Financing the life cycle deficit in Costa Rica: Challenges for a rapidly aging population

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Demographic transition

Population by age group and sex
Objectives

- Changes in the life cycle deficit and public and private transfers: 2004 and 2013
- Implications of demographic change for the public transfer system
- New estimates of the family and fiscal demographic bonus
Methods

• “Measuring and Analysing the Generational Economy”

• Microdata:
  • Household income and expenditure survey: 2013

• Macrodata:
  • Central Bank National Accounts data: Integrated economic accounts (SNA 2008) **
  • 2004 estimates used older versions of SNA
Results
Life Cycle in Costa Rica
Per capita lifecycle deficit, Costa Rica 2004 and 2013

Graph showing labor income and consumption over age (Edad) with a shaded area indicating surplus or deficit.
Aggregate lifecycle deficit, Costa Rica
Financing the lifecycle deficit
Public transfers lifecycle deficit

Per capita profiles

Aggregate profiles
Per capita private transfer profiles
Financing the deficit of the young (age less than 20)
Financing the deficit of the young (age less than 20)

Taiwán
EEUU
Ecuador
CR-2013
CR-2004
CR-1991
Chile
Brasil

Porcentaje

Familia  Gobierno  Activos
Financing the deficit of the elderly

CR-2013
CR-2004
CR-1991

Porcentaje

-10 0 10 20 30 40 50 60 70 80 90 100 110

Familia  Gobierno  Activos
Financing the deficit of the elderly

Bar chart showing the distribution of financing for the elderly in different countries.

- **Taiwán**: 30% from family, 20% from government, 50% from active contributions.
- **EEUU**: 30% from family, 20% from government, 50% from active contributions.
- **Ecuador**: 100% from active contributions.
- **CR-2013**: 20% from family, 60% from government, 20% from active contributions.
- **CR-2004**: 20% from family, 60% from government, 20% from active contributions.
- **CR-1991**: 20% from family, 60% from government, 20% from active contributions.
- **Chile**: 30% from family, 30% from government, 40% from active contributions.
- **Brasil**: 30% from family, 30% from government, 40% from active contributions.

**Legend**
- Familia
- Gobierno
- Activos
Implications of the demographic transition in Costa Rica
Demographic dividend
Private and public dividend

Family dividend
Fiscal dividend

Annual growth rate %

1.5
1
0.5
0
-0.5
-1
1950 1975 2000 2025 2050 2075 2100
Conclusions

• The lifecycle deficit of the elderly is supported by public transfers
• The elderly are not a burden on their families; on the contrary, they give more than they receive
• Children and young people rely mostly on private transfers
• The period when the lifecycle deficit is positive is short and insufficient to finance half of the LCD
• Assets are an important source of financing for the LCD of the elderly
• The reduction of family transfers between 2004 and 2013 might be explained by a crowding-out effect of public transfers: Less incentive to save?
• On average, the per capita profiles of the LCD of 2004 and 2013 are very similar
• Demographic change puts pressure on the sustainability of public transfer systems, especially healthcare and pensions
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