

Age Reallocations through Public Transfers in Austria: An Analysis using National Transfer Accounts

Bernhard Hammer

11. März 2011

Introduction

Public transfers play a central role in the reallocation of resources over age, both in the redistribution to children and youth and to the elderly. As an important example for a transfer to the young population, education is almost exclusively financed through public transfers. An even more important role play public transfers at the other end of the life-cycle: The bulk of the life-cycle-deficit of the elderly are covered through public pensions and care benefits, these transfers account for two thirds of total public cash transfers.

Measuring Size and Direction of Age-Reallocations

Schooling and pensions are two examples of public transfers in which age reallocation plays obviously a central role. For other public transfers the impact on the age-reallocation of resources is less clear, for example transfers targeting family and children or unemployment benefits. National Transfer Accounts include in- and outflows of resources for each age-group for a range of public transfers, these data are therefore predestined to analyze and quantify the effect of a certain transfer on the allocation of resources over age. We use a simple index to measure the direction and size of flows over the age within certain transfers. Since we have data for the years 1995, 2000 and 2005, we are able analyze the development of public transfer systems over this time-period.

Evaluating the Sustainability and Generational Fairness of Transfers

The direction of flows is already a first hint how population ageing affects the funding structure of a transfer. Lower cohort sizes of the young for example, leave more educational resources to each student, population ageing could therefore ease resource-constraints. On the contrary,

for transfers redistributing to the elderly, population ageing might pose a huge strain, in some cases the current funding structure might turn out to be unsustainable. Related to the funding of intergenerational transfers is the question of generational fairness: Those cohorts who benefit from a transfer during a certain age should be the ones who provide the means for this transfer during the rest of the lifecycle, the value of contributions should equal the benefits.

It is now in discussion how NTA can be used to provide indicators for the sustainability and fairness of public transfer systems. We will use the available age-profiles of public transfer in- and outflows and apply them to population projections to determine the future development of the public transfer systems. The funding gap or surplus measures if the current funding structure is appropriate also under the future age structure of the population, it can be used as an indicator for the sustainability of the transfer system. Carefully applied, it can serve at the same time as an indicator for the fairness of a transfer system, since a funding shortfall has to be covered by future tax-payers, increasing their contribution without necessarily increasing their benefits.