

CHANGES IN THE PORTFOLIOS OF SPANISH HOUSEHOLDS OVER THEIR LIFE CYCLE

The life-cycle theory predicts that individuals expect their income to decrease after retirement, and so they accumulate financial assets during their working lives to be able to sustain their spending in old age. According to this theory, the volume of savings would increase during a person's working life, and then decrease after retirement and, therefore, changes in the demographic breakdown of the population would entail changes in aggregate savings.

When determining whether household wealth increases during a person's working life and decreases after retirement, it is important to bear in mind that savings decisions are taken by individuals of different ages in diverse financial environments. Accordingly, the financial asset holdings of a given generation at a specific age are not necessarily those that might be expected of younger people. By way of example, it has been documented in both the United States and the euro area that, compared with other generations, those that have lived through stock market crashes have a lower propensity to own shares during their lifetime.¹ Thus, households with members of different ages may have different levels of wealth for reasons that do not only relate to the life cycle.

This box analyses the real and financial assets held by Spanish households throughout their life cycle, and groups them according to the date of birth of the reference person.² To this end, it uses information from the first five waves of the Spanish Survey of Household Finances, covering the period 2002-2014.³

The results suggest that, as predicted by the life-cycle theory, ownership of a main residence rises by 40 pp between the ages of 25 and 45; by 45, 80% of households

own their main residence (see Chart 1). This age profile indicates that households are not able to purchase their home until they have saved enough for the down payment, and that the possibility of saving increases as household income rises. However, the percentage of home owners does not drop after retirement, as discussed below.

By contrast, the holding of risk-bearing financial assets does show a profile of accumulation during a person's working life and subsequent dissaving.⁴ At around the age of 30, one in five households has risk-bearing financial assets, and this percentage rises throughout their working lives, up to the ages of 45-50, when approximately one in every two households owns this type of asset (see Chart 4). However, in the over-65 age group, the proportion of households owning a risk-bearing financial asset drops to one in ten, owing to the fact that people redeem their pension schemes once they retire.⁵

The amount of saving amassed in the form of a main residence basically reflects the changes in house prices between 2002 and 2014. Thus, for all the generations analysed, the median market value of the main residence rose by between €50,000 and €100,000 in the period 2002-2008 and then fell on a similar scale from 2008 to 2014 (the figures are expressed in 2014 euro). In 2014, the median market value of the main residence was €120,000 for all age groups, similar in real terms to that observed in 2002 (see Chart 2). The fact that the median value of the main residence increased and then decreased across all age groups (and that the decrease was not particularly pronounced among retirees) suggests that older households do not "dissave" by selling their main residence to move to one that has a lower value.

1 See M. Ampudia and M. Ehrmann (2017), "Macroeconomic Experiences and Risk Taking of Euro Area Households", *European Economic Review*, 91(C), pp. 146-156, and U. Malmendier and S. Nagel (2009), "Depression Babies: Do Macroeconomic Experiences Affect Risk-Taking?", *Quarterly Journal of Economics*, 126(1), pp. 373-416.

2 The year of birth is shown in groups of three years.

3 These results are based on C. Barceló, O. Bover, N. Guner, G. Kocharkov and E. Villanueva (2019), *Housing over the Life Cycle: Expectations, Inheritance and Policy*, Banco de España Working Paper (forthcoming).

4 This box analyses two forms of ownership of risk-bearing financial assets. The first includes ownership of shares (listed or unlisted) and of investment funds in which shares have a predominant weight (see Chart 3). The second (see Chart 4) includes, apart from the aforementioned assets, pension funds, life insurance (unit-linked and mixed) and managed accounts, excluding deposits and fixed-income securities.

5 When examining the ownership of risk-bearing financial assets including only shares and investment funds in which shares have a predominant weight, the decline following retirement is substantially lower, between 10 pp and 20 pp (compare Charts 4 and 5).

Box 4.2

CHANGES IN THE PORTFOLIOS OF SPANISH HOUSEHOLDS OVER THEIR LIFE CYCLE (cont'd)

Chart 1
DISTRIBUTION OF HOUSEHOLDS THAT OWN THEIR MAIN RESIDENCE, BY AGE OF HOUSEHOLD REFERENCE PERSON

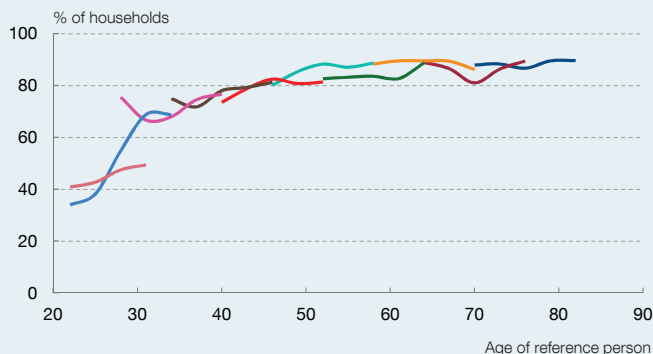


Chart 2
MEDIAN REAL VALUE OF MAIN RESIDENCE OWNED BY HOUSEHOLDS, BY AGE OF HOUSEHOLD REFERENCE PERSON (a)

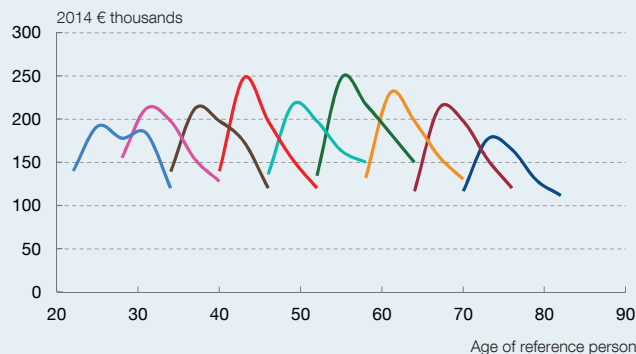


Chart 3
DISTRIBUTION OF HOUSEHOLDS HOLDING RISK-BEARING FINANCIAL ASSETS, BY AGE OF HOUSEHOLD REFERENCE PERSON (b)

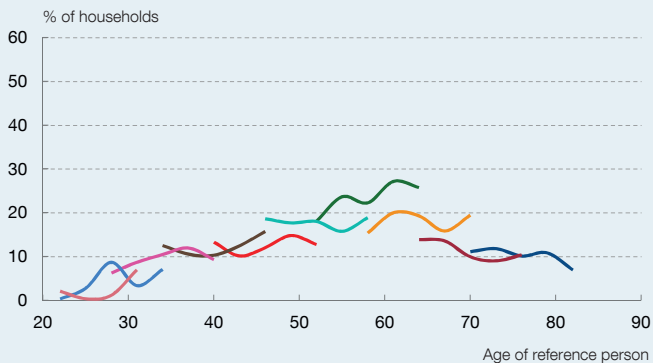


Chart 4
DISTRIBUTION OF HOUSEHOLDS HOLDING FINANCIAL ASSETS, EXCLUDING FIXED-INCOME AND DEPOSITS, BY AGE OF HOUSEHOLD REFERENCE PERSON (c)

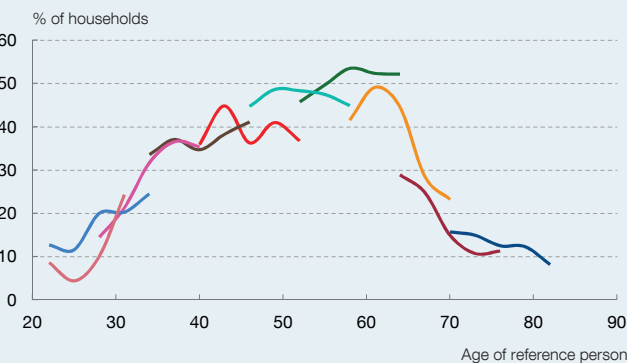


Chart 5
MEDIAN REAL VALUE OF WEALTH OF HOUSEHOLDS HOLDING FINANCIAL ASSETS EXCLUDING FIXED-INCOME AND DEPOSITS, BY AGE OF HOUSEHOLD REFERENCE PERSON (a)

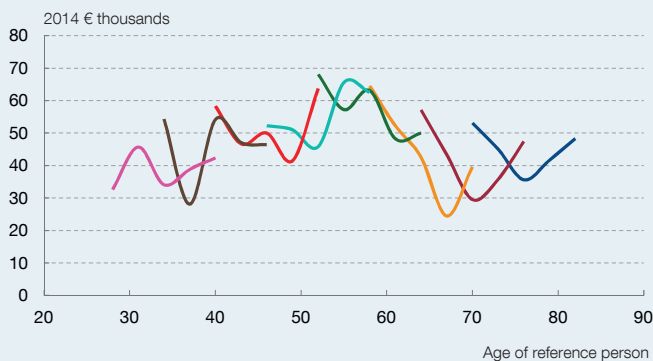
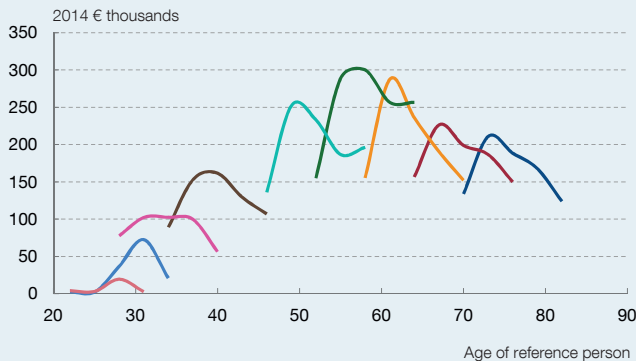


Chart 6
MEDIAN REAL VALUE OF NET WEALTH OF HOUSEHOLDS HOLDING REAL AND FINANCIAL ASSETS, BY AGE OF HOUSEHOLD REFERENCE PERSON (a)



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SOURCE: Barceló *et al.* (2019).

- a In real 2014 terms.
- b Shares, listed or unlisted, and international or mixed capital equity investment funds.
- c International or mixed equity capital securities investment funds, shares (listed or unlisted), pension funds, life insurance (unit-linked or mixed capital) or managed portfolios.

CHANGES IN THE PORTFOLIOS OF SPANISH HOUSEHOLDS OVER THEIR LIFE CYCLE (cont'd)

The median amount invested in risk-bearing financial assets among individuals who own this type of asset increases from €35,000 in the 35-45 age group (observed for generations born after 1970) to around €60,000 in the 50-60 age group (observed for generations born in the 1950s). As Chart 5 shows, the median amount invested in these assets drops to €30,000 after retirement. As explained earlier, this decline is due to the fact that households redeem their pension plans after retirement and place their investments in fixed-term deposits or bank accounts, or in other risk-free financial vehicles.

To analyse total household wealth, it is useful to look at the changes, over the life cycle, in median net wealth, defined as the sum of all household assets minus the amount of debts (see Chart 6). Median net wealth is below €100,000 between the ages of 20 and 35 (observed for generations born after 1970), but above €200,000 at around the age of 60 (for the generation born in the 1950s). After retirement, this figure is around €150,000 (observed for the generation born in the 1930s). It should be noted that in 2014, the net wealth of generations born in the 1950s was €250,000, far higher than the median value of their main residence, suggesting that this cohort owns financial and other real assets in addition to their main residence. However, among the generations born in the 1940s and earlier, the median net wealth in 2014 was similar to the median value of their main residence, indicating that they own practically no other types of assets.

The pattern of wealth accumulation during a person's working life and the shedding of wealth following retirement can be determined by comparing the median net wealth each generation had in 2014 and in 2002. The amount of wealth accumulated during their working life by those born in the 1950s is substantial, but lower for

generations born after the 1970s. Median wealth therefore increases during a person's working life and decreases somewhat after retirement. Although both these features conform to the life-cycle theory, the high rate of ownership of the main residence and the absence of dissaving by down-sizing housing following retirement suggest that there are other factors affecting the savings patterns of Spanish households. As mentioned in section 3.1, possible factors include the wish to leave the main residence as inheritance, caution regarding selling the main residence in order to rent another, or the dearth of financial products, such as reverse mortgages, which would allow the accumulated housing wealth to be converted into liquid assets.

To what extent can the behaviour observed for generations born before 1960 be expected from generations born later? Comparisons of net wealth suggest that generations born after 1970 have a lower level of median net wealth than earlier cohorts had at the same age. For example, the generation born around 1974 had median net wealth of around €100,000 between the ages of 20 and 35, while the median wealth of generations born in 1980 or later is less than €75,000. These differences are partly due to the fact that the proportion of households owning their main residence and whose reference person was born after 1980 is 20 pp lower than that of preceding generations at the same age. Moreover, the median debt-to-wealth ratio among the under-35s rose from 51.7% in 2008 to 86.4% in 2014.⁶ This increase suggests that the house price slump observed during those years might explain the decline in net wealth among those born in the 1980s that owned their main residence. The differences between ownership and amount of savings according to the year of birth advise caution when extrapolating the behaviour of one generation to subsequent generations.

6 See Banco de España (2017), "Survey of Household Finances (EFF) 2014: methods, results and changes since 2011", *Economic Bulletin*, 1/2017, and Banco de España (2014), "Survey of Household Finances (EFF) 2011: methods, results and changes since 2008", *Economic Bulletin*, January.