

Changing Patterns of Intergenerational Transfers and Life-Cycle Consumption in Finland and Sweden 1990-2006

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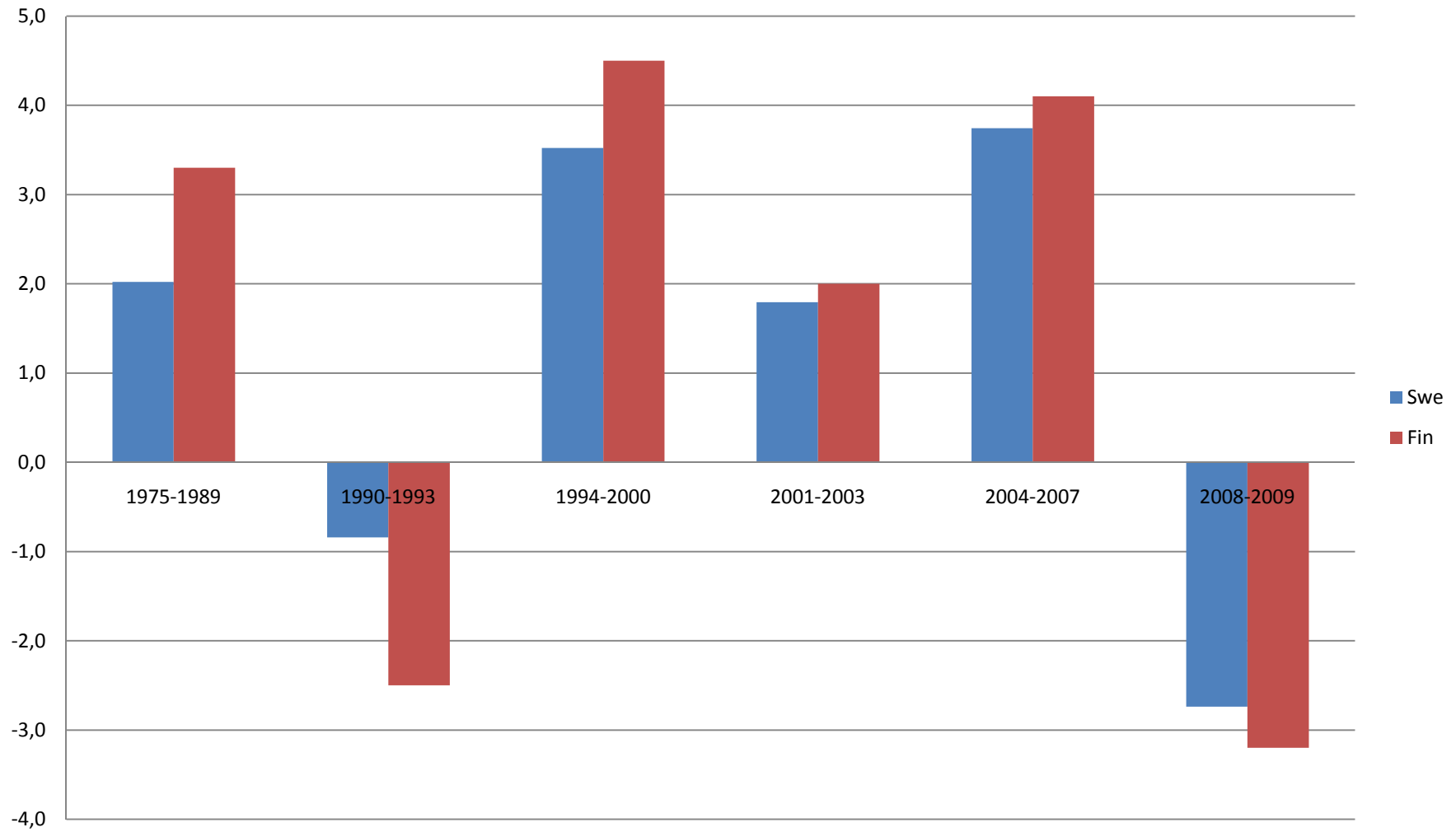
Reijo Vanne, Finnish Pension Alliance

Jovan Zamac, Inst. For Future Studies, Stockholm

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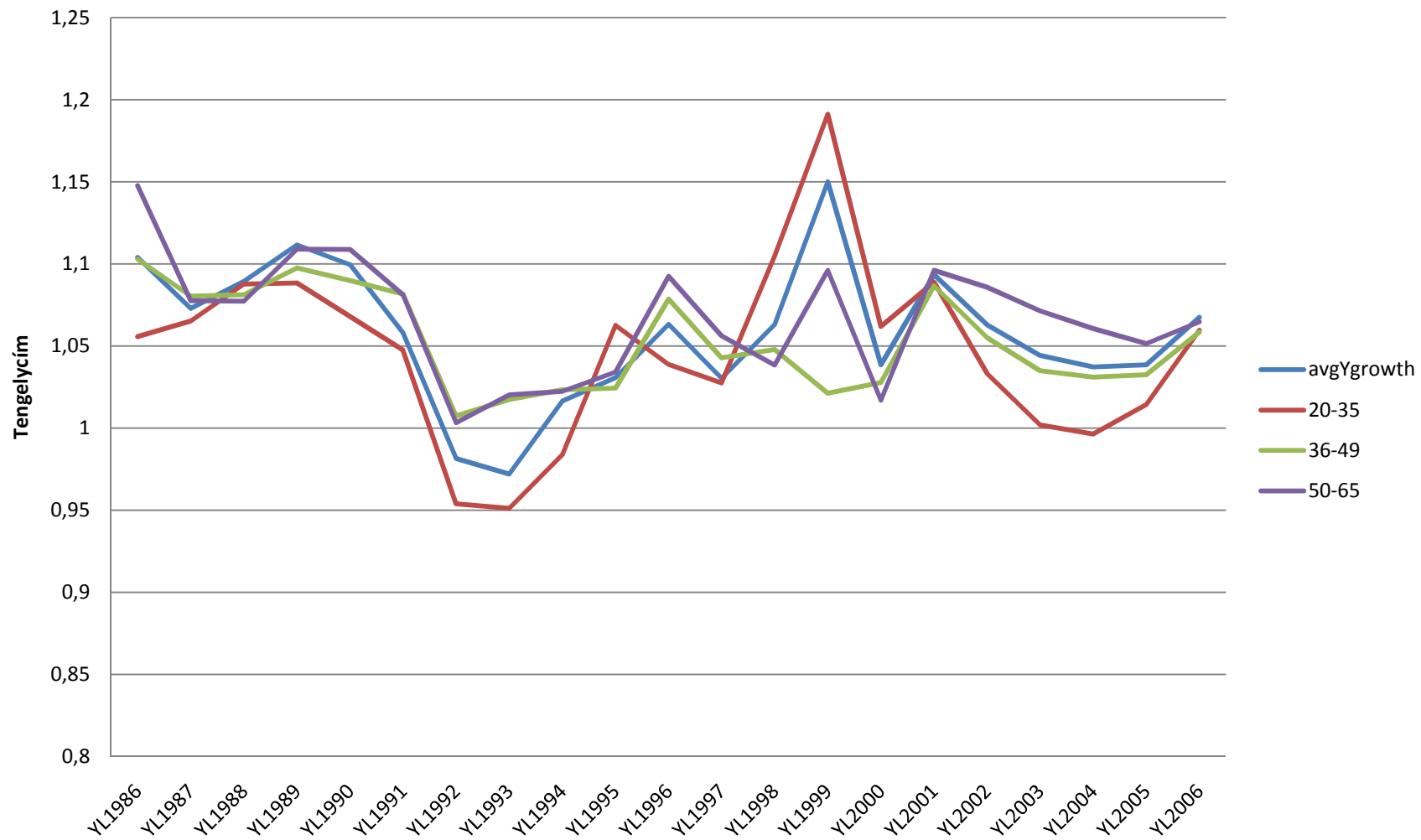
- How did consumption respond to the crisis?
- The long run, before and after crisis:
- Are these countries different
 - Sweden-Finland comparison: decomposing changes of LCD
- This time is different: decomposing changes of LCD of broad age groups
 - **Case Finland** – role of demography, labour income and consumption
- Financing LCD change in the history and in the future
 - **Case Finland** – sustainable?

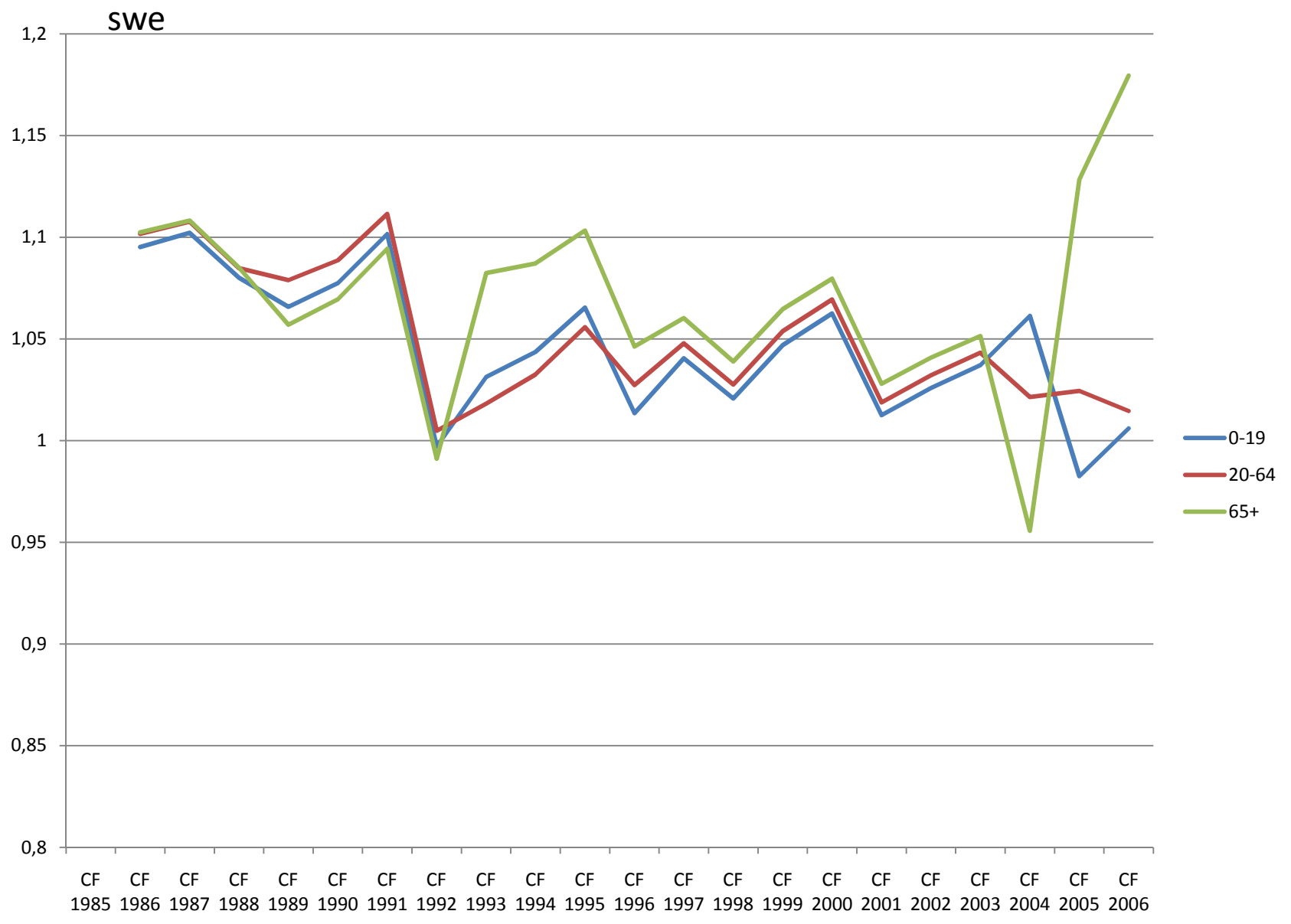
Real GDP growth Fin and Swe 1975-2009

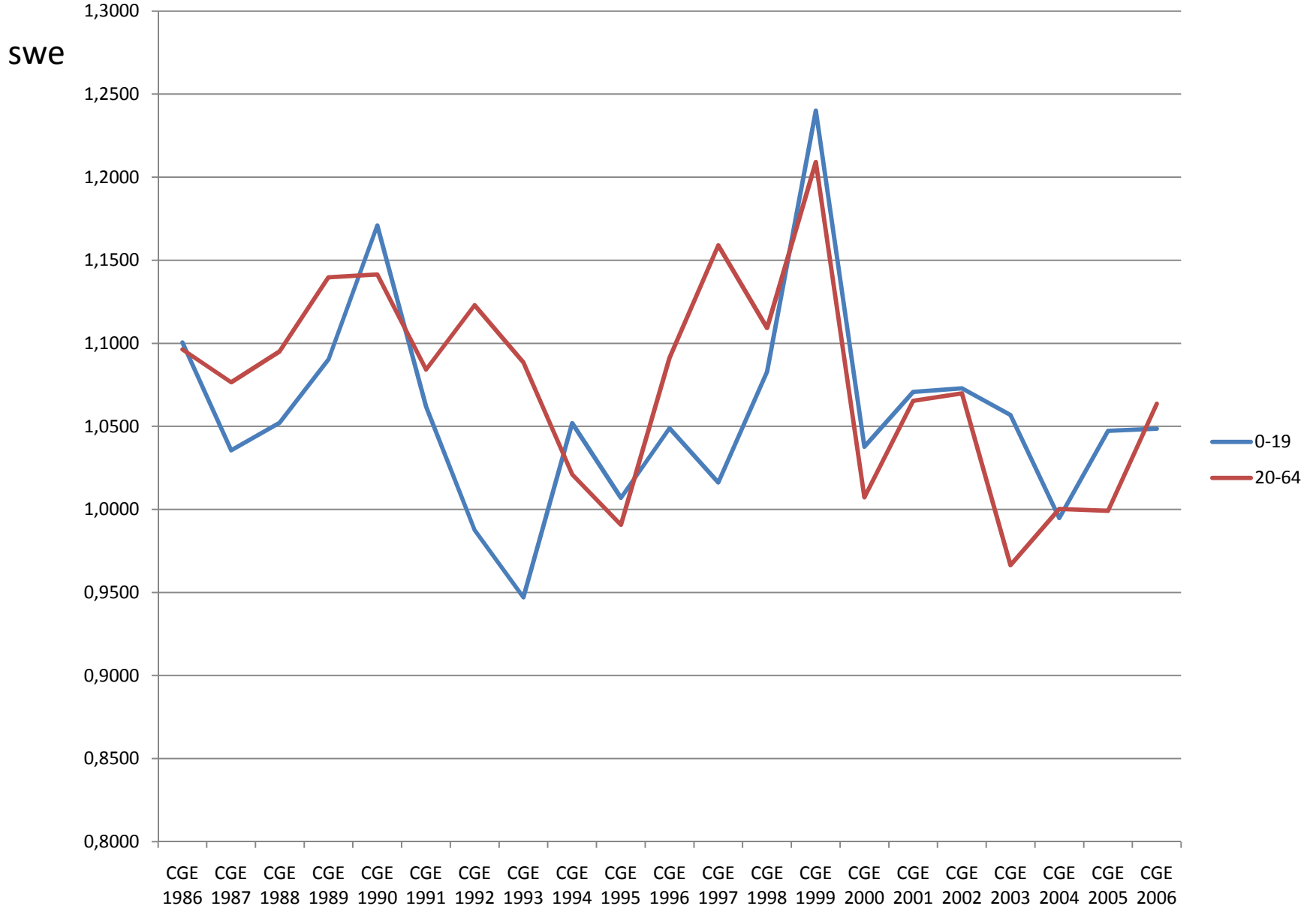


Source: Statistics Finland and Sweden

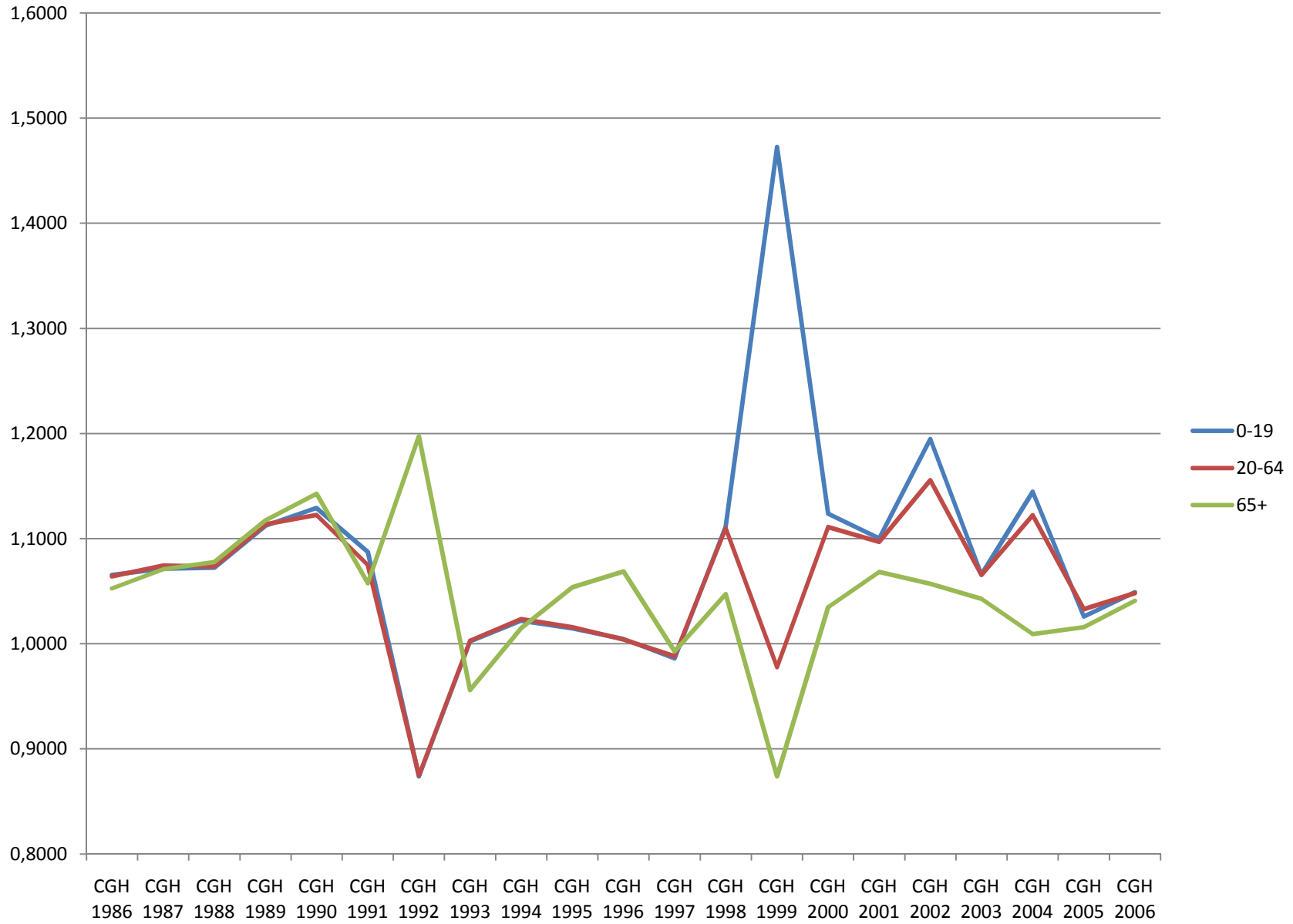
Sweden nominal gross growth for different age groups







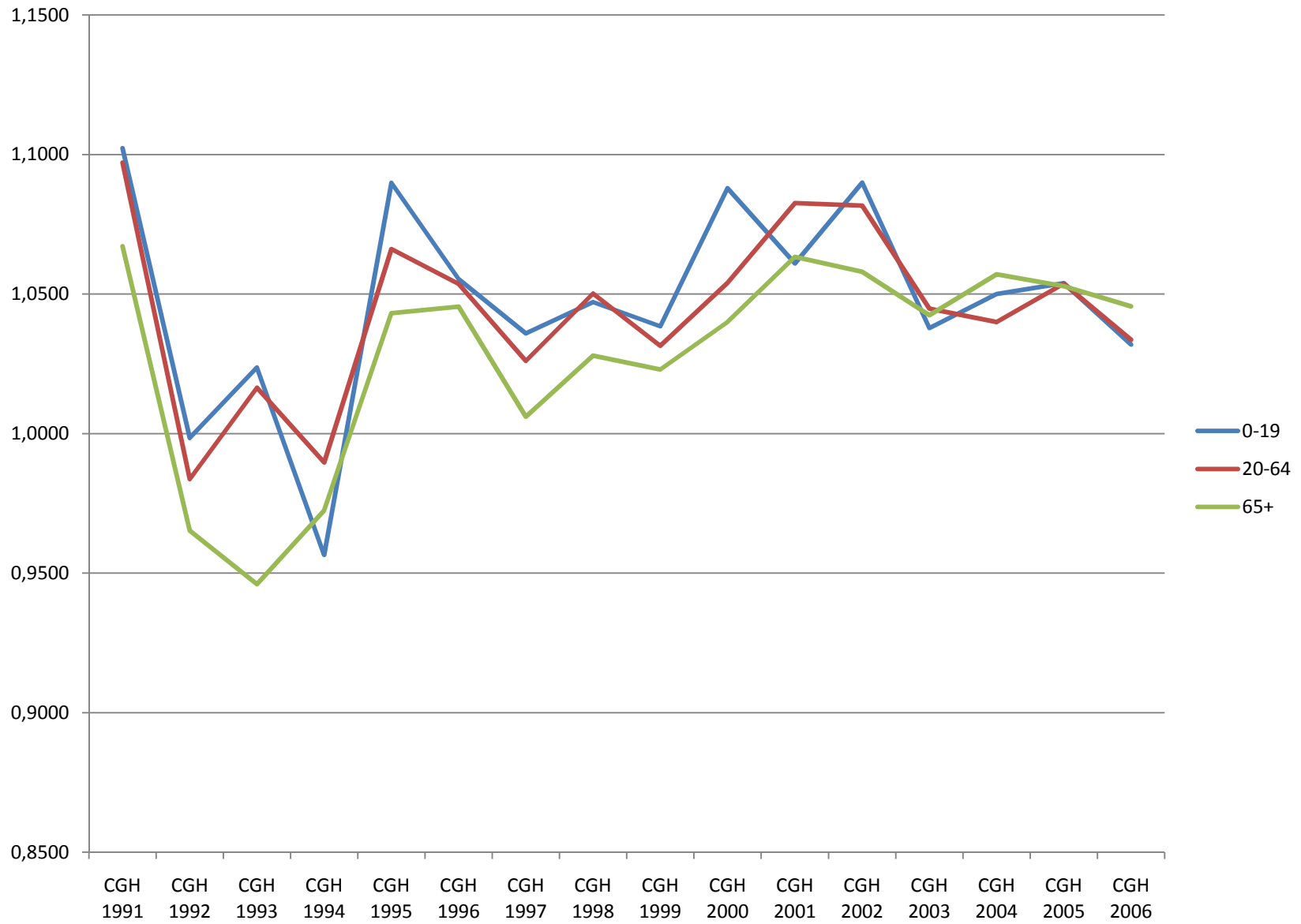
swe



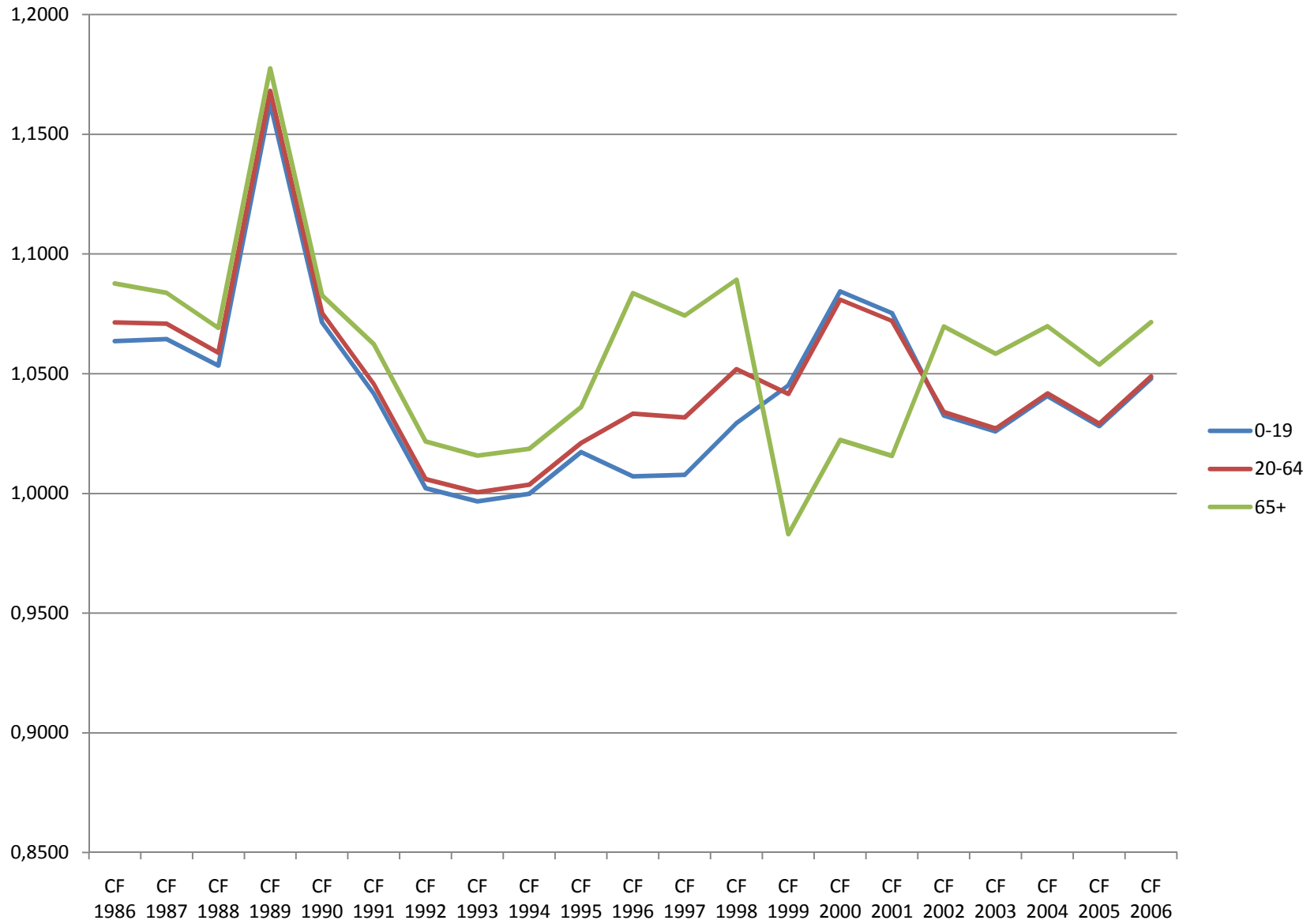
FIN



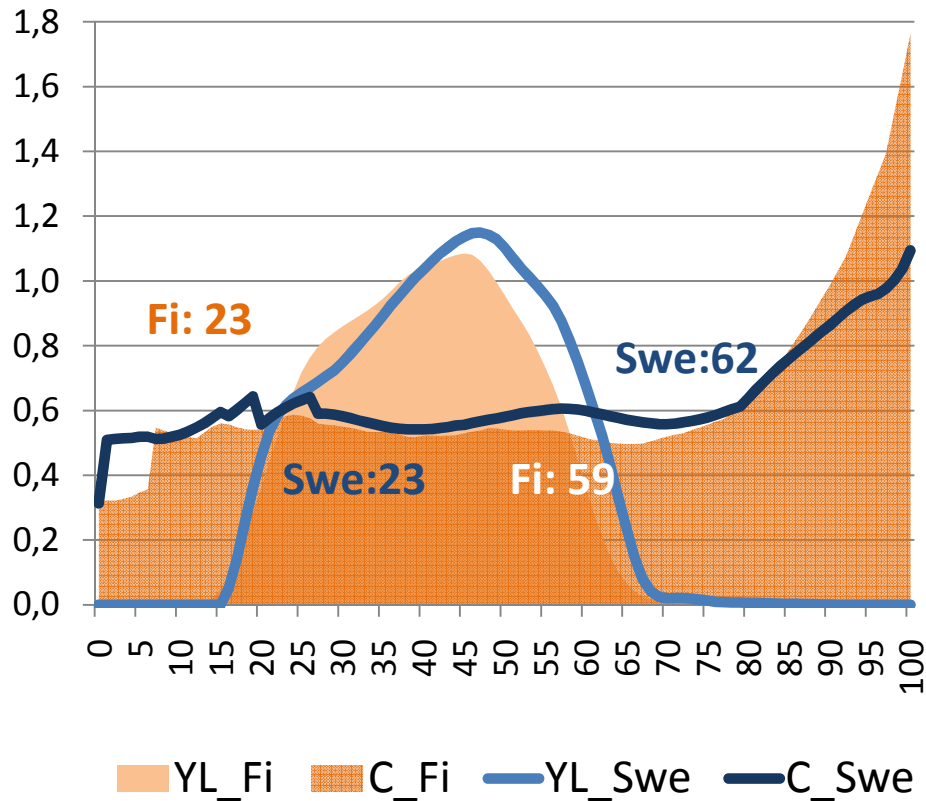
FIN



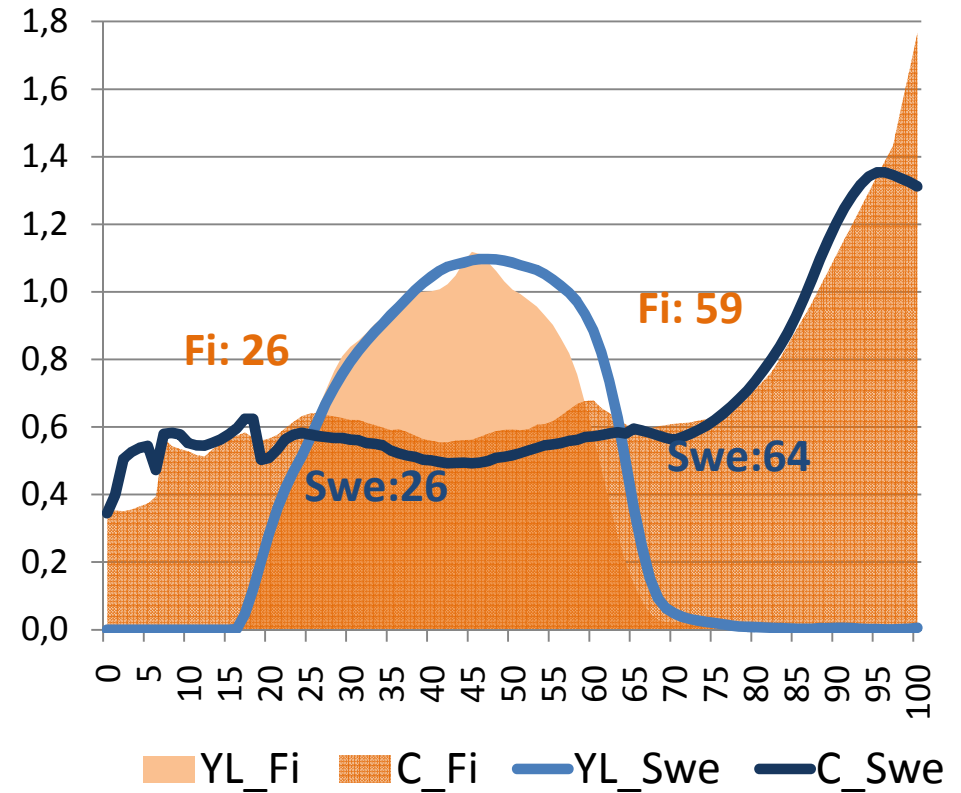
FIN



LCD per capita in Finland and Sweden

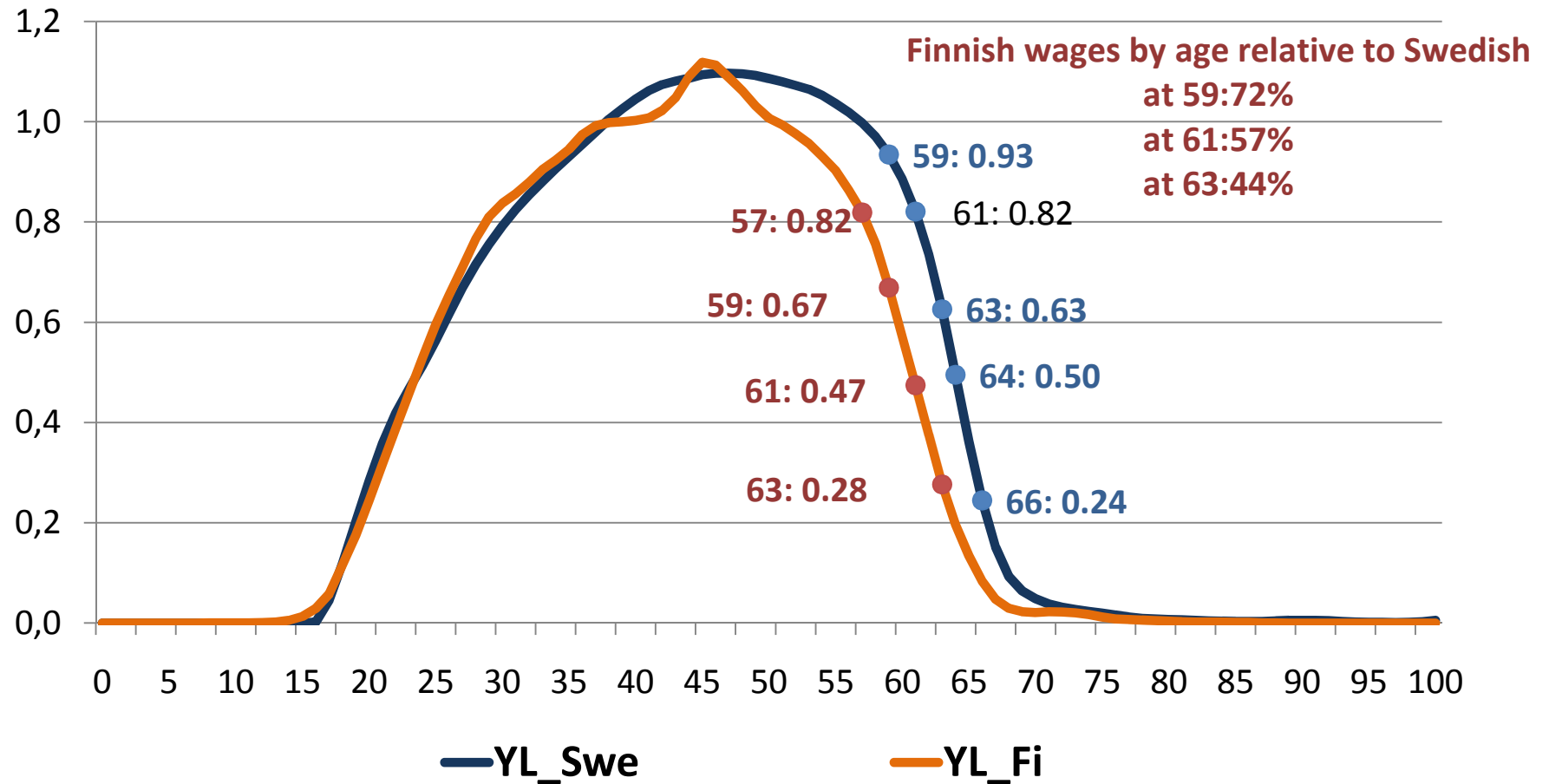


1990

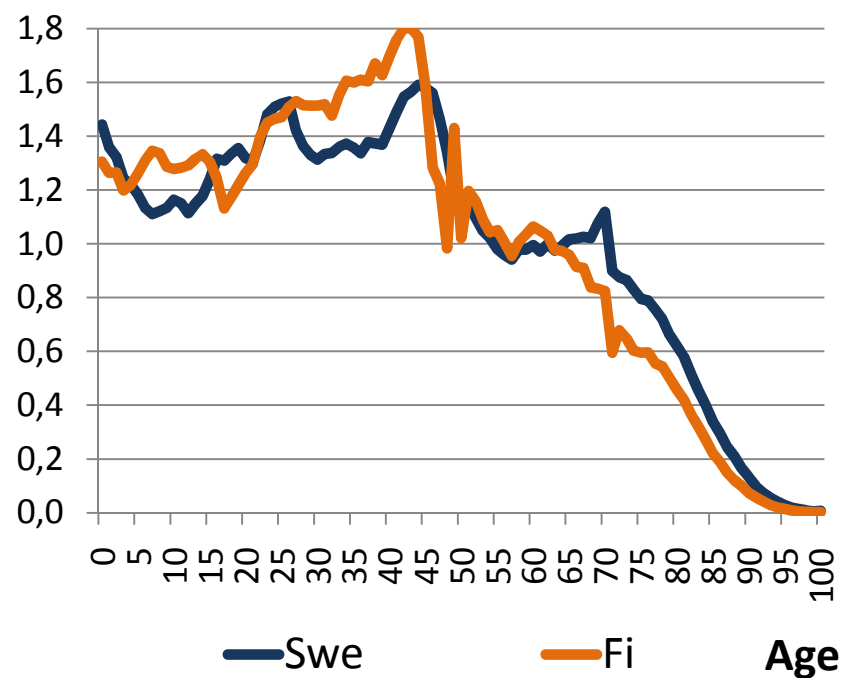


2006

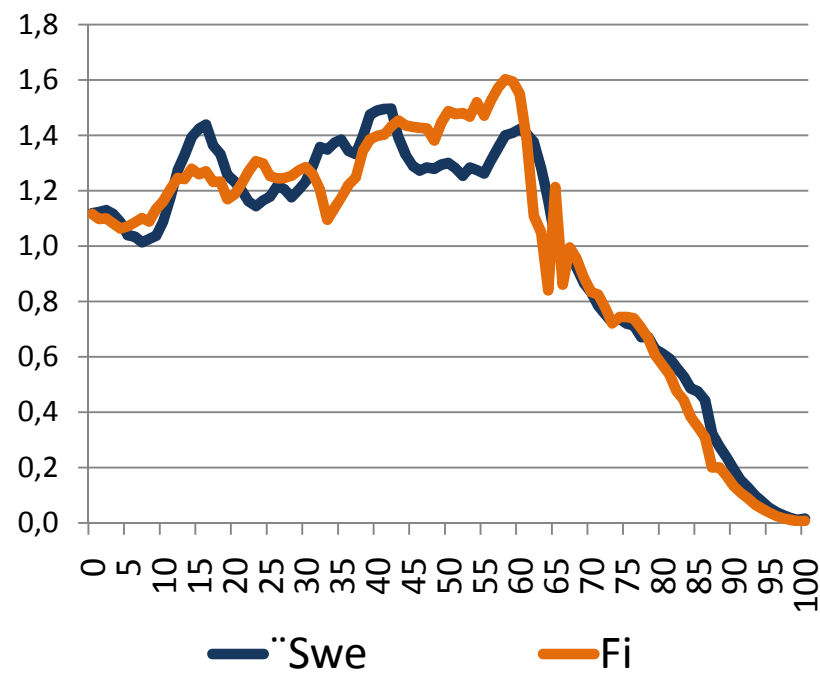
Wage patterns by Age Fi vs. Swe 2006



Population by Age: Finland and Sweden

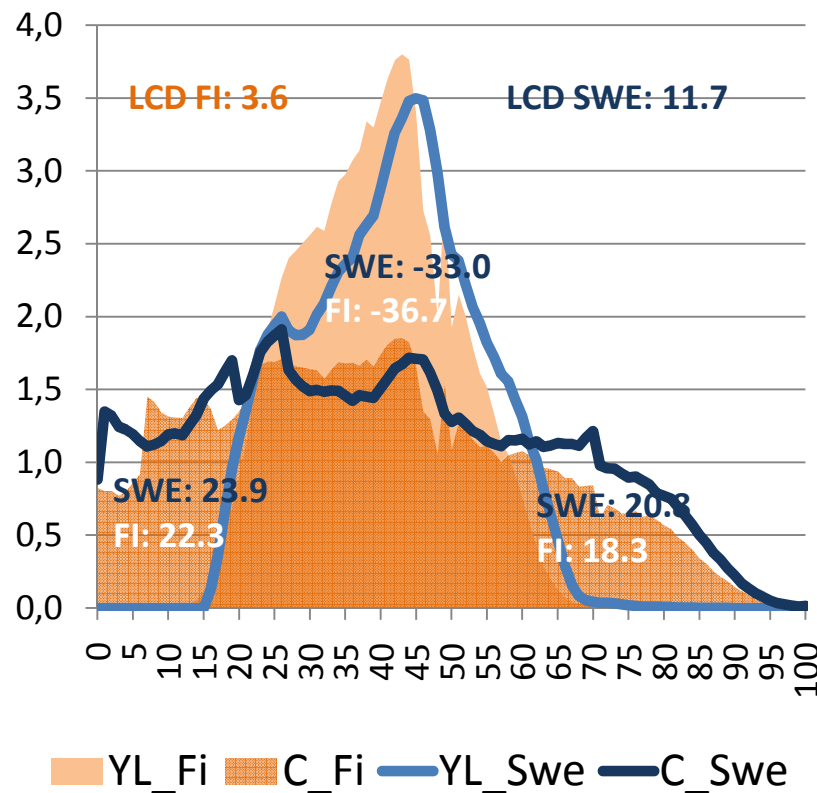


1990

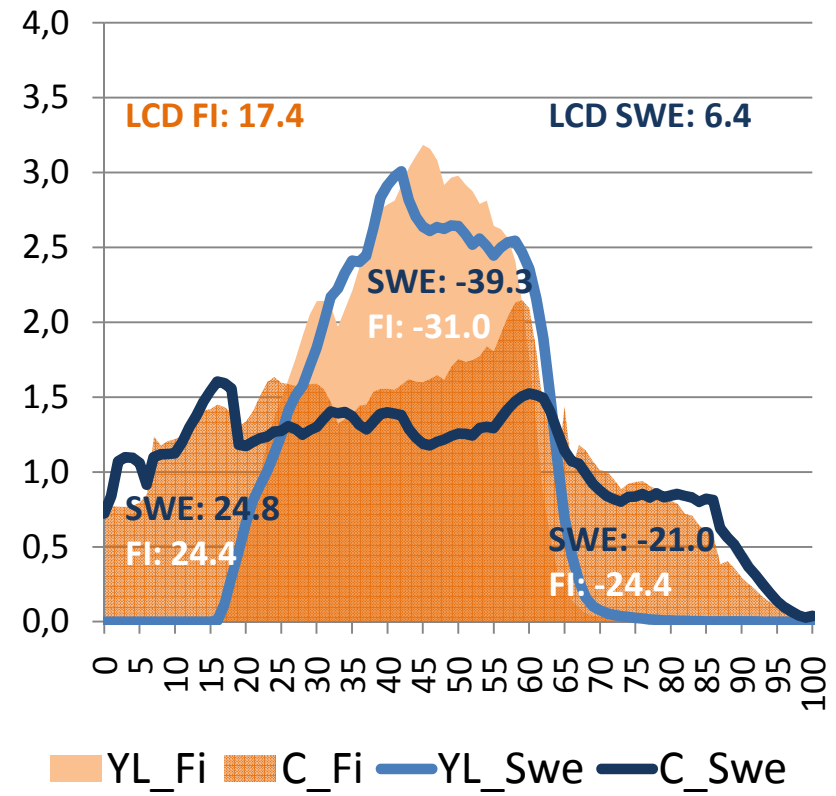


2006

LCD by Age in Finland and Sweden

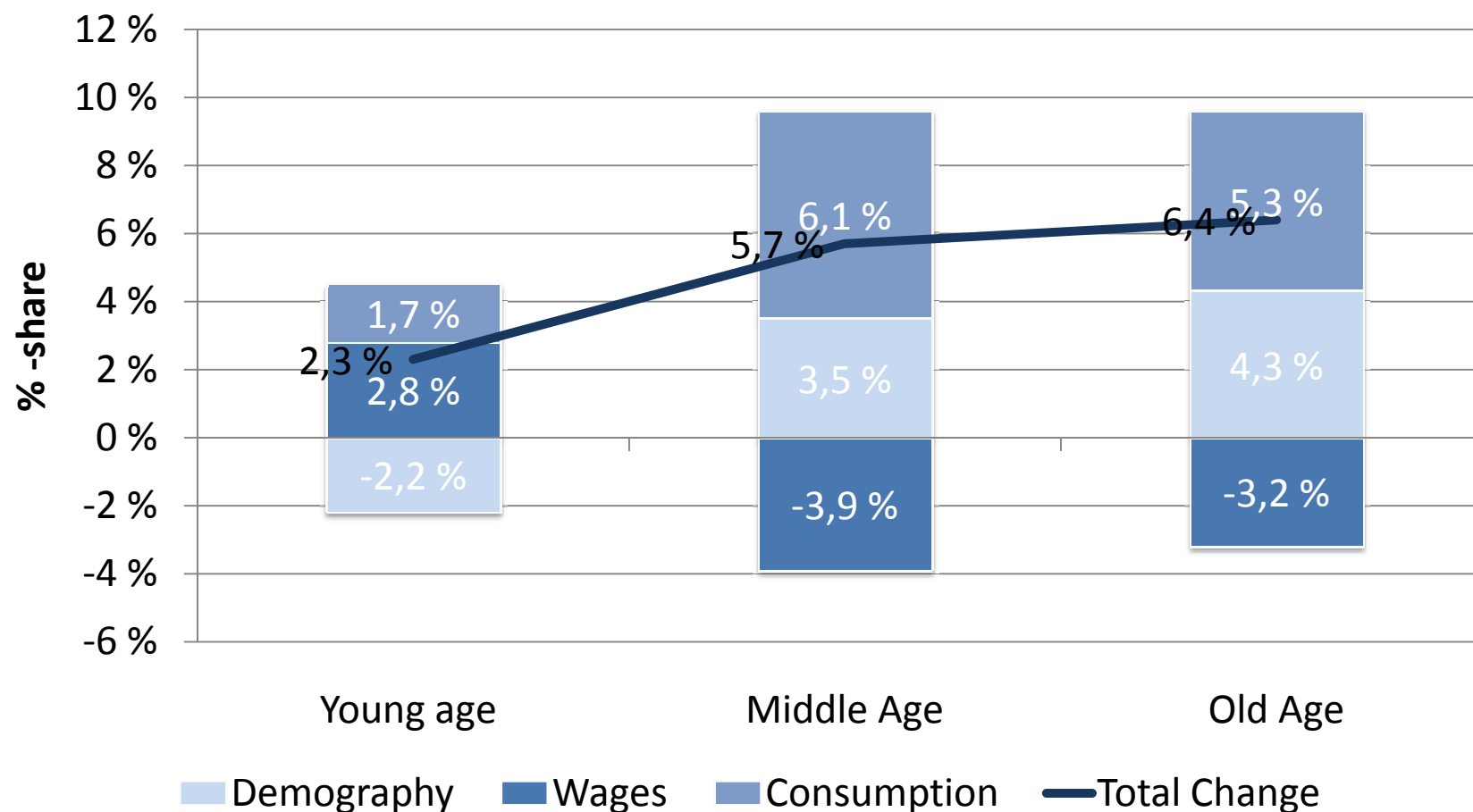


1990

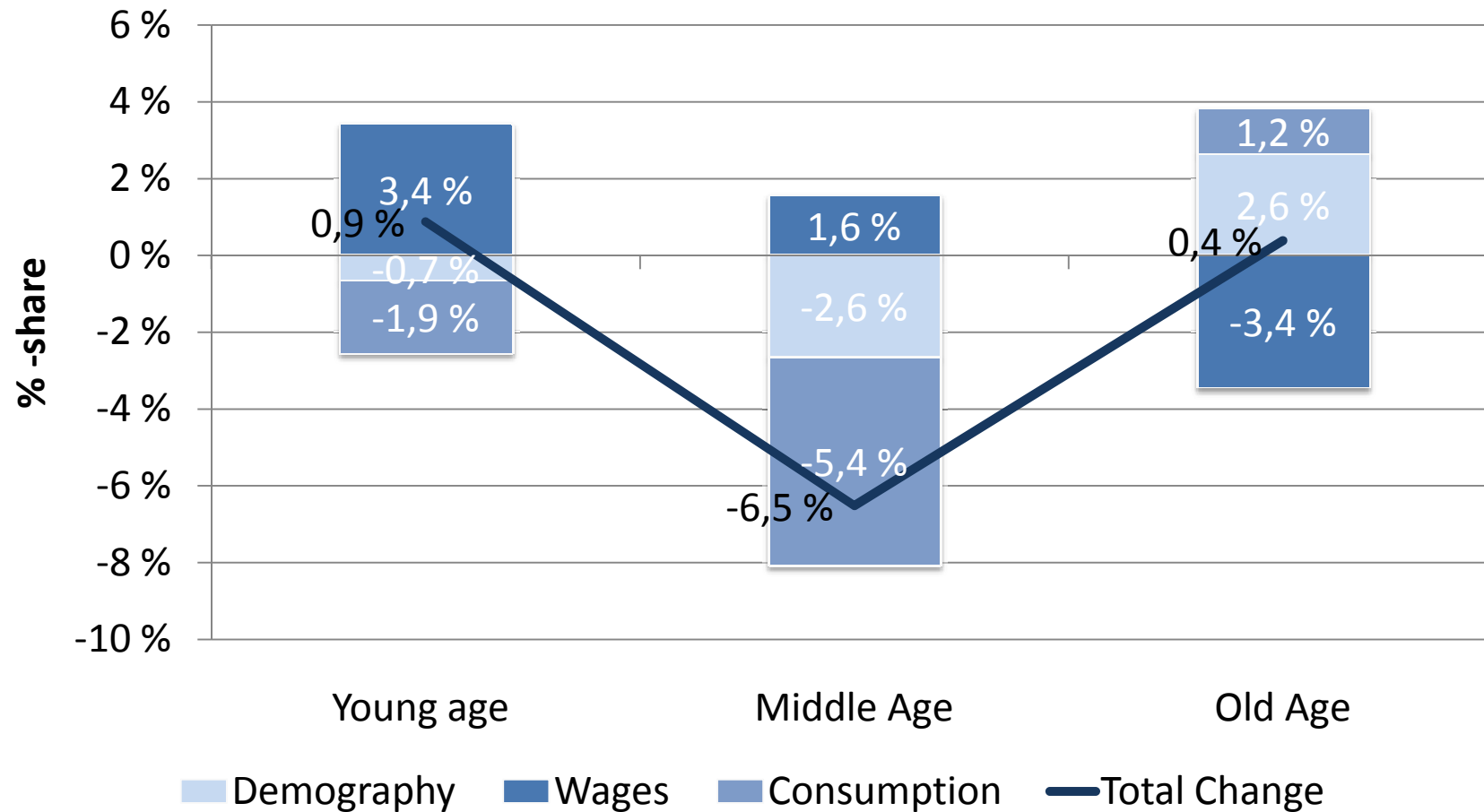


2006

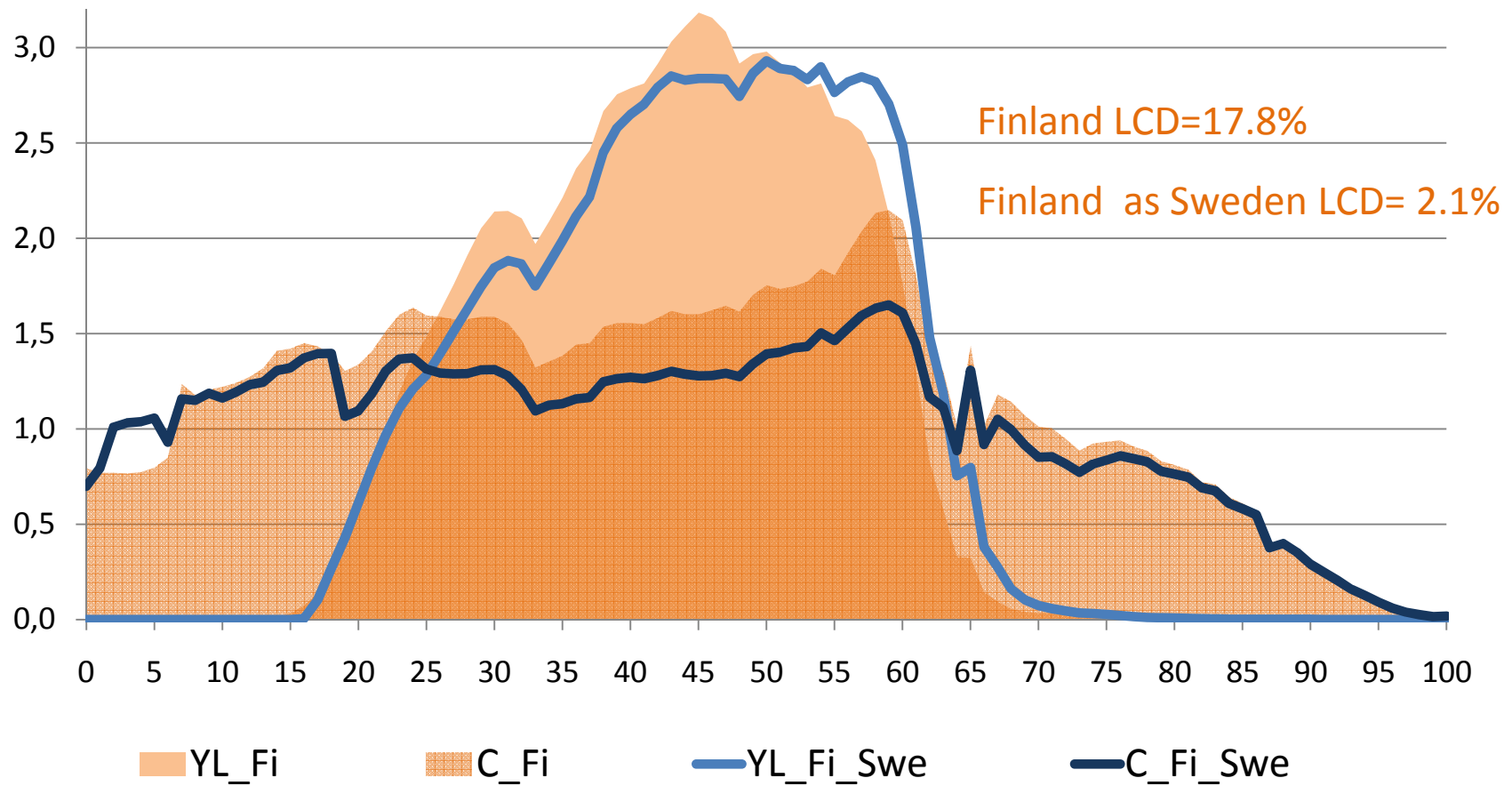
Contributions of consumption, labor markets and demography to the change in the relative LCD in Finland \square (LCD/YL) = 14.4



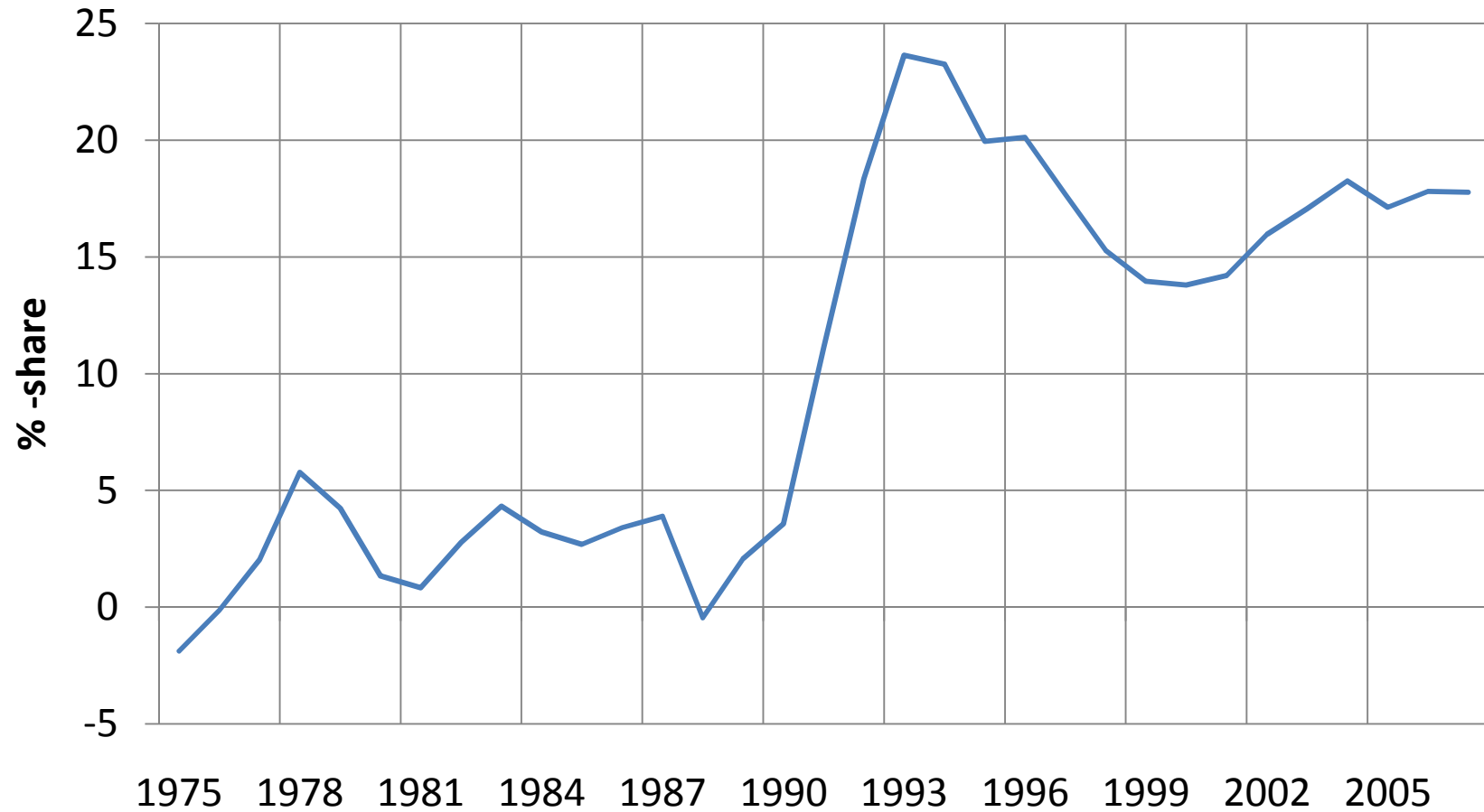
Contributions of consumption, labor markets and demography to the change in the relative LCD in Sweden \square (LCD/YL) = -5.3



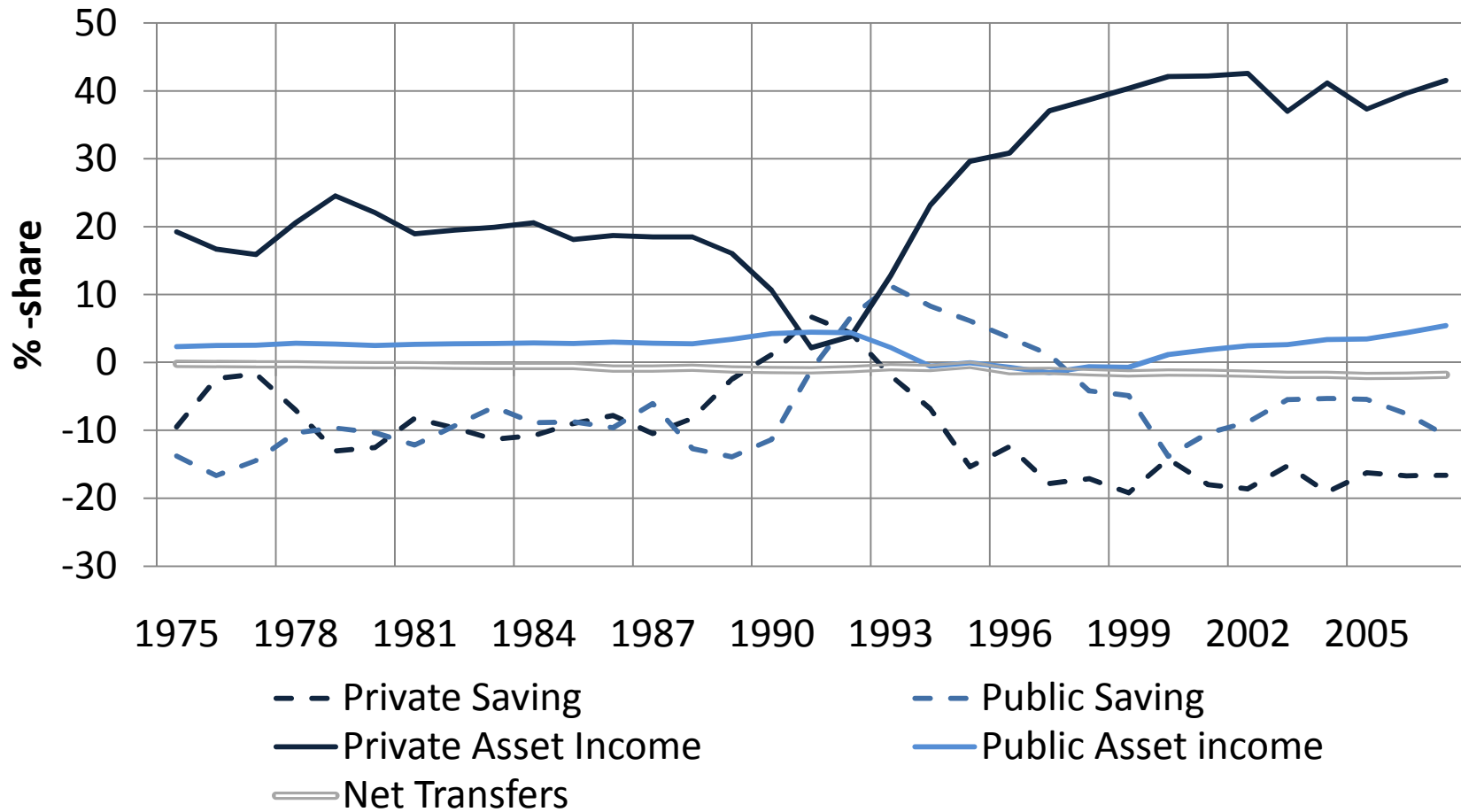
Finland as Sweden



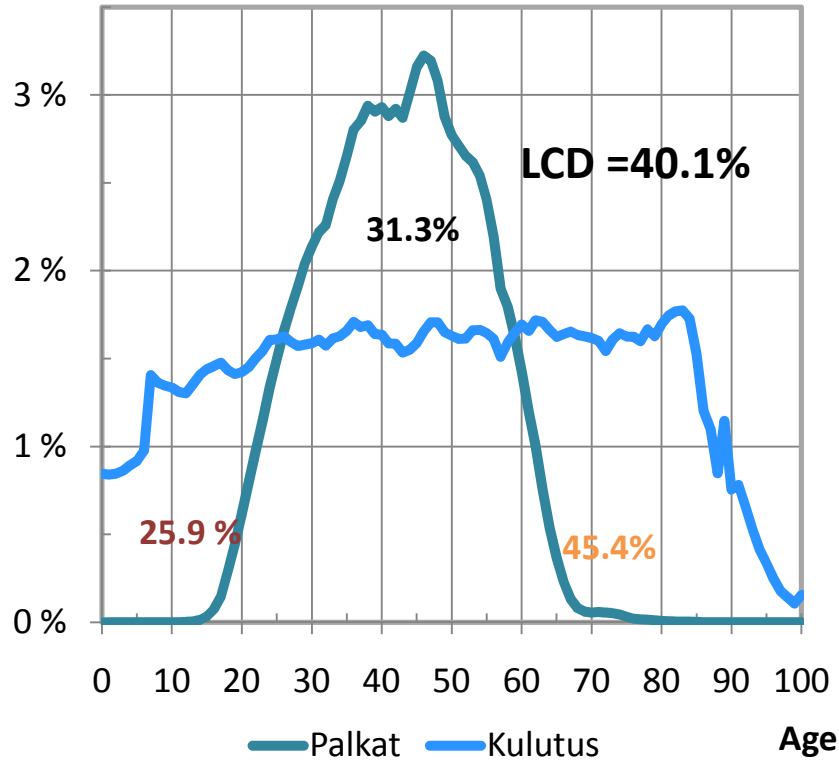
Life-cycle deficit as a percentage of labour income, 1975 - 2007.



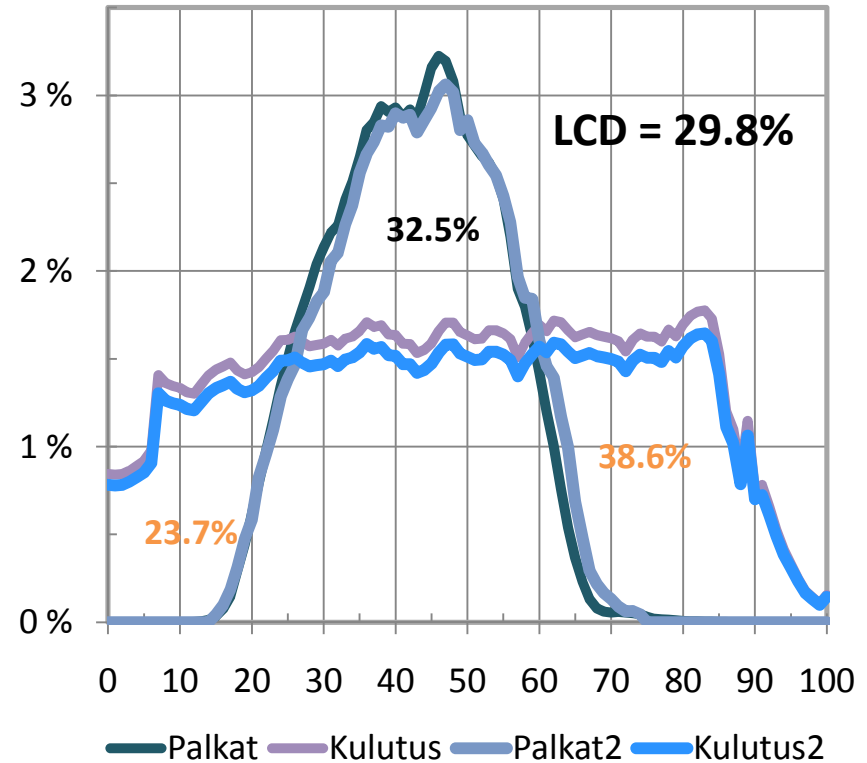
Aggregate asset reallocation components of the financing of the LCD as a percentage of labor income, 1975 - 2007.



Projections to the future



**LCD 2030: population 2030
combined with profiles 2006**



**LCD 2030: former plus 2 years longer
careers**

Sustainability: do we save enough – a simple attempt to answer

- Let's denote aggregates
 - g = growth rate of labour income
 - r = asset income per net assets in the beginning of the period
 - a = asset income per labour income
 - d = LCD per labour income
- Then
 - Net assets in the beginning per labour income = a/r
 - To keep net assets per labour income constant: growth rate of net assets per labour income should be $g \cdot a/r = a \cdot g/r$
 - An identity: $a = a \cdot g/r + a(1 - g/r)$ [1]
 - The first term is saving and consequently the second could be used to finance consumption
- In practice and examples
 - a , g and r are naturally observed only afterwards
 - If $a = 0.4$, $g = 3.5$ and $r = 6$, then "sustainable" level to finance consumption = $0.4 \cdot (1 - 3.5/6) = 0.17$, i.e. the value in Finland in 2006
 - If $d = 0.4$, then $a = 0.95$ (if asset income is the only aggregate source of LCD finance)

Regimes

- Identity [1]: assume $a > 0$
- $r > g > 0$ or $r < g < 0$ "normal: save part of asset income"
- $r = g$ "save all asset income"
- $g > r > 0$ "save all asset income plus part of labour income"
- $g = 0$ "do not save or dissave"
- $g < 0 < r$ or $r < 0 < g$ "dissave"