

AGING AND INTER-GENERATIONAL FAIRNESS: A CANADIAN ANALYSIS

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OVERVIEW

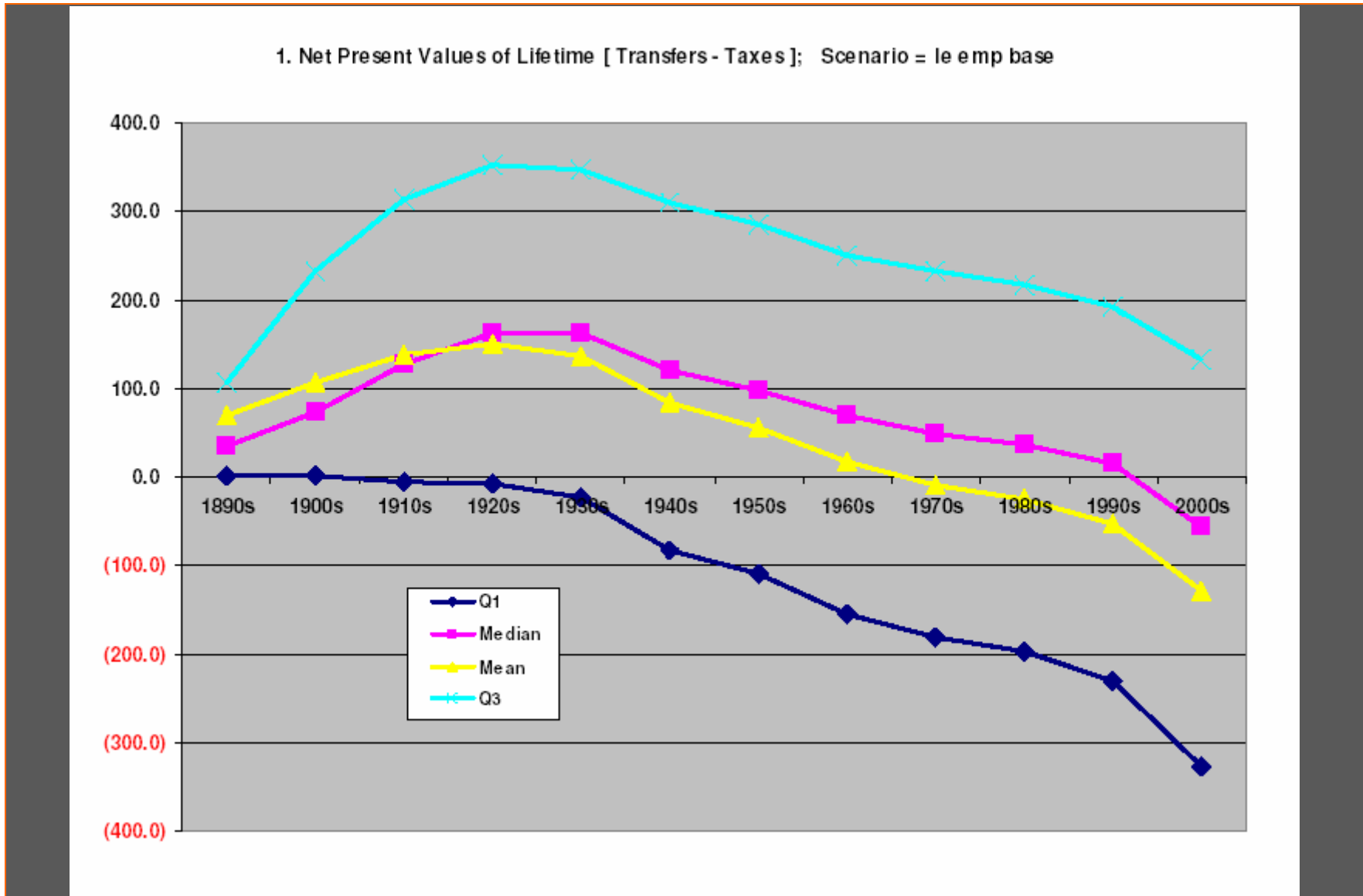
- “ . . . the baby boom generation is the first in history where they cannot expect their children to be better off than they are . . . ”
- **Though there is no widely agreed upon concept of inter-generational fairness, and though the future is inherently unknowable, it is possible to make an effort to consider a few of the most important areas of uncertainty.**
- **The objective of this study is to provide information to support judgments on the inter-generational fairness of Canada’s major public programs using the Life Paths model.**

LIFE PATHS

- **‘Industrial strength’ policy-oriented microsimulation model that has been developed over more than a decade in partnership with a number of central policy ministries within the Canadian government.**
- **Began with Wolfson (1996) and has continued with a series of improvements over the years, highlighted by a steady stream of papers using the model.**
- **You can find more information for Life Paths at: www.statcan.ca/english/spsd/LifePaths.htm.**

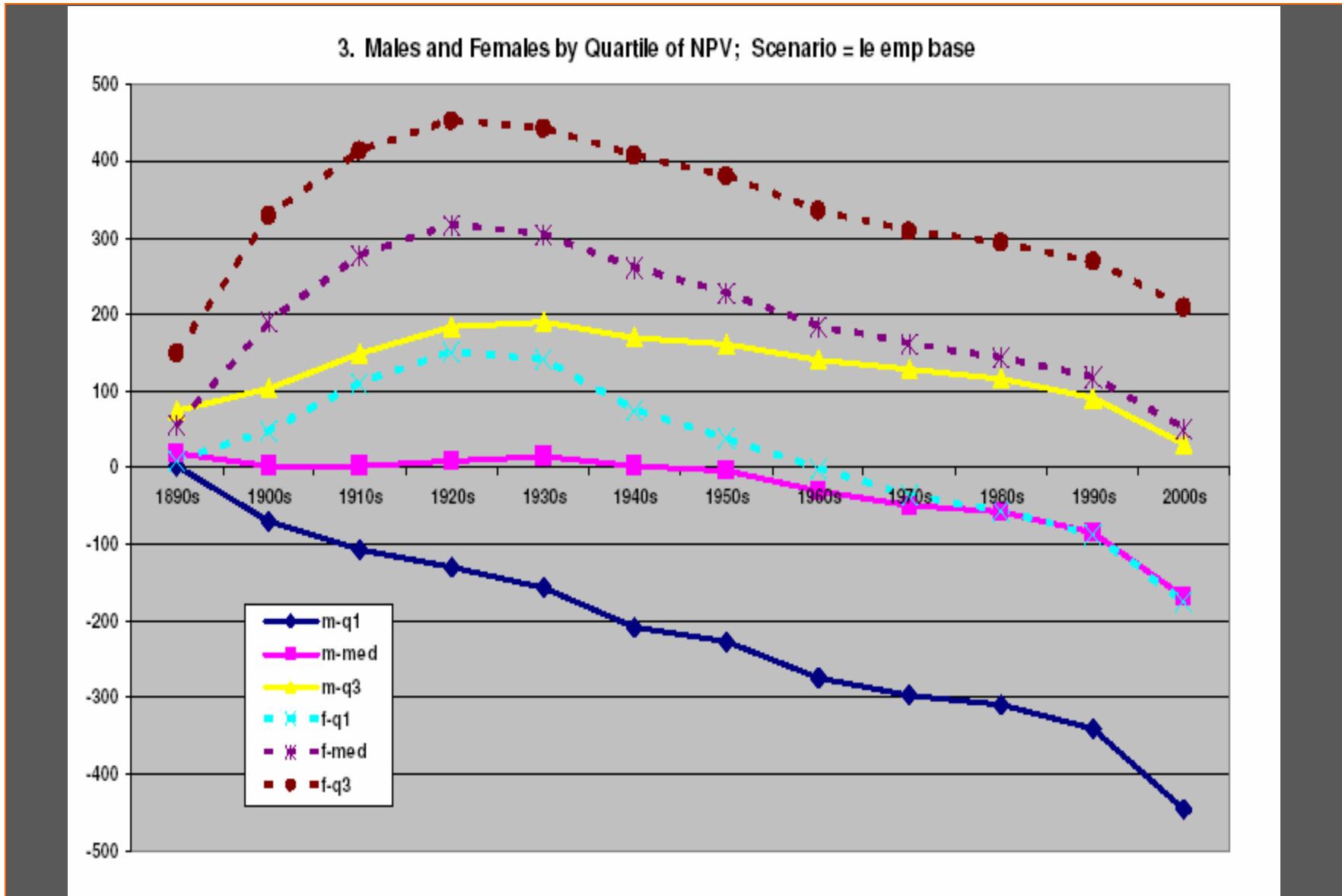
LIFETIME NPV AT A GLANCE

- **The focus is on the net present value of lifetime transfers minus taxes.**
- **Four different points in the NPV distribution are evaluated for each birth cohort: the first quartile (Q1), the median, the mean, and the third quartile (Q3).**
- **This is done for the base policy scenario of low life expectancy and low employment.**
- **There are distributional differences shown across cohorts. These differences grow toward the later cohorts.**



COMPARING MALES VS. FEMALES

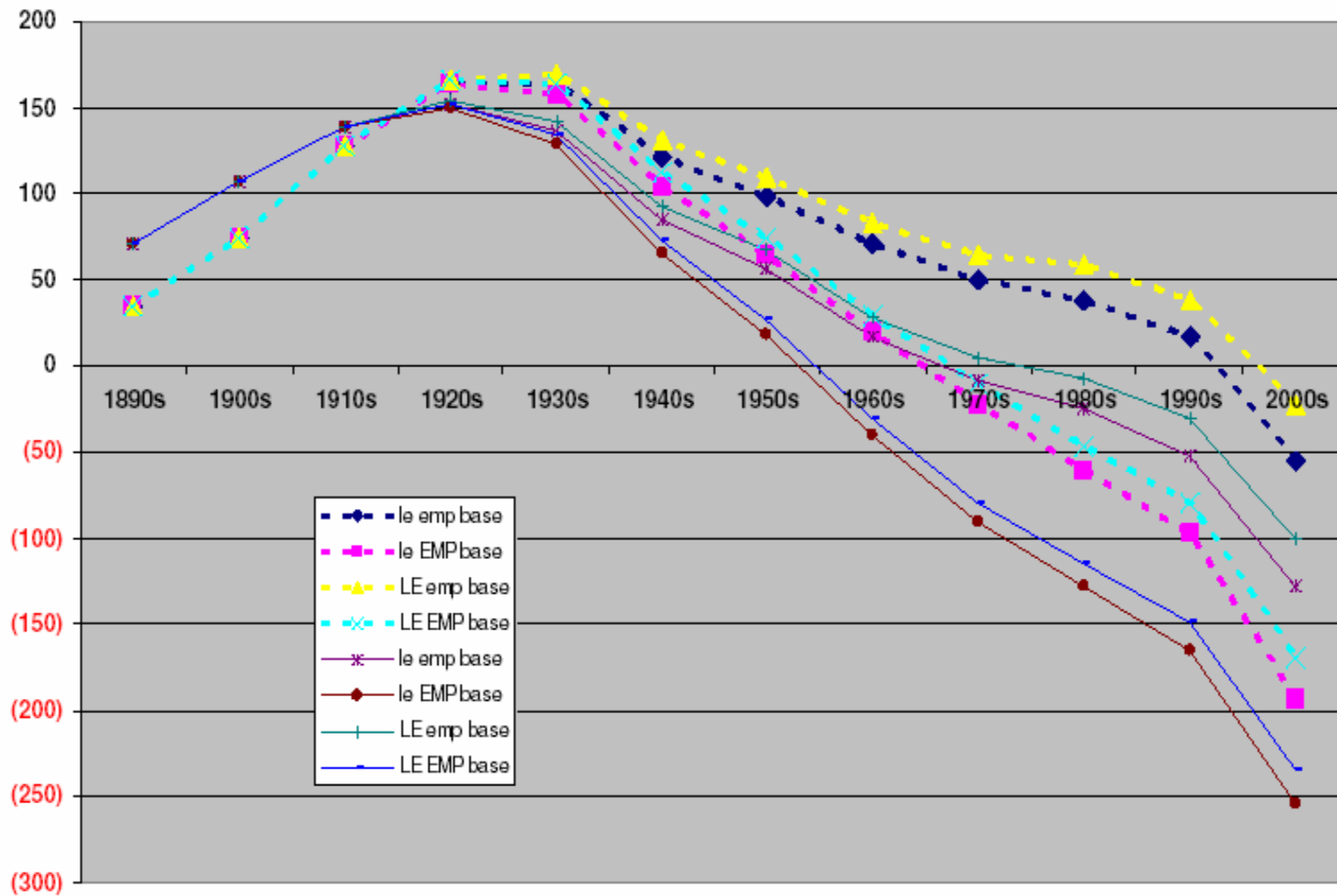
- **The differences in the sexes are significant in terms of the lifetime net present value of transfers minus taxes, , especially in their distributions across cohorts.**
- **The NPV of females strictly dominates that of males for every cohort.**



COMPARING SCENARIOS

- **Life expectancy:**
“le” for “low”
“LE” for “high”
- **Employment:**
“emp” for “low”
“EMP” for “high”
- **For example, if a policy is “le emp base” it is a base scenario displaying a low relative life expectancy and low relative employment.**
- **There are four combinations of scenarios which are examined by both mean (solid) and median (dashed).**
- **The strength of the economy (emp) has a much larger impact than the pace of improvement in life expectancy (le).**

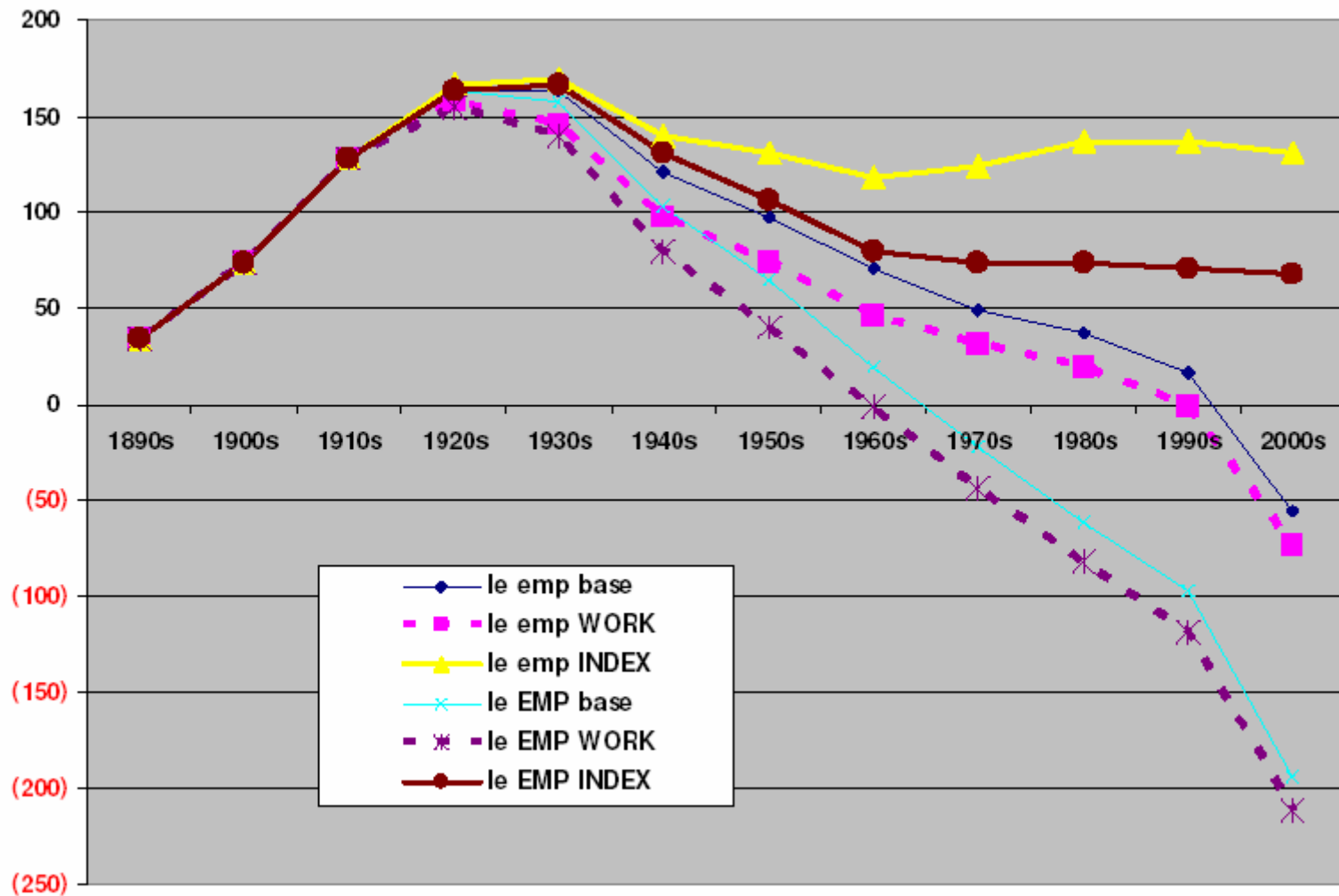
4. Medians and Means by Exogenous Scenario



COMPARING POLICIES UNDER SCENARIOS

- **In addition to a baseline or status quo scenario, two policies will be examined.**
- **The first policy alternative essentially raises the age of entitlement to public pensions from age 65 to age 70.**
- **The second policy shifts a range of tax and cash transfer program indexing provisions from the status quo consumer price index (CPI) to the average wage (AW).**
- **First policy slightly lowers NPV across cohorts and the second policy significantly raises the NPV across cohorts.**

5. Lifetime NPVs for Three Policy and Two Employment Scenarios



CONCLUSIONS

- **Birth cohorts born after the 1930s will experience successively smaller lifetime net transfers (both cash, and in-kind for health and education).**
- **There are distributional differences in the NPV across cohorts, these differences grow toward later cohorts, and these differences differ between sexes.**
- **The strength of the economy has a much larger impact than the pace of improvement in life expectancy.**
- **Raising the age of entitlement slightly lowers NPV across cohorts, while the introduction of indexing significantly raises the NPV across cohorts.**

DISCUSSION

- **If later and future cohorts are getting shortchanged relative to past cohorts ('fleeting fairness' in an intergenerational sense), what if anything should be done about that alone from a policy perspective?**
- **Is the expectation correct that future cohorts of the elderly (i.e. baby boom) will place intolerable burdens on future working age generations in their retirement years in order to finance their public pensions and health care?**
- **For policy decision-making, what other impacts may arise if the age of entitlement is raised or if indexing introduced?**