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Reweighting the New Zealand Household Economic Survey for Tax Microsimulation Modelling

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Reweighting the New Zealand Household Economic Survey For Tax Microsimulation Modelling

John Creedy and Ivan Tuckwell

NEW ZEALAND TREASURY

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Abstract

This paper reports a reweighting exercise for the New Zealand Household Economic Survey, which is the basis of the Treasury's microsimulation model, TaxMod. Comparisons of benefit expenditures in a variety of demographic groups, along with population data, reveal that TaxMod estimates differ substantially from totals based on administrative data, when the weights provided by Statistics New Zealand are used. After describing the method used to compute new weights, the calibration requirements are reported. These relate to the age structure of the population and the number of beneficiaries for Unemployment Benefit, Domestic Purposes Benefit, Invalid's and Sickness Benefits and Family Support and Tax Credits. The revised weights and expenditure estimates are reported and the resulting distribution of income examined. The new weights are found to produce much improved expenditure estimates, without distorting the resulting income distribution. The effects of reweighting are demonstrated using a simple policy simulation.

JEL CLASSIFICATION C42

KEYWORDS Survey weights; minimum distance; microsimulation

Contents

| | | |
|----------|---|-----------|
| 1 | Introduction | 3 |
| 2 | The Reweighting Procedure | 4 |
| 2.1 | The Problem | 4 |
| 2.2 | A Class of Distance Functions | 6 |
| 2.3 | An Iterative Solution Procedure | 7 |
| 2.4 | Some Distance Functions | 8 |
| 3 | TaxMod Estimates | 10 |
| 4 | Re-Weighted Estimates | 13 |
| 4.1 | Calibration Conditions | 14 |
| 4.2 | Revised Weights | 17 |
| 5 | Income Distributions | 20 |
| 6 | A Policy Simulation | 23 |
| 7 | Conclusions | 25 |

List of Tables

| | | |
|---|--|----|
| 1 | Benefit Expenditure by Family Types (2000-01) | 12 |
| 2 | Calibration: Family Composition | 14 |
| 3 | Calibration: Number of Benefit Recipients | 15 |
| 4 | Calibration: Age Distribution | 16 |
| 5 | Re-Weighted Benefit Expenditures by Family Types | 19 |
| 6 | A Policy Reform Using Alternative Weights | 24 |

List of Figures

| | | |
|---|--|----|
| 1 | Alternative Gradient Functions | 11 |
| 2 | Statistics New Zealand and New Weights | 17 |
| 3 | Revised Weights | 18 |
| 4 | Ratio of Revised to Initial Weights | 20 |
| 5 | Frequency Distributions of Income | 21 |
| 6 | Cummulative Income Distributions | 22 |
| 7 | Differences in Proportions | 22 |

1 Introduction

Tax microsimulation models are based on large-scale cross-sectional survey data. Each individual or household has a sample weight provided by the statistical agency responsible for collecting the data. The weights are used ‘grossing up’ from the sample in order to obtain estimates of population values. This applies not only to aggregates such as income taxation, the number of recipients of a particular social transfer, or the number of people in a particular age group, but the weights are also used in the estimation of measures of population inequality and poverty.

The typical starting point is to use weights that are inversely related to the probability of selecting the individual in a random sample, with some adjustment for non-response. It has become common for agencies, using ‘minimal’ adjustments, to produce revised weights to ensure that, for example, the estimated population age/gender distributions match population totals obtained from other sources, in particular census data.¹

However, there is no guarantee that weights calibrated on demographic variables produce appropriate revenue and expenditure totals. This is problematic when using a simulation model to examine the likely costs of a hypothetical reform to the tax and transfer system. Reweighting may also be required when using a dataset that is several years old, so that changes in the structure of the population may be expected to have taken place.

This paper reports a reweighting exercise for the New Zealand Household Economic Survey, which is the basis of the Treasury’s direct tax and benefit microsimulation model, TaxMod.² The Household Economic Survey

¹A detailed description of calibration and Generalised Regression (GREG) methods used in Belgium is given in Vanderhoeft (2001), which also describes the SPSS based program g-CALIB-S. Bell (2000) describes methods used in the Australian Bureau of Statistics household surveys, involving the SAS software GREGWT. Statistics Sweden uses the SAS software CLAN, described by Andersson and Nordberg (1998) and also used by the Finnish Labour Force Survey. All reweighting reported here was carried out using Fortran programs written by the authors.

²TaxMod reads in one family at a time, calculates market income, adds income from various government programs (benefits, superannuation, Family Support, Accommodation Supplement) according to eligibility, and calculates tax liability. It can provide output at the personal, family and household level. TaxMod assumes that each individual’s labour supply remains fixed when the tax and benefit system changes

examines private households from across New Zealand. It collects expenditure data for the entire household and income data for each individual in the household. Each surveyed household has a sample weight provided by Statistics New Zealand.

Section 2 describes the basic method used to compute new weights. Section 3 compares the expenditure totals produced by TaxMod, using the Household Economic Survey weights provided by Statistics New Zealand, with administrative data relating to actual expenditures. The revised weights and expenditure estimates are reported in section 4. One problem is that producing new weights based on selected conditions may distort other variables of interest. Section 5 examines changes in the distribution of income arising from reweighting. Brief conclusions are in section 7.

2 The Reweighting Procedure

This section describes the use of extraneous information to specify calibration conditions for reweighting, such that the new weights are as close as possible to the initial or ‘design’ weights.³ The method therefore requires a distance function to be specified. Subsection 2.1 provides a formal statement of the optimisation problem, and subsection 2.2 examines a convenient class of distance functions. An iterative approach for solving the nonlinear first-order conditions, based on Newton’s method, is derived in subsection 2.3. Several alternative distance functions are described in subsection 2.4.

2.1 The Problem

For each of K individuals in a sample survey, information is available about J variables; these are placed in the vector:⁴

$$x_k = [x_{k,1}, \dots, x_{k,J}]' \quad (1)$$

For present purposes these vectors contain only the variables of interest for the calibration exercise, rather than all measured variables. Most of the

³For an extensive discussion and references to the literature, see Creedy (2003).

⁴Reference is made here to individuals, but a feature of the weights in the Household Economic Survey is that the household and individual weights are the same.

elements of x_k are likely to be 0/1 variables. For example $x_{k,j} = 1$ if the k th individual is in a particular age group, or receives a particular type of social transfer, and zero otherwise. The sum $\sum_{k=1}^K x_{k,j}$ therefore gives the number of individuals in the sample who are in the age group, or who receive the transfer payment.

Let the sample design weights, provided by the statistical agency responsible for data collection, be denoted s_k for $k = 1, \dots, K$. These weights can be used to produce estimated population totals, $\hat{t}_{x|s}$ based on the sample, given by the J -element vector:

$$\hat{t}_{x|s} = \sum_{k=1}^K s_k x_k \quad (2)$$

Suppose that other data sources, for example census or social security administrative data, provide information about ‘true’ population totals, t_x . The problem is to compute new weights, w_k , for $k = 1, \dots, K$ which are as close as possible to the design weights, s_k , while satisfying the set of J calibration equations:

$$t_x = \sum_{k=1}^K w_k x_k \quad (3)$$

It is thus necessary to specify a criterion by which to judge the closeness of the two sets of weights.

In general, denote the distance between w_k and s_k as $G(w_k, s_k)$. The aggregate distance between the design and calibrated weights is thus:⁵

$$D = \sum_{k=1}^K G(w_k, s_k) \quad (4)$$

The problem is therefore to minimise (4) subject to (3). The Lagrangean for this problem is:

$$L = \sum_{k=1}^K G(w_k, s_k) + \sum_{j=1}^J \lambda_j \left(t_{x,j} - \sum_{k=1}^K w_k x_{k,j} \right) \quad (5)$$

⁵Some authors, such as Folsom and Singh (2000) specify the distance to be minimised as $\sum_{k=1}^K s_k G(w_k, s_k)$, but the present paper follows Deville and Särndal (1992).

where λ_j for $j = 1, \dots, J$ are the Lagrange multipliers. The following subsection examines a special class of distance functions for which an iterative procedure for minimising L is developed.

2.2 A Class of Distance Functions

Consider distance functions having two features: the first derivative with respect to w can be expressed as a function of w/s , and its inverse can be obtained explicitly. Hence, $G(w_k, s_k)$ has the property:

$$\frac{\partial G(w_k, s_k)}{\partial w_k} = g\left(\frac{w_k}{s_k}\right) \quad (6)$$

The K first-order conditions for minimisation can therefore be written as:

$$g\left(\frac{w_k}{s_k}\right) = x'_k \lambda \quad (7)$$

Write the inverse function of g as g^{-1} , so that if $g(w_k/s_k) = u$, say, then $w_k/s_k = g^{-1}(u)$. From (7) the k values of w_k are expressed as:

$$w_k = s_k g^{-1}(x'_k \lambda) \quad (8)$$

If the inverse function, g^{-1} , can be obtained explicitly, equation (8) can be used to compute the calibrated weights, given a solution for the vector, λ .

The Lagrange multipliers can be obtained by post-multiplying (8) by the vector x_k , summing over all $k = 1, \dots, K$ and using the calibration equations, so that:

$$t_x = \sum_{k=1}^K w_k x_k = \sum_{k=1}^K s_k g^{-1}(x'_k \lambda) x_k \quad (9)$$

Finally, subtracting $\hat{t}_{x|s} = \sum_{k=1}^K s_k x_k$ from both sides of (9) gives:

$$t_x - \hat{t}_{x|s} = \sum_{k=1}^K s_k \{g^{-1}(x'_k \lambda) - 1\} x_k \quad (10)$$

The term $s_k \{g^{-1}(x'_k \lambda) - 1\}$ is a scalar, and the left hand side is a known vector. In general, (10) is nonlinear in λ and so must be solved using an iterative procedure, as described in the following subsection.

2.3 An Iterative Solution Procedure

Writing $t_x - \hat{t}_{x|s} = a$, the equations in (10) can be written as:

$$f_i(\lambda) = a_i - \sum_{k=1}^K s_k x_{k,i} \{g^{-1}(x'_k \lambda) - 1\} = 0 \quad (11)$$

for $i = 1, \dots, J$. The roots can be obtained using Newton's method. This involves the following iterative sequence, where $\lambda^{[I]}$ denotes the value of λ in the I th iteration:⁶

$$\lambda^{[I+1]} = \lambda^{[I]} - \left[\frac{\partial f_i(\lambda)}{\partial \lambda_\ell} \right]_{\lambda^{[I]}}^{-1} [f(\lambda)]_{\lambda^{[I]}} \quad (12)$$

The Hessian matrix $[\partial f_i(\lambda) / \partial \lambda_\ell]$ and the vector $f(\lambda)$ on the right hand side of (12) are evaluated using $\lambda^{[I]}$.

The elements $\partial f_i(\lambda) / \partial \lambda_\ell$ are given by:

$$\frac{\partial f_i(\lambda)}{\partial \lambda_\ell} = - \sum_{k=1}^K s_k x_{k,i} \frac{\partial g^{-1}(x'_k \lambda)}{\partial \lambda_\ell} \quad (13)$$

which can be written as:

$$\frac{\partial f_i(\lambda)}{\partial \lambda_\ell} = - \sum_{k=1}^K s_k x_{k,i} x_{k,\ell} \frac{dg^{-1}(x'_k \lambda)}{d(x'_k \lambda)} \quad (14)$$

Starting from arbitrary initial values, the matrix equation in (12) is used repeatedly to adjust the values until convergence is reached, where possible.

As mentioned earlier, the application of the approach requires that it is limited to distance functions for which the form of the inverse function, $g^{-1}(u)$, can be obtained explicitly, given the specification for $G(w, s)$. Hence, the Hessian can easily be evaluated at each step using an explicit expression for $dg_k^{-1}(x'_k \lambda) / d(x'_k \lambda)$. As these expressions avoid the need for the numerical evaluation of $g^{-1}(x'_k \lambda)$ and $dg_k^{-1}(x'_k \lambda) / d(x'_k \lambda)$ for each individual at each step, the calculation of the new weights can be expected to be relatively

⁶The approach described here differs somewhat from other routines described in the literature, for example in Singh and Mohl (1996) and Vanderhoeft (2001). However, it provides extremely rapid convergence.

quick, even for large samples.⁷ However, a solution does not necessarily exist, depending on the distance function used and the adjustment required to the vector $t_x - \hat{t}_{x|s}$.

2.4 Some Distance Functions

Consider the chi-squared distance measure, where the aggregate distance is given by:

$$G(w_k, s_k) = \frac{1}{2} \sum_{k=1}^K \frac{(w_k - s_k)^2}{s_k} \quad (15)$$

Here, $g(w_k/s_k) = w_k/s_k - 1$, and it can be shown that an explicit solution exists with:

$$w_k = s_k (1 + x'_k \lambda) \quad (16)$$

for $k = 1, \dots, K$ and:

$$\lambda = \left[\sum_{k=1}^K s_k x_k x'_k \right]^{-1} (t_x - \hat{t}_{x|s}) \quad (17)$$

where the term in brackets on the right hand side of (17) is a J by J square matrix.⁸

One reason why the chi-squared distance function produces a solution is that no constraints are placed on the size of the adjustment to each of the survey weights. It is therefore also possible for the calibrated weights to become negative. However, Deville and Särndal (1992) suggested the following simple modification to the chi-squared function, although the explicit solution for the chi-squared case is no longer available and the iterative method must be used.

⁷Using numerical methods to solve for each $g^{-1}(u)$ and $dg^{-1}(u)/du$, for $u = x'_k \lambda$, for every individual in each iteration, would increase the computational burden substantially.

⁸Write (16) as $w_k = s_k (1 + \lambda' x_k)$ and (17) as $\lambda' = (t_x - \hat{t}_{x|s})' T^{-1}$ with T as the symmetric matrix $\sum_{k=1}^K s_k x_k x'_k$. Given sample observations on the variable y_k , an estimate of the population total, \hat{t}_y , can be obtained as $\sum_{k=1}^K w_k y_k$. Substituting for w_k gives the result in Deville and Särndal (1992, p.377) that $\hat{t}_y = \sum_{k=1}^K s_k y_k + (t_x - \hat{t}_{x|s})' B$, where $B = T^{-1} \sum_{k=1}^K s_k x_k y_k$. This provides the link between reweighting and the Generalised Regression (GREG) estimator. The production of asymptotic standard errors is often based on this estimator, in view of the result that other distance functions are asymptotically equivalent; see Deville and Särndal (1992, p.378).

Suppose it is required to constrain the proportionate changes to certain limits, different for increases compared with decreases in the weights. Define r_L and r_U such that $r_L < 1 < r_U$. The objective is to ensure that, for increases, the proportionate change, $w/s - 1$, is less than $r_U - 1$, or that $r_U > w/s$. For decreases, the aim is to ensure that $1 - w/s$ (or the negative of the proportional change) is less than $1 - r_L$, so that $r_L < w/s$.

For the chi-squared distance function, $g^{-1}(u) = 1 + u$, where $u = x'\lambda$ and $g^{-1}(u)$ solves for w/s . Hence if $g^{-1}(u) = w/s$ is outside the specified range, it is necessary to set it to the relevant limit, either r_U or r_L , rather than allow it to take the value generated. Since $g^{-1}(u) - 1 = w/s - 1 = u$, the limits are exceeded if $u < r_L - 1$ and if $u > r_U - 1$. In each case where the value of $g^{-1}(u)$ has to be set to the relevant limit, the corresponding value of $dg^{-1}(u)/du$ is zero. This approach ensures that weights are kept within the range, $r_L s_k < w_k < r_U s_k$. Hence, negative values of w are avoided simply by setting r_L to be positive.⁹

It is not necessary to start from a specification of $G(w, s)$, since the solution procedure requires only an explicit form for the inverse function $g^{-1}(u)$, from which its derivative can be obtained. Deville and Särndal (1992) suggested the use of an inverse function $g^{-1}(u)$ of the form:¹⁰

$$g^{-1}(u) = \frac{r_L(r_U - 1) + r_U(1 - r_L)\exp \alpha u}{(r_U - 1) + (1 - r_L)\exp \alpha u} \quad (18)$$

where r_L and r_U are as defined above and:

$$\alpha = \frac{r_U - r_L}{(1 - r_L)(r_U - 1)} \quad (19)$$

Thus $g^{-1}(-\infty) = r_L$ and $g^{-1}(\infty) = r_U$, so that the limits of w/s are r_L and r_U . This function therefore has the property that adjustments to the weights are kept within the range, $r_L s_k < w_k < r_U s_k$, although, unlike the chi-squared modification, no checks have to be made during computation.

⁹This is much more convenient than imposing inequality constraints and applying the more complex Kuhn-Tucker conditions. Also, it is desirable to restrict the extent of proportional changes even where they produce positive weights.

¹⁰Singh and Mohl (1996), in reviewing alternative calibration estimators, refer to this 'inverse logit-type transformation' as a Generalised Modified Discrimination Information method.

The derivative required in the computation of the Hessian is therefore:

$$\frac{dg^{-1}(u)}{du} = g^{-1}(u) \{r_U - g^{-1}(u)\} \frac{(1 - r_L) \alpha \exp \alpha u}{(r_U - 1) + (1 - r_L) \exp \alpha u} \quad (20)$$

Since $g^{-1}(u)$ solves for w/s , (18) can be rearranged, by collecting terms in $\exp \alpha u$, to give:

$$\frac{\frac{w}{s} - r_L}{1 - r_L} = \frac{r_U - \frac{w}{s}}{r_U - 1} \exp \alpha u \quad (21)$$

so that the gradient of the distance function is:

$$g\left(\frac{w}{s}\right) = u = \frac{1}{\alpha} \left[\log \left(\frac{\frac{w}{s} - r_L}{1 - r_L} \right) - \log \left(\frac{r_U - \frac{w}{s}}{r_U - 1} \right) \right] \quad (22)$$

The special nature of this gradient function is illustrated by the line D-S in Figure 1, which shows the profile of (22) for $r_U = 4.1$ and $r_L = 0.01$. The restriction of w/s to the range specified is evident.¹¹ Figure 1 also shows the function $g(w/s)$ for two other cases mentioned by Deville and Särndal (1992). Case A uses $g^{-1}(u) = (1 - \frac{u}{2})^{-2}$, and case B has $g^{-1}(u) = (1 - u)^{-1}$.¹² In all cases, the slope is zero, corresponding to a turning point of the distance function, when $w/s = 1$. Given the quadratic U-shaped nature of the chi-squared distance function, the gradient increases at a constant rate, being negative in the range $w/s < 1$. Cases A and B also imply U-shaped distance functions, but with the gradient increasing more sharply for $w/s < 1$ and more slowly than the chi-square function in the range $w/s > 1$.

3 TaxMod Estimates

The most recent Household Economic Survey (HES) data are for the 2000-01 year. This section compares, for each area of expenditure, the estimates obtained using the New Zealand Treasury microsimulation model, TaxMod, with unpublished data on the ‘actual’ expenditures. The latter data are

¹¹The distance function itself is given by integrating (22) with respect to w , giving s/α multiplied by $G(w, s) = (r_U - \frac{w}{s}) \log \left(\frac{r_U - \frac{w}{s}}{r_U - 1} \right) + (\frac{w}{s} - r_L) \log \left(\frac{\frac{w}{s} - r_L}{1 - r_L} \right)$ plus a term $(r_U - r_L) s/\alpha$, which, since it is a constant, may be dropped without loss.

¹²Deville and Särndal (1992) discuss the use of a normalisation whereby $g^{-1'}(0)$ is set to some specified value, but this is not necessary for the approach.

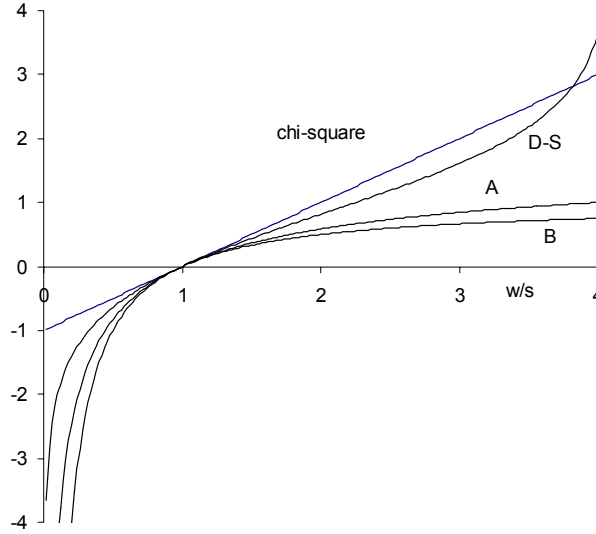


Figure 1: Alternative Gradient Functions

obtained from the Inland Revenue Department and the Ministry of Social Development. However, they are obtained from samples taken from the basic beneficiary data, in view of the difficulty of obtaining complete information at the level of aggregation required.

One role of a microsimulation model is to examine, along with aggregate cost estimates, the extent to which particular groups in the population are likely to gain or lose from a tax reform. For this reason it is important to ensure that the model provides a good representation of the extent to which expenditures on different types of benefit go to different types of family. Table 1 summarises benefit expenditures for 2000-01, disaggregated into a variety of household types. The values reported for TaxMod use the weights provided by Statistics New Zealand.¹³

The final column of Table 1 shows the percentage difference between actual values and TaxMod estimates, calculated as $100 \times (\text{actual} - \text{TaxMod}) / \text{TaxMod}$: hence negative values indicate an overstatement by TaxMod. The table shows

¹³These are integrated weights, not the original weights. For a discussion of the use of integrated weighting, as described by Lemaître and Dufour (1987), by Statistics New Zealand, see StatsNZ (2001).

Table 1: Benefit Expenditure by Family Types (2000-01)

| | | TaxMod (\$m) | Share (%) | Actual (\$m) | Share (%) | % Diff |
|--|-------------|-----------------|--------------|-----------------|--------------|--------|
| Unemployment Benefit | | | | | | |
| Single | no children | 648 | 48.7 | 814 | 63.7 | 25.6 |
| | 1+ children | 58 | 4.4 | 80 | 6.3 | 37.9 |
| Couple | No children | 175 | 13.1 | 139 | 10.9 | -20.6 |
| | 1 child | 194 | 14.6 | 77 | 6.0 | -60.3 |
| | 2 children | 148 | 11.1 | 79 | 6.2 | -46.6 |
| | 3+ children | 108 | 8.1 | 88 | 6.9 | -18.5 |
| All | | 1,331 | 100.0 | 1277 | 100.0 | -4.1 |
| Domestic Purposes Benefit | | | | | | |
| Single | No children | 120 | 9.8 | 43 | 3.4 | -64.2 |
| | 1 child | 465 | 38.0 | 550 | 44.1 | 18.3 |
| | 2 children | 388 | 31.7 | 404 | 32.4 | 4.1 |
| | 3+children | 250 | 20.4 | 250 | 20.0 | 0 |
| Others | | 1 | 0.1 | 0 | 0 | 0 |
| All | | 1,224 | 100.0 | 1,247 | 99.9 | 1.9 |
| Invalids Benefit | | | | | | |
| Single | No children | 287 | 62.5 | 423 | 66.5 | 47.4 |
| Couple | No children | 81 | 17.6 | 115 | 18.1 | 42.0 |
| Others | | 91 | 19.8 | 98 | 15.4 | 7.7 |
| All | | 459 | 99.9 | 636 | 100.0 | 38.6 |
| Sickness Benefit | | | | | | |
| Single | No children | 138 | 51.7 | 195 | 61.9 | 41.3 |
| Couple | 1+ children | 58 | 21.7 | 55 | 17.5 | -5.2 |
| Others | | 71 | 26.6 | 65 | 20.6 | -8.5 |
| All | | 267 | 100.0 | 315 | 100.0 | 18.0 |
| Family support, Child and Family Tax Credits | | | | | | |
| Single | 1 child | 178 | 15.5 | 203 | 20.1 | 14.0 |
| | 2 children | 176 | 15.3 | 217 | 21.5 | 23.3 |
| | 3+ children | 175 | 15.2 | 184 | 18.3 | 5.1 |
| Couple | 1 child | 88 | 7.6 | 60 | 6.0 | -31.8 |
| | 2 children | 216 | 18.8 | 128 | 12.7 | -40.7 |
| | 3+ children | 315 | 27.5 | 216 | 21.4 | -31.4 |
| All | | 1,174 | 100.0 | 1,008 | 100.0 | -14.1 |

that TaxMod overestimates aggregate expenditure on the Unemployment Benefit by 4.1 per cent, underestimates expenditure on the Domestic Purposes Benefit by 1.9 per cent, and underestimates aggregate expenditure on the Invalids' and Sickness Benefits by 38.6 and 18 per cent respectively. For all benefit categories, TaxMod tends to underestimate expenditure on single income families and, in contrast, overestimates expenditure on partnered families. In some cases, particularly Domestic Purposes Benefit recipients without children, this general pattern did not apply, possibly reflecting the small size of the sample for certain demographic groups or the difficulty of modelling certain population characteristics. TaxMod underestimates total expenditure on (combined) Family Support, Child and Family Tax Credits to single families and, in contrast, overestimates expenditure on Family Support and the Child Tax Credit to partnered families.

TaxMod computes benefit expenditures on the assumption that all those who are eligible actually claim their full entitlement. However, it is known that benefit take-up rates are often less than 100 per cent. This feature would produce a consistent upward bias in TaxMod estimates, which is not evident here.¹⁴ The differences were thus judged sufficiently large to warrant reweighting.

4 Re-Weighted Estimates

The previous section has shown that, for some of the household types, the discrepancy between TaxMod estimates and actual expenditure is substantial. This suggests that in reweighting the Household Expenditure Survey, it is important to use calibration values relating to these particular types.¹⁵ The calibration requirements used for reweighting are presented in subsection 4.1. The revised weights are discussed in subsection 4.2.

¹⁴It would not be appropriate to adjust the sample weights if it were felt that the main problem related to imperfect take-up of benefits.

¹⁵Nascimento Silva and Skinner (1997) examined variable selection in general, but in the present context the variables naturally arise.

Table 2: Calibration: Family Composition

| Demographic Group | Required Total | StatsNZ Weights | Difference |
|----------------------|-------------------|--------------------|------------|
| Couples | | | |
| 1 child | 343258 | 338024.8 | 5233.19 |
| 2 children | 537178 | 614249.3 | -77071.3 |
| 3 children | 279735 | 338799.7 | -59064.7 |
| 4 children | 98436 | 123542.5 | -25106.5 |
| 5+children | 55267 | 37108.16 | 18158.84 |
| Single Persons | | | |
| no children | 1133969 | 650061.9 | 483907.1 |
| 1 child | 142875 | 111422.9 | 31452.14 |
| 2 children | 140624 | 92211.7 | 48412.3 |
| 3 children | 73284 | 48016.44 | 25267.56 |
| 4 children | 31389 | 17002.09 | 14386.91 |
| 5+ children | 19508 | 13300.6 | 6207.4 |

4.1 Calibration Conditions

Tables 2, 3 and 4 show the calibration conditions used in reweighting: the required population totals are given in the second column of each table, under the heading ‘required total’. These cover respectively the numbers in each family type, the number of benefit recipients in each demographic group, and the number of individuals in each age group.¹⁶ The numbers produced by TaxMod, using the weights provided by Statistics New Zealand, are shown in the third column of each table. The differences between the required and estimated totals, shown in the final column of each table, are substantial. These reflect a larger population size combined with population ageing, an increase in the number of singles, and particularly singles receiving Domestic Purposes Benefit, Unemployment Benefit and Invalid’s Benefit.

¹⁶To avoid singularities, it was of course necessary to omit one category from each of the classes. The tables show only those calibration conditions actually used.

Table 3: Calibration: Number of Benefit Recipients

| | Required Total | StatsNZ Weights | Difference |
|---------------------------|-------------------|--------------------|------------|
| Unemployment Benefit | | | |
| Single person | 104292 | 58735.08 | 45556.92 |
| Sole parent 1child | 6400 | 2272.83 | 4127.17 |
| Couple no child | 11045 | 19628.15 | -8583.15 |
| Couple one child | 4327 | 12348.76 | -8021.76 |
| Couple 2+children | 9206 | 19559.56 | -10353.6 |
| Domestic Purposes Benefit | | | |
| No children | 10285 | 6891.47 | 3393.53 |
| One child | 52988 | 32231.24 | 20756.76 |
| Two+children | 57647 | 36139.9 | 21507.1 |
| Invalidity Benefit | | | |
| Single | 61343 | 20345.14 | 40997.86 |
| Couple | 13186 | 24866.17 | -11680.2 |
| Sickness Benefit | | | |
| Single | 42137 | 14857.64 | 27279.36 |
| Couple | 9908 | 6976.7 | 2931.3 |
| widow's beneficiaries | | | |
| All | 9870 | 8026.07 | 1843.93 |

Table 4: Calibration: Age Distribution

| | Required | StatsNZ | |
|-------------------|----------|----------|------------|
| | Total | Weights | Difference |
| Males | | | |
| 5-9 | 145204 | 170507.1 | -25303.1 |
| 10-14 | 150403 | 134371.8 | 16031.25 |
| 15-19 | 137214 | 87803.4 | 49410.6 |
| 20-24 | 116565 | 81554.2 | 35010.8 |
| 25-44 | 516856 | 467125.7 | 49730.31 |
| 45-59 | 353453 | 296279.7 | 57173.28 |
| 60-74 | 199651 | 194140.6 | 5510.42 |
| Females | | | |
| 0-4 | 127864 | 132633 | -4768.95 |
| 5-9 | 138368 | 112789.8 | 25578.16 |
| 10-14 | 142813 | 122452.3 | 20360.73 |
| 15-19 | 133253 | 94174.83 | 39078.17 |
| 20-24 | 116926 | 85467.6 | 31458.4 |
| 25-44 | 568121 | 543435.4 | 24685.56 |
| 45-59 | 367692 | 313687.2 | 54004.78 |
| 60-74 | 211984 | 190246.9 | 21737.08 |
| Males and Females | | | |
| 75+ | 192415 | 153096.8 | 39318.25 |

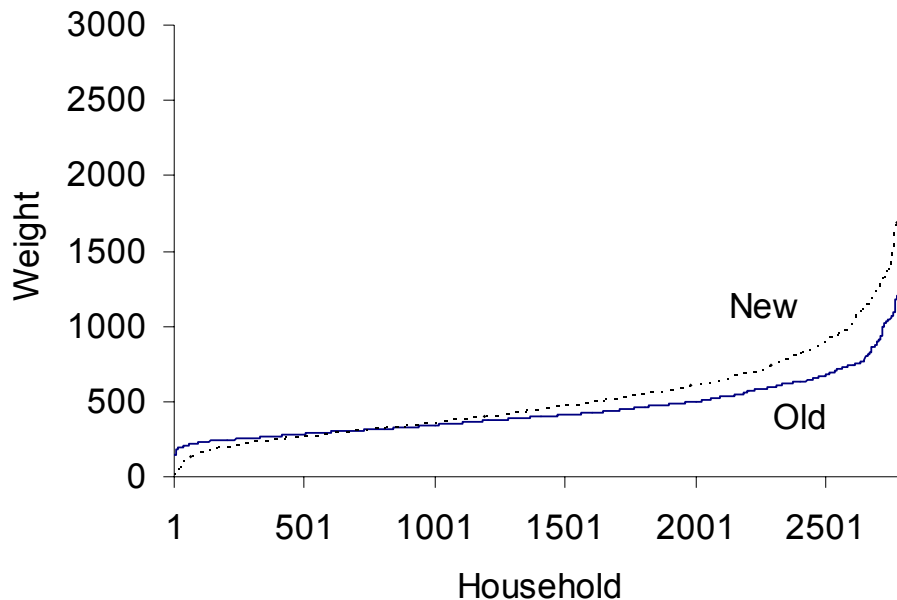


Figure 2: Statistics New Zealand and New Weights

4.2 Revised Weights

The variation in the survey weights provided by Statistics New Zealand for the period 2000/01 is illustrated by the solid line in Figure 2, where the weights are arranged in ascending order for the Household Economic Survey sample of 2808 households. The number on the horizontal axis thus refers to the rank of the household. It can be seen that the majority of these weights are within a fairly narrow range, although some are substantially higher, suggesting a considerable degree of under-representation of these household types in the sample.

The iterative reweighting method described earlier was applied using the various distance functions described. However, it was found that no solution exists for the Deville and Särndal (1992) function, whatever limits are imposed on the proportional changes in weights. The procedure produced solutions for the modified chi-squared case, with the upper and lower ratios

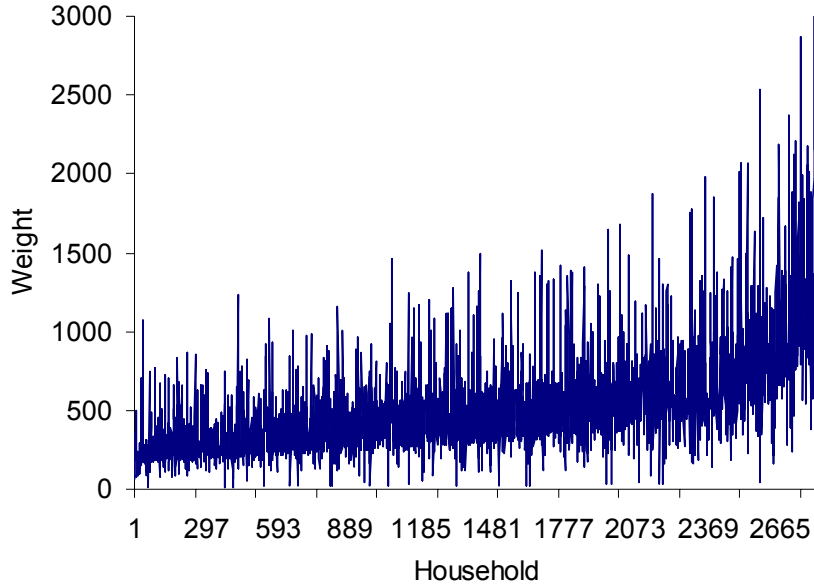


Figure 3: Revised Weights

set to 6 and 0.06 respectively.¹⁷ Figure 2 also shows, as the dashed line, the new weights, also arranged in ascending order. Compared with the initial weights, the increase in the population size is evident, with most of the weights increasing.

Despite the size of the limits imposed on the changes, few of the new weights actually reach those limits. This can be seen from Figure 3 and particularly Figure 4, which show the revised weights and the ratio of new to old weights, with the households ranked in the same order as in the solid line in Figure 2.

The calibrations are based on numbers of individuals and households falling into the various categories, rather than total expenditures. It is therefore not obvious that aggregate expenditure levels will be significantly improved. The implications of using the revised weights for estimated expendi-

¹⁷The approach used was to start with broad limits and ‘work inwards’ so long as solutions are available. The iterative method quickly reveals when a solution is not possible. As mentioned earlier, convergence using the Newton method is extremely rapid.

Table 5: Re-Weighted Benefit Expenditures by Family Types

| | | TaxMod (\$m) | Share (%) | Actual (\$m) | Share (%) | % Diff |
|---|-------------|-----------------|--------------|-----------------|--------------|--------|
| Unemployment Benefit | | | | | | |
| Single | No children | 815 | 63.4 | 814 | 63.7 | -0.1 |
| | 1+ children | 80 | 6.2 | 80 | 6.3 | 0.0 |
| Couple | No children | 138 | 10.7 | 139 | 10.9 | 0.7 |
| | 1 child | 86 | 6.7 | 77 | 6.0 | -10.5 |
| | 2 children | 166 | 12.9 | 167 | 13.1 | 0.6 |
| All | | 1,286 | 100 | 1,277 | 100.0 | -0.7 |
| Domestic Purposes Benefit | | | | | | |
| Single | No children | 44 | 3.5 | 43 | 3.4 | -2.3 |
| | 1 child | 550 | 44.1 | 550 | 44.1 | 0.0 |
| | 2 children | 391 | 31.3 | 404 | 32.4 | 3.3 |
| | 3+ children | 263 | 21.1 | 250 | 20.0 | -4.9 |
| All | | 1,249 | 100 | 1,247 | 99.9 | -0.2 |
| Invalid's Benefit | | | | | | |
| Single | | 463 | 72.7 | 463 | 72.7 | 0.0 |
| Couple | | 174 | 27.3 | 174 | 27.3 | 0.0 |
| All | | 637 | 100.0 | 636 | 100.0 | -0.2 |
| Sickness Benefit | | | | | | |
| Single | | 216 | 68.8 | 216 | 68.6 | 0.0 |
| Couple | | 98 | 31.2 | 99 | 31.4 | 1.0 |
| All | | 314 | 100.0 | 315 | 100.0 | 0.3 |
| Family Support, Child and Family Tax Credit | | | | | | |
| Single | 1 child | 185 | 16.6 | 203 | 20.1 | 9.7 |
| | 2 children | 181 | 16.2 | 217 | 21.5 | 19.9 |
| | 3+ children | 183 | 16.4 | 184 | 18.3 | 0.5 |
| Couple | 1 child | 69 | 6.2 | 60 | 6.0 | -13.0 |
| | 2 children | 197 | 17.6 | 128 | 12.7 | -35.0 |
| | 3+ children | 302 | 27.0 | 216 | 21.4 | -28.5 |
| All | | 1,116 | 100.0 | 1,008 | 100.0 | -9.7 |

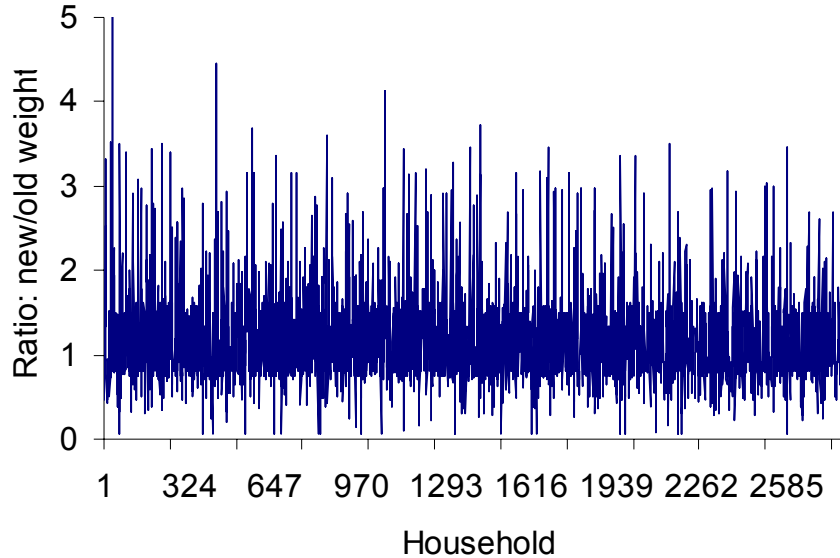


Figure 4: Ratio of Revised to Initial Weights

tures in each demographic group are reported in Table 5. It can be seen that in most cases the TaxMod estimates are much closer to the ‘actual’ values. However, some concern remains over Family Support, Child and Family Tax Credits.

5 Income Distributions

Reference has been made briefly to the important concern regarding the possible effects of reweighting on important variables which are not part of the calibration exercise.¹⁸ This section examines the income distribution before and after reweighting.

Figure 5 compares the distributions of annual gross income obtained using the two sets of weights.¹⁹ In view of the calibration conditions, it is not surprising that the reweighted distribution has more people with benefit-

¹⁸This point was stressed by, for example, Klevmarken (1998).

¹⁹For present purposes each income has been rounded to the nearest multiple of \$2000 and the distribution is truncated at \$150,000.

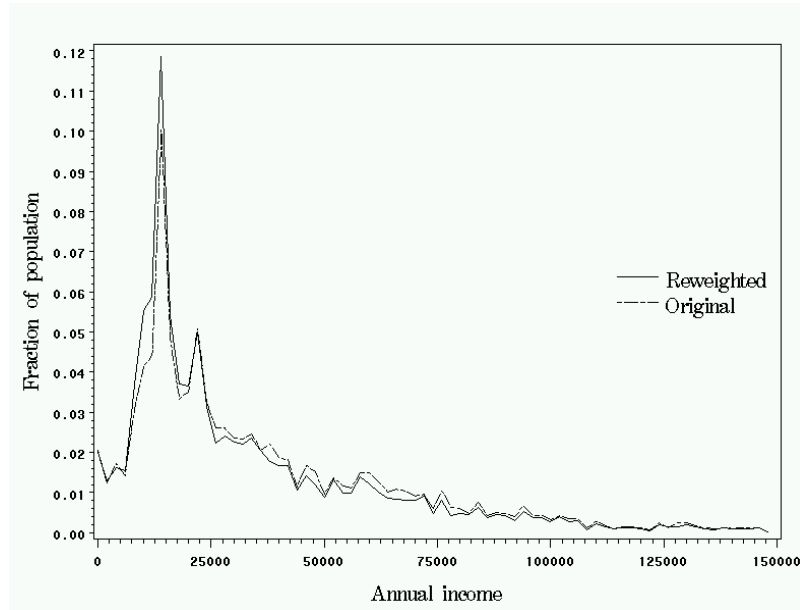


Figure 5: Frequency Distributions of Income

level incomes than with the original weights. The compensating reduction in frequencies is spread over quite a wide range of higher incomes. An effect of the chosen reweighting is to increase the total number of people in the population: this is of course not shown in the figure.

Figure 6 compares the cumulative income distributions before and after reweighting. The fact that the reweighted income distribution is weighted more heavily towards low incomes than in the original data is also revealed in this figure. It may not be obvious just how wide the gap can be between the two curves, so Figure 7 shows the vertical differences at each income level. The vertical scale measures the percentage of the total population; that is, the peak of 6.5 per cent does not mean that the reweighted numbers are 6.5 per cent greater at an annual income of \$20,000, but rather that the reweighted figures have an additional 6.5 per cent of the total population earning \$20,000 or less, compared with the original figures. In view of the calibration conditions used, these changes in the income distribution appear to be quite reasonable.

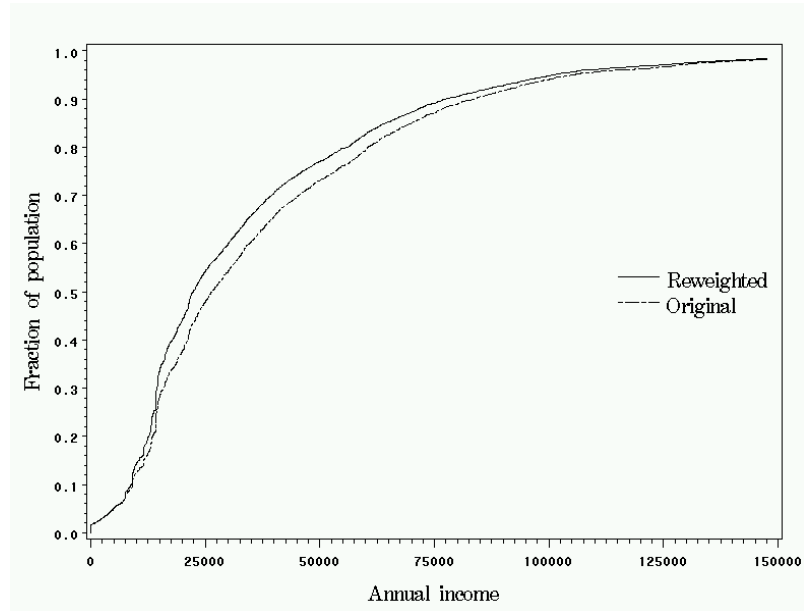


Figure 6: Cumulative Income Distributions

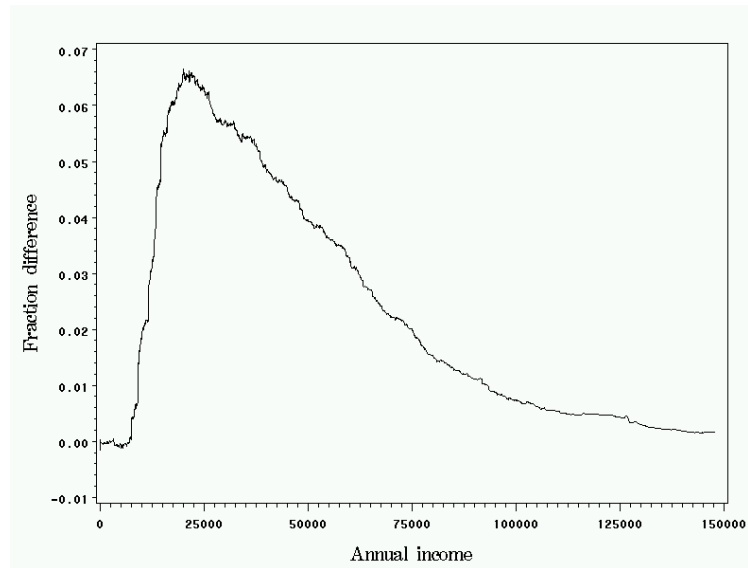


Figure 7: Differences in Proportions

6 A Policy Simulation

Having obtained new weights, it is useful to consider their effects on a policy simulation. For present purposes it is best to specify a very simple policy change, the effects of which are transparent. Suppose the New Zealand income tax rates of 33 and 39 per cent are raised to 35 and 41 per cent respectively. At the same time, family support rates are increased by \$10 per week. Clearly, all income tax payers who are not in receipt of benefits will lose from this reform. Summary information about the reform, using both the Statistics New Zealand weights and the revised weights, is given in Table 6.

The first block of the table decomposes the winners and losers by family type. Using the revised weights, the policy produces more winners who are single parents with two or more children; there are 71 thousand who gain using the new weights compared with 51 thousand families under the initial weights. However, there are fewer couples with two or more children who gain (111 compared with 126 thousand). These differences are also revealed when considering the net changes in government expenditure, shown in the second block of the table for the same household types. Government expenditure on single parents with two or more children increases by more, while that on couples with two or more children increases by less, when the revised weights are compared with the old. In total, with the new weights, the policy change raises less net revenue (or has a lower reduction in net costs) compared with the old weights: the net revenue change is \$14.6m compared with \$38.2m. This change is clearly consistent with the increase in the number of beneficiaries reflected in the revised weights.

The changes are decomposed by benefit type in the last two blocks of the table. There are many more families who gain from the reform and are in receipt of the Domestic Purposes Benefit, when the new weights are used (116 compared with 69 thousand families). This translates into a larger increase in the cost of the DPB of \$109.2m with the new weights compared with \$63.6m under Statistics New Zealand weights. The increase in revenue arising from the large number of losers in the ‘none of the above’ categories

Table 6: A Policy Reform Using Alternative Weights

| | Stats NZ weights | | | | Revised weights | | | |
|------------------|--------------------------|------|--------|--------|-----------------|------|--------|--------|
| | Families affected (000s) | | | | | | | |
| | Gain | NC | Loss | All | Gain | NC | Loss | All |
| Single no child | 0 | 699 | 112 | 810 | 0 | 866 | 132 | 998 |
| Single 1 child | 55 | 1 | 6 | 61 | 67 | 0 | 2 | 68 |
| Single 2+child | 51 | 0 | 1 | 52 | 71 | 0 | 0 | 71 |
| Couple no child | 0 | 295 | 175 | 470 | 0 | 282 | 160 | 442 |
| Couple 1 child | 34 | 27 | 57 | 118 | 31 | 23 | 53 | 107 |
| Couple 2+child | 126 | 13 | 120 | 259 | 111 | 13 | 104 | 228 |
| Overall | 266 | 1034 | 471 | 1771 | 280 | 1184 | 450 | 1914 |
| | Changes in Costs (\$M) | | | | | | | |
| Single no child | 0 | 0 | -52.7 | -52.7 | 0 | 0 | -64.2 | -64.2 |
| Single 1 child | 27.7 | 0 | -2.0 | 25.7 | 33.6 | 0 | -0.6 | 33.0 |
| Single 2+child | 64.4 | 0 | -0.9 | 63.6 | 91.0 | 0 | -0.1 | 90.9 |
| Couple no child | 0 | 0 | -121.1 | -121.1 | 0 | 0 | -112.2 | -112.2 |
| Couple 1 child | 16.5 | 0 | -34.6 | -18.1 | 15.4 | 0 | -34.3 | -18.9 |
| Couple 2+child | 167.52 | 0 | -103.2 | 64.3 | 150.5 | 0 | -93.7 | 56.81 |
| Overall | 276.2 | 0 | -314.4 | -38.2 | 290.5 | 0 | -305.1 | -14.6 |
| | Families affected (000s) | | | | | | | |
| Unemployment | 20 | 84 | 1 | 105 | 24 | 136 | 1 | 161 |
| DPB | 69 | 9 | 0 | 77 | 116 | 3 | 0 | 119 |
| Invalids Benefit | 7 | 28 | 0 | 35 | 7 | 53 | 0 | 60 |
| Sickness Benefit | 4 | 15 | 0 | 20 | 8 | 30 | 0 | 38 |
| Widows Benefit | 2 | 7 | 0 | 9 | 1 | 9 | 0 | 10 |
| NZ Super | 1 | 309 | 24 | 334 | 1 | 328 | 24 | 353 |
| None of above | 162 | 583 | 446 | 1192 | 122 | 624 | 425 | 1172 |
| Overall | 266 | 1034 | 471 | 1771 | 280 | 1184 | 450 | 1914 |
| | Changes in Costs (\$M) | | | | | | | |
| Unemployment | 22.1 | 0 | -0.1 | 22 | 27.9 | 0 | -0.2 | 27.7 |
| DPB | 63.6 | 0 | 0 | 63.6 | 109.2 | 0 | 0 | 109.2 |
| Invalids Benefit | 6.1 | 0 | 0 | 6.1 | 6.1 | 0 | 0 | 6.1 |
| Sickness Benefit | 3.7 | 0 | 0 | 3.7 | 6.3 | 0 | 0 | 6.3 |
| Widows Benefit | 1.2 | 0 | 0 | 1.2 | 0.6 | 0 | 0 | 0.6 |
| NZ Super | 2.3 | 0 | -15.9 | -13.6 | 3.5 | 0 | -15.6 | -12.0 |
| None of above | 177.1 | 0 | -298.4 | -121.3 | 136.8 | 0 | -289.4 | -152.6 |
| Overall | 276.2 | 0 | -314.4 | -38.2 | 290.5 | 0 | -305.1 | -14.6 |

comes from those who are taxpayers only. It is clear that judgements about the likely effects of the policy are influenced by the weights used.

7 Conclusions

This paper has reported a reweighting exercise for the New Zealand Household Economic Survey, which is the basis of the Treasury’s microsimulation model, TaxMod. Comparisons of benefit expenditures in a variety of demographic groups, along with population data, showed that TaxMod estimates often differed substantially from estimated totals based on administrative data, when the weights provided by Statistics New Zealand were used. After describing the basic method used to compute new weights, the calibration requirements were reported. These relate to the age structure of the population and the number of beneficiaries for Unemployment Benefits, Domestic Purposes Benefit, Invalid’s and Sickness benefits and Family Support and Tax Credits. The revised weights and expenditure estimates were reported and the resulting distribution of income was examined. The new weights were found to produce much improved estimates of total expenditure on the various categories within a range of demographic groups, without distorting the resulting income distribution.

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