}$$

- Use the continuous part ( $v_i$ ) for measuring the intensity - FA

$$v_{jc} = \tau_{jc} + \lambda_{jc}\eta_c + e_{jc}$$

# Establishing saver types

using Factor Mixture Modelling (FMM)





# Results: 4 saver types

Investor savers

£££



Traditional savers

£££



Property saver-dissavers

££



Undersavers

£



£££

High

££

Med

£

Low

(Total wealth)



Cash



Investmt



Housing



DB

Pension



DC

Pension



Personal

Loan



High



Medium



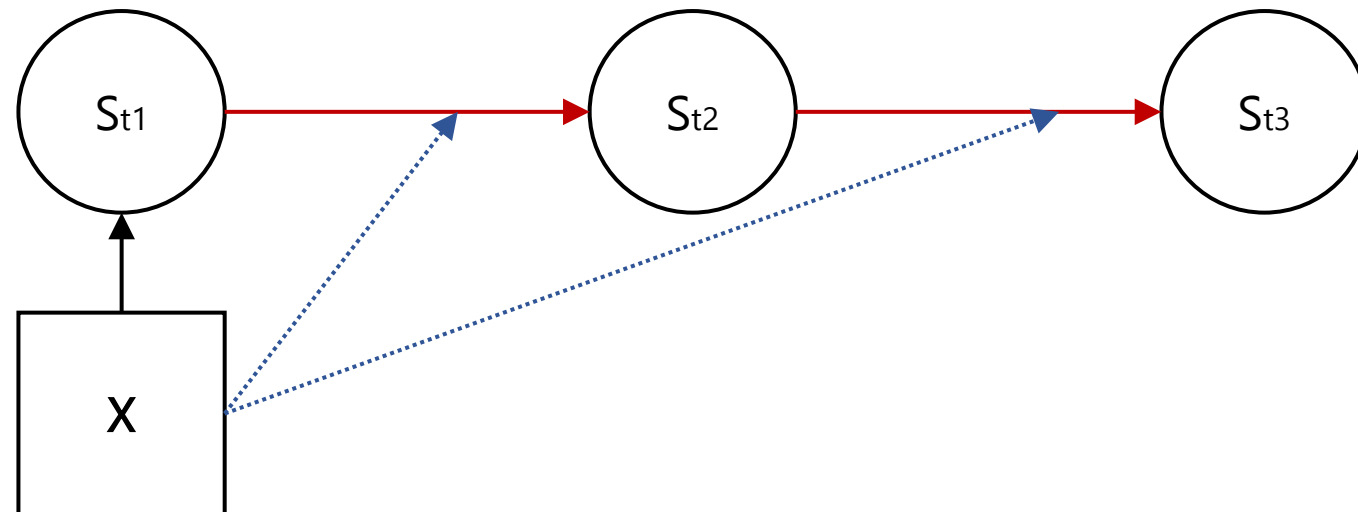
Low

(specific wealth type)

# Wealth mobility

## Wealth mobility across three time points

- **Covariates** predict the initial saver type membership ( $S_{t1}$ )
- **Wealth mobility**: transition probabilities from  $t1$  to  $t3$
- **Social origin**: do transition probabilities differ by parental home-ownership?



# Longitudinal extension

- Initial saver type membership ( $S$ ) predicted by covariates ( $\mathbf{X}$ ) using Latent Transition Analysis (**LTA**)

$$P(\mathbf{U} = \mathbf{u}) = \sum_{s_1=1}^S \cdots \sum_{s_T=1}^S \delta_{s_1} \tau_{s_2|s_1} \cdots \tau_{s_T|s_{T-1}} \prod_{t=1}^T \prod_{j=1}^J \prod_{r_{j,t}=1}^{R_j} \rho_{j,r_{j,t}|s_t}^{I(u_{j,t}=r_{j,t})}$$

- Differences in the transition probabilities ( $\tau_{s_T|s_{T-1}, w}$ )

by parental home-ownership ( $w$ ) using **Multi-group LTA**

$$P(\mathbf{U} = \mathbf{u} | W = w, \mathbf{X} = \mathbf{x}) = \sum_{s_1=1}^S \cdots \sum_{s_T=1}^S \delta_{s_1|w}(\mathbf{x}) \tau_{s_2|s_1,w} \cdots \tau_{s_T|s_{T-1},w} \prod_{t=1}^T \prod_{j=1}^J \prod_{r_{j,t}=1}^{R_j} \rho_{j,r_{j,t}|s_t,w}^{I(u_{j,t}=r_{j,t})}$$

# Results: Initial saver type & wealth mobility

	Class membership				Transition probabilities			
	US	PSD	TS	IS	Stable	Up	Down	All
Parental homeownership	21.6%	30.2%	30.2%	18.1%	80.3%	12.7%	7.0%	100.0%
Non-parental homeownership	36.2%	30.2%	23.7%	9.8%	85.7%	9.3%	5.0%	100.0%
All					84.3%	10.7%	4.9%	100.0%

Note: TS - traditional savers, US - undersavers, IS - investor savers and PSD - property saver-dissavers.

# Wealth mobility

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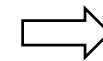
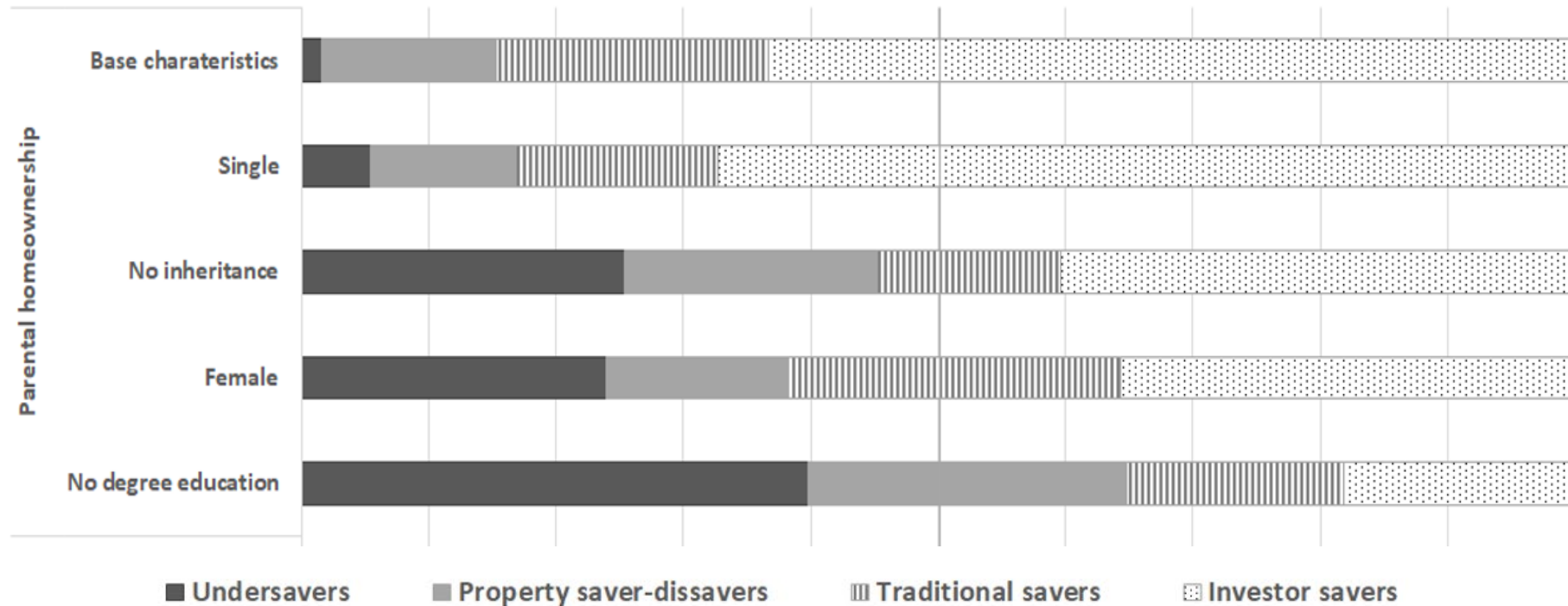
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# Initial saver types

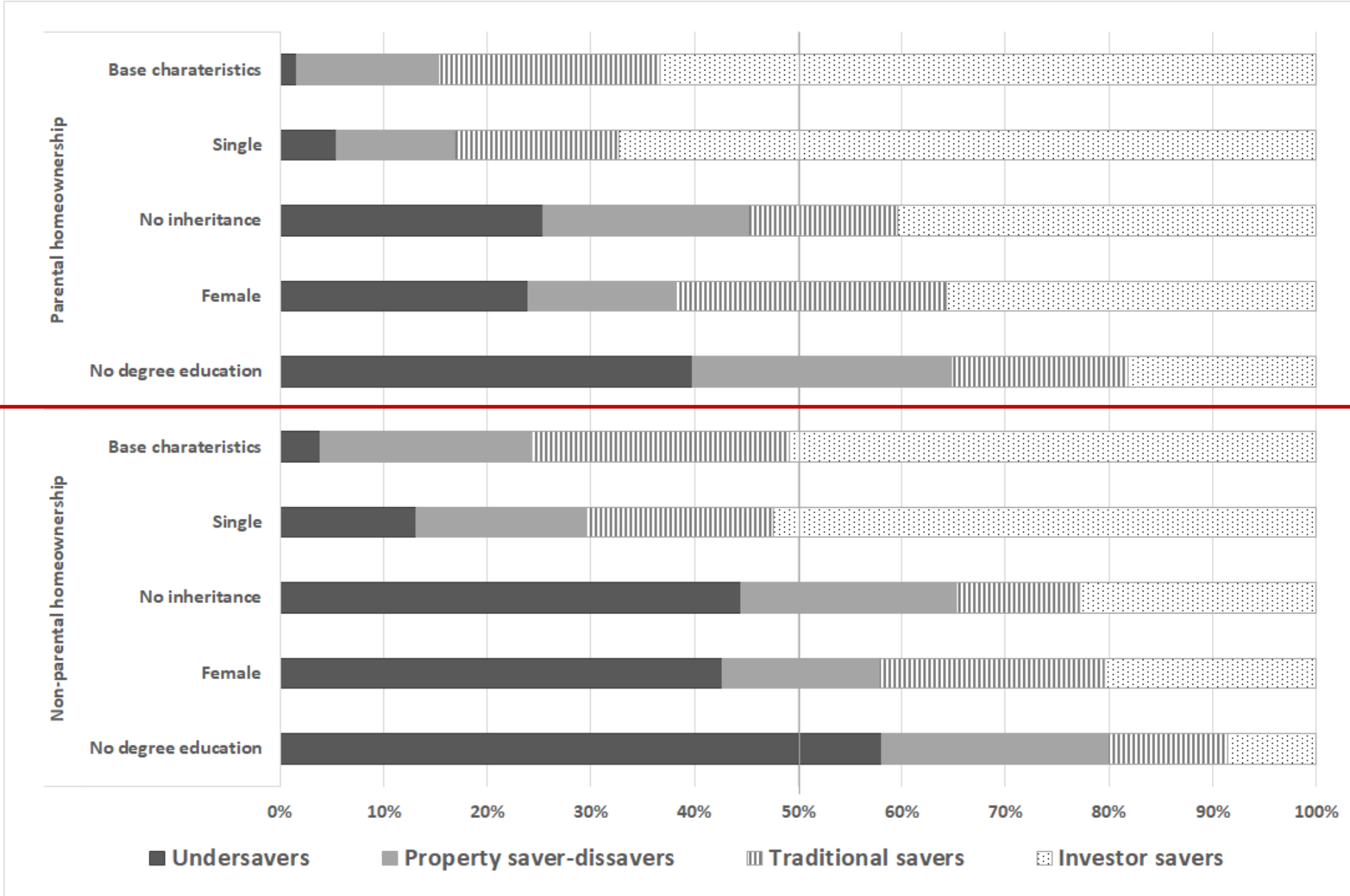
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# Social origin: parental home-ownership



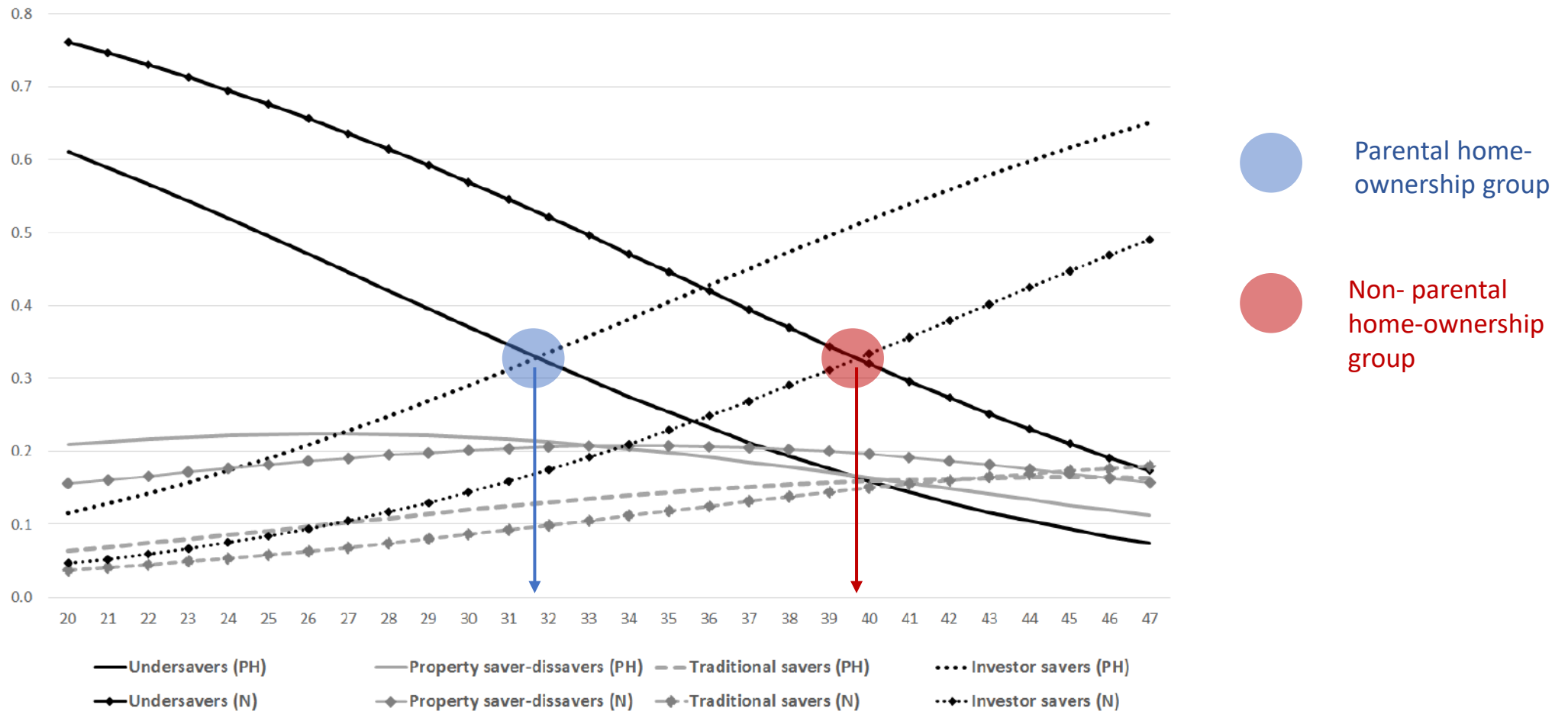
Man  
35-year-old  
Married  
Income £36,000 pa  
Univ degree  
Parental HO  
Inheritance (> £15k)



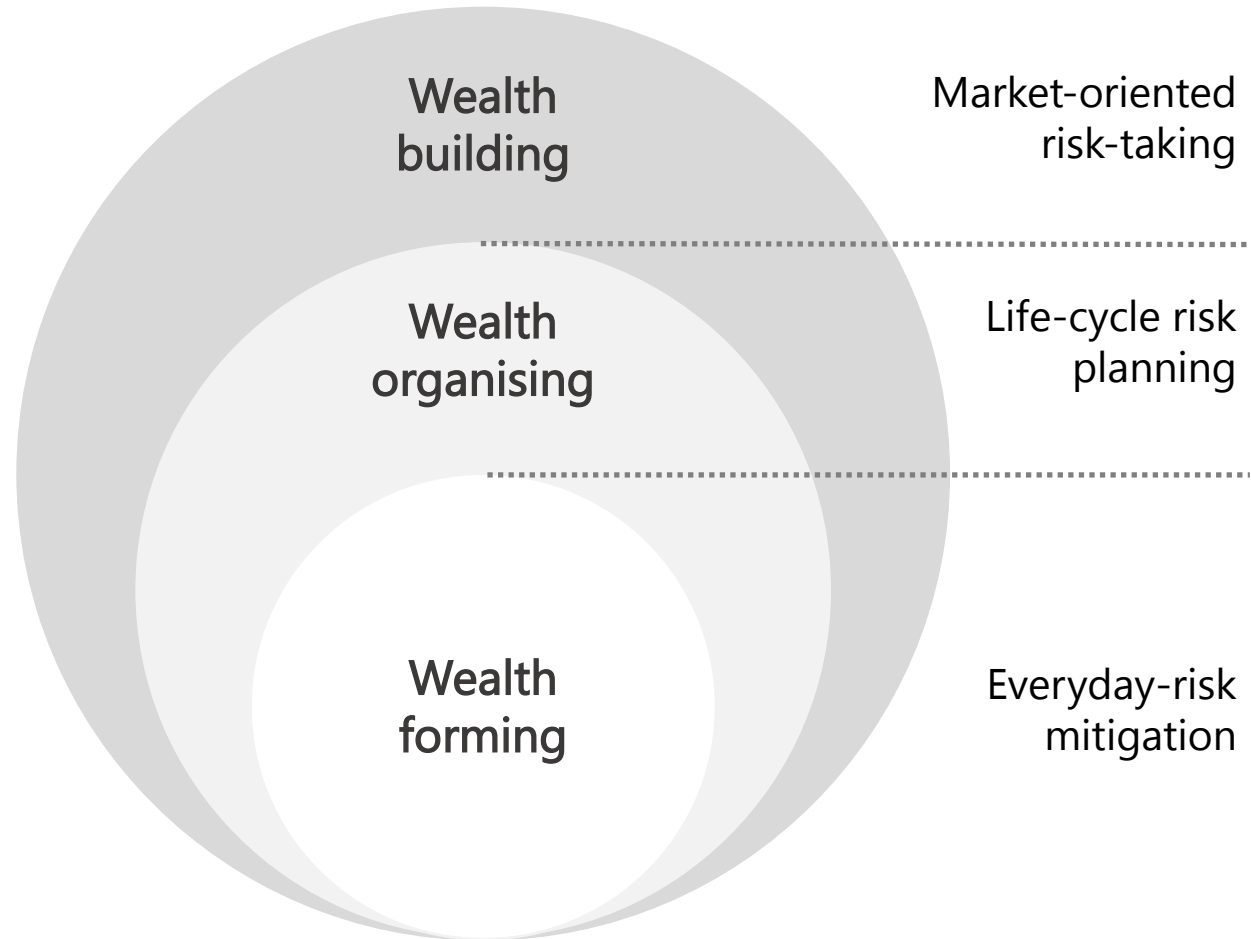


# Wealth mobility

## by saver types, age and social origin



# Stages of wealth accumulation



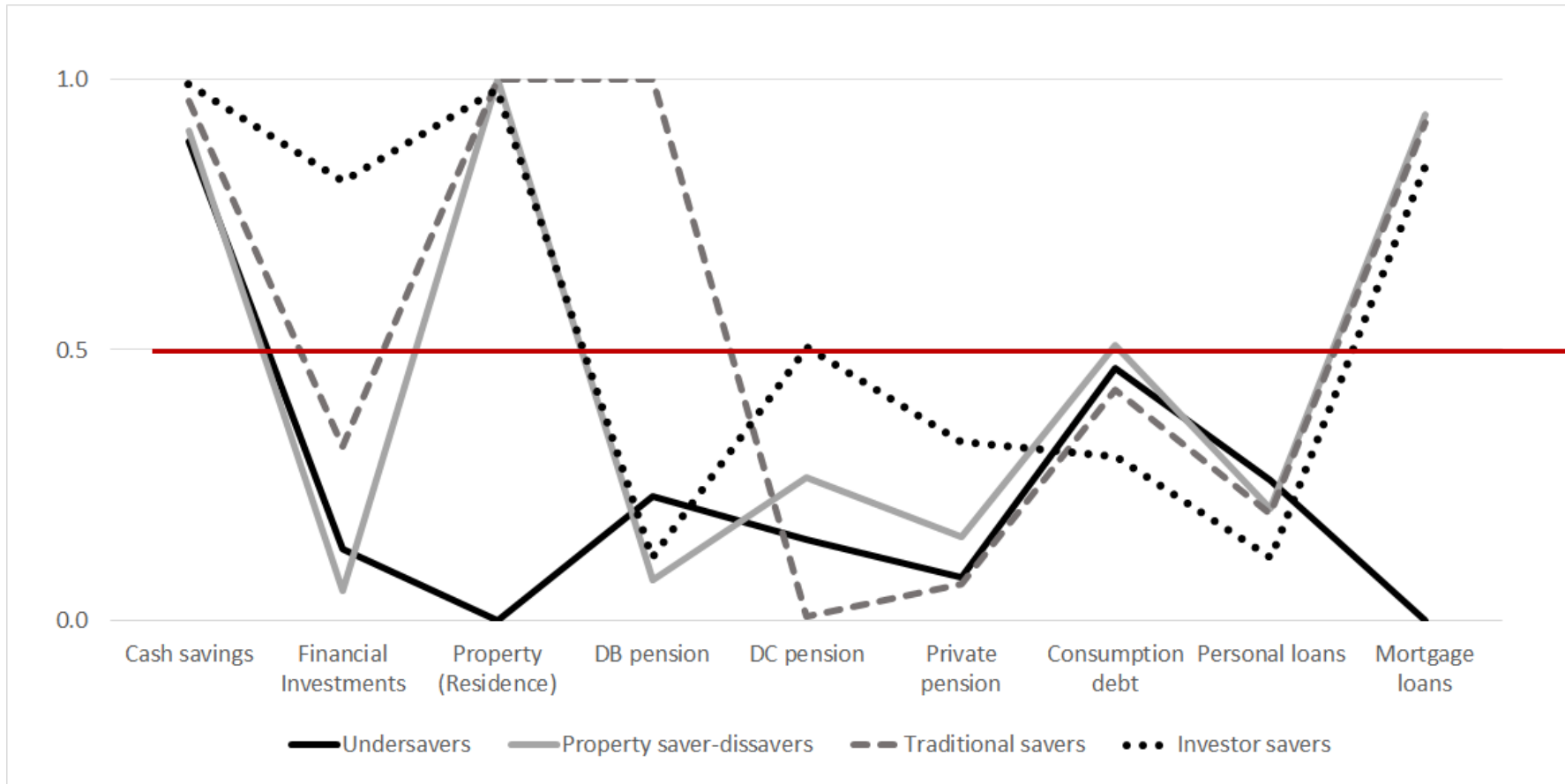
Thank you

Additional slides

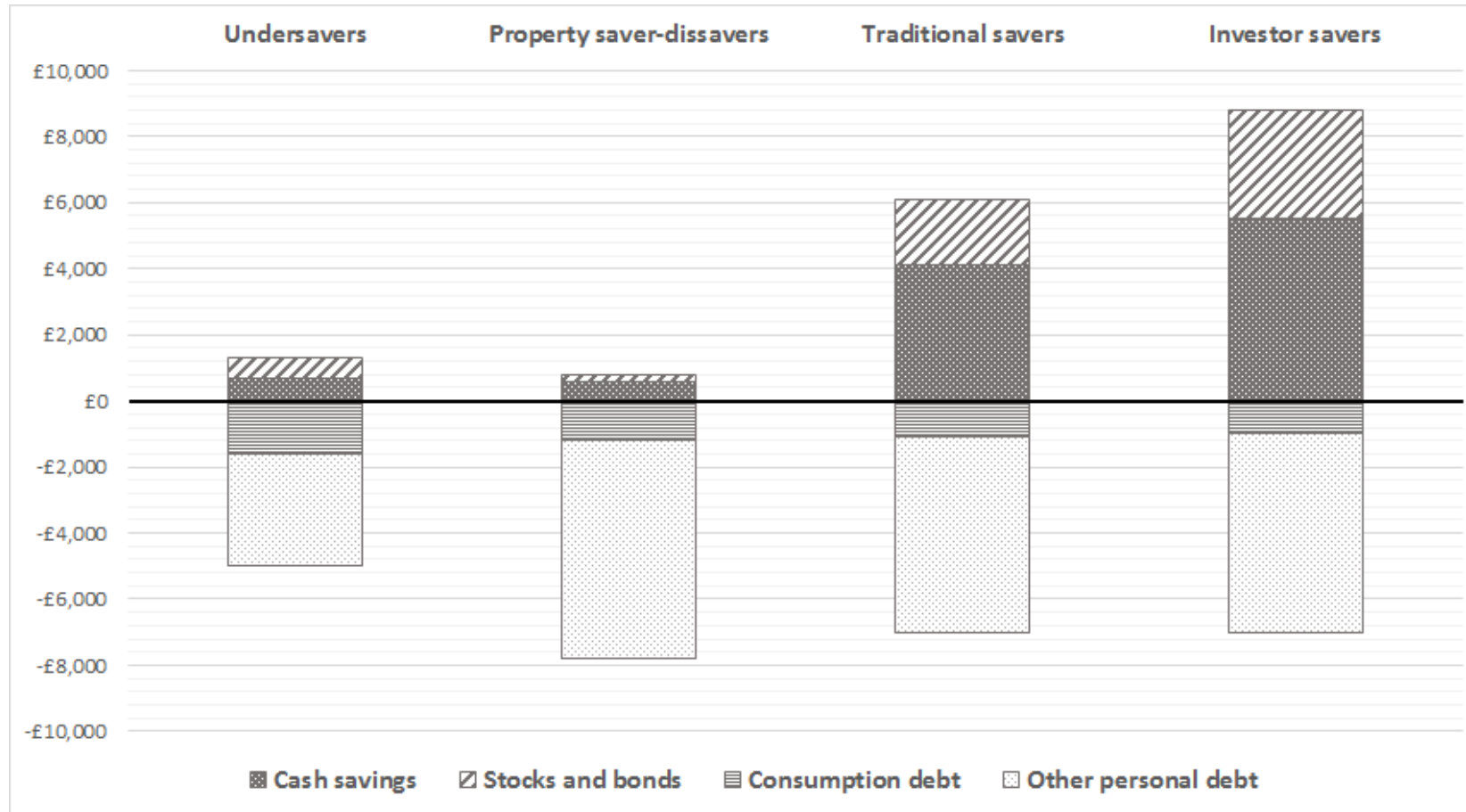
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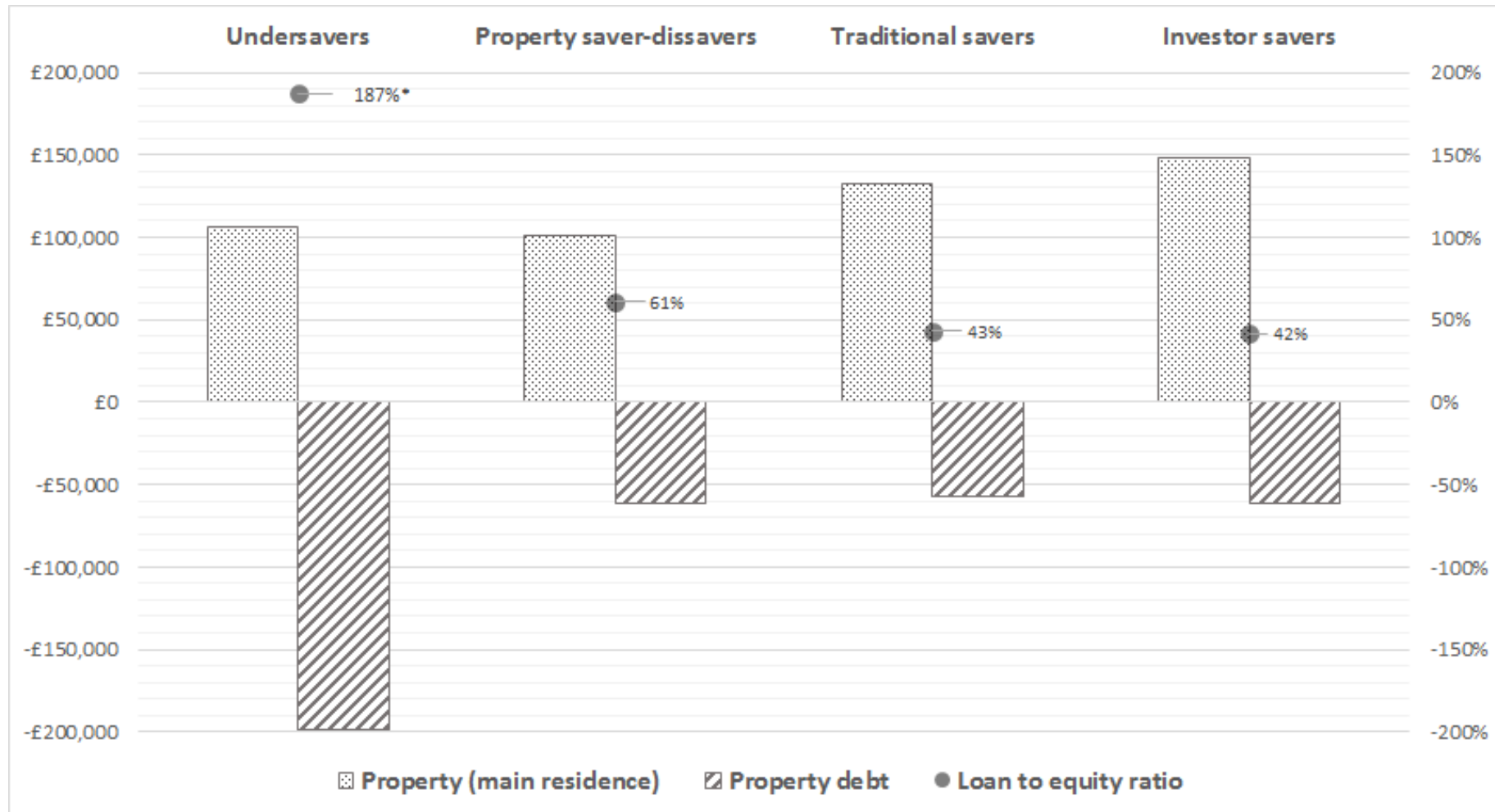
# Four Saver types



# Financial wealth by saver type

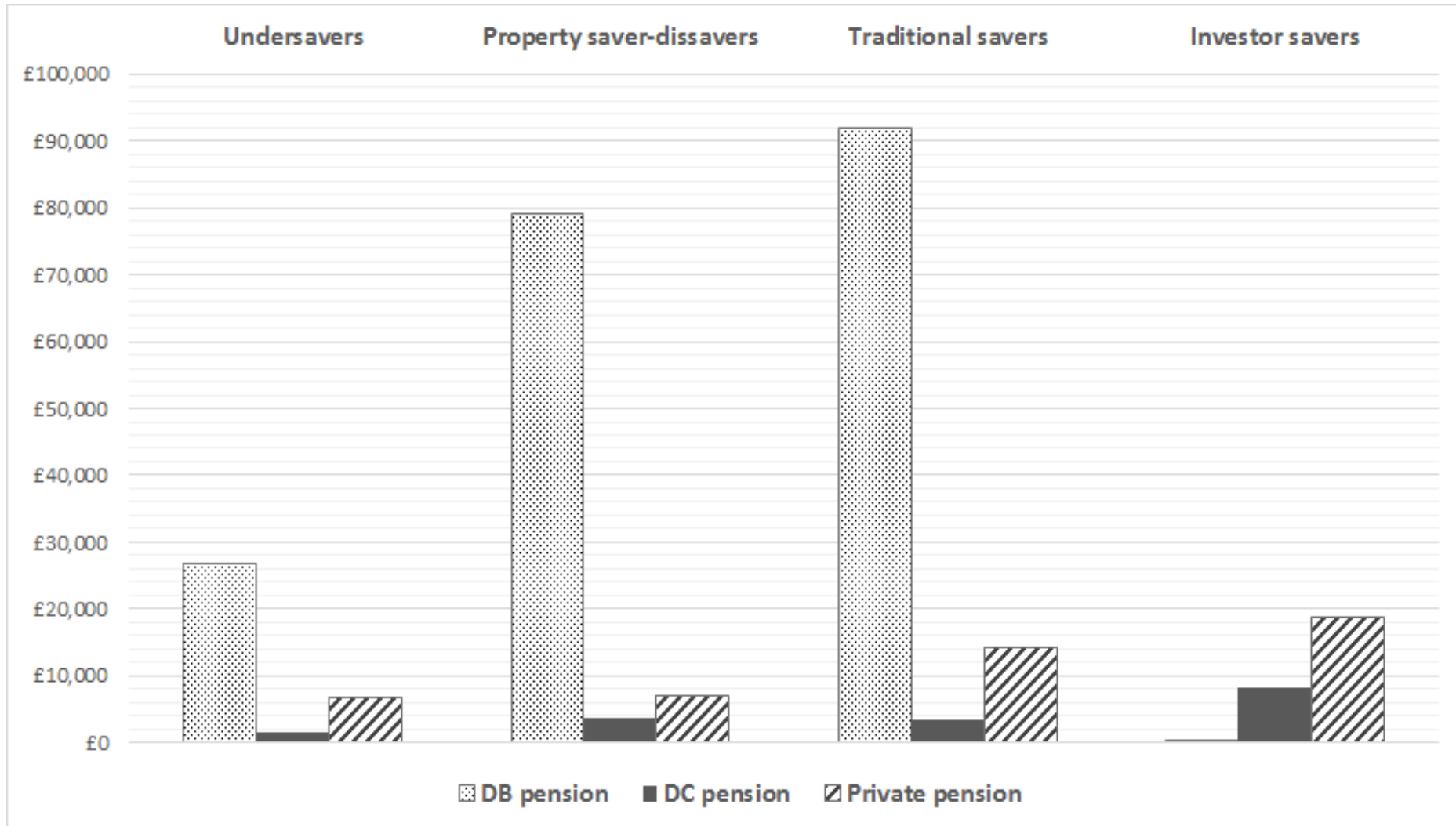


# Housing wealth by saver type





# Pension wealth by saver type



# Pensions Commission; AE and its effect

From 12 o'clock, clock-wise

CSX5: Savings (incl. ISA)

CI5: Financial investments

CPR5: Property (Main res)

CDB5: DB pension

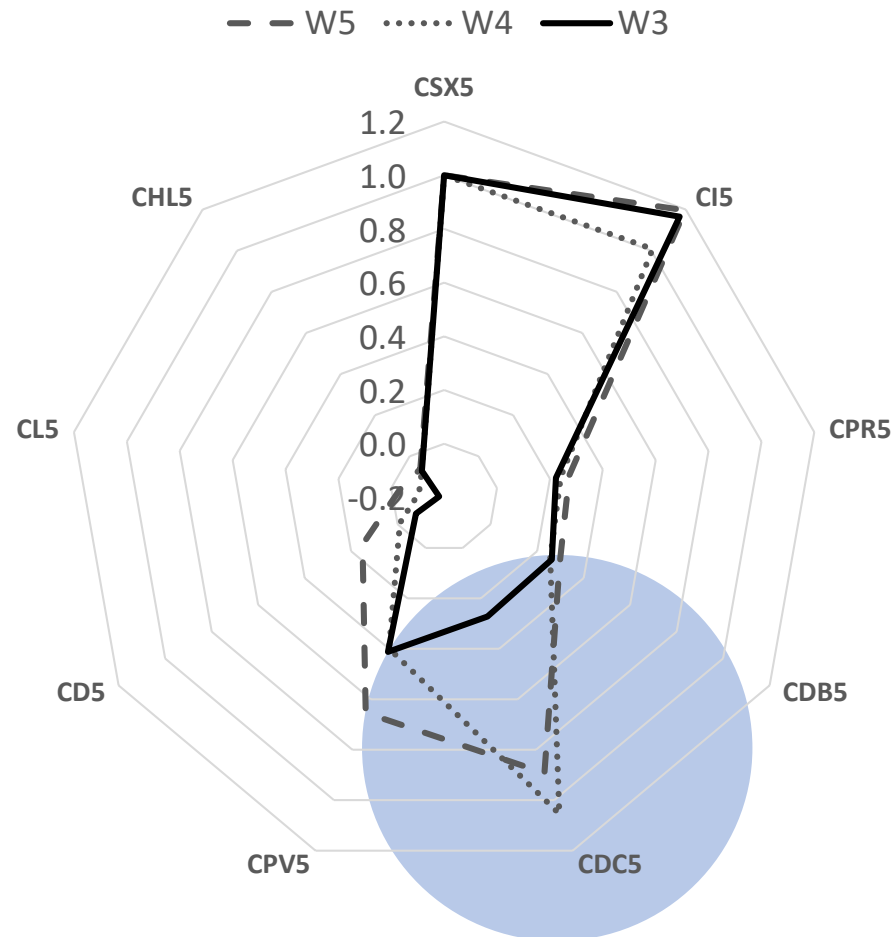
**CDC5: DC Pension**

CPV5: Private pension

CD5: Consumption debt

CL5: Personal debt

CHL5: Loan to Equity ratio



**Automatic enrolment** was introduced in October 2012 (during W4) following up on the **Pensions Commission's** recommendation.

The changes in loadings between w3 and w5 points to AE coming into effect.

More people are now saving through a workplace pension, which is important for the younger generation.

# Wealth mobility by social origin

