NTA estimates for Costa Rica (Focus on changes 1991-2004)

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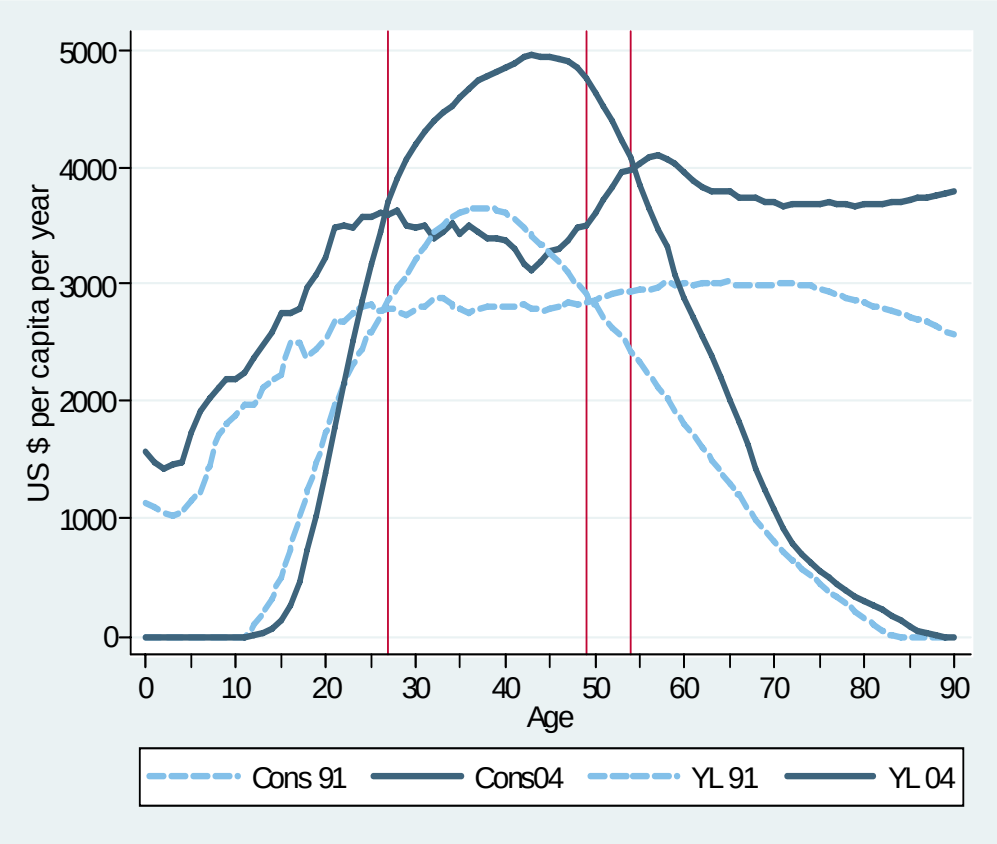
Background: changes in the 90s

- Fiscal reform: liberalization & reduction of indirect taxes dependency, reduction of tax evasion
- Health sector reform: efficiency
- Pension reform 2000-2005, mixed system with complementary individual accounts. Universalization of the non-contributive pension for the poor.
- Concentration of income.
- Substantial economic growth (5% annual)

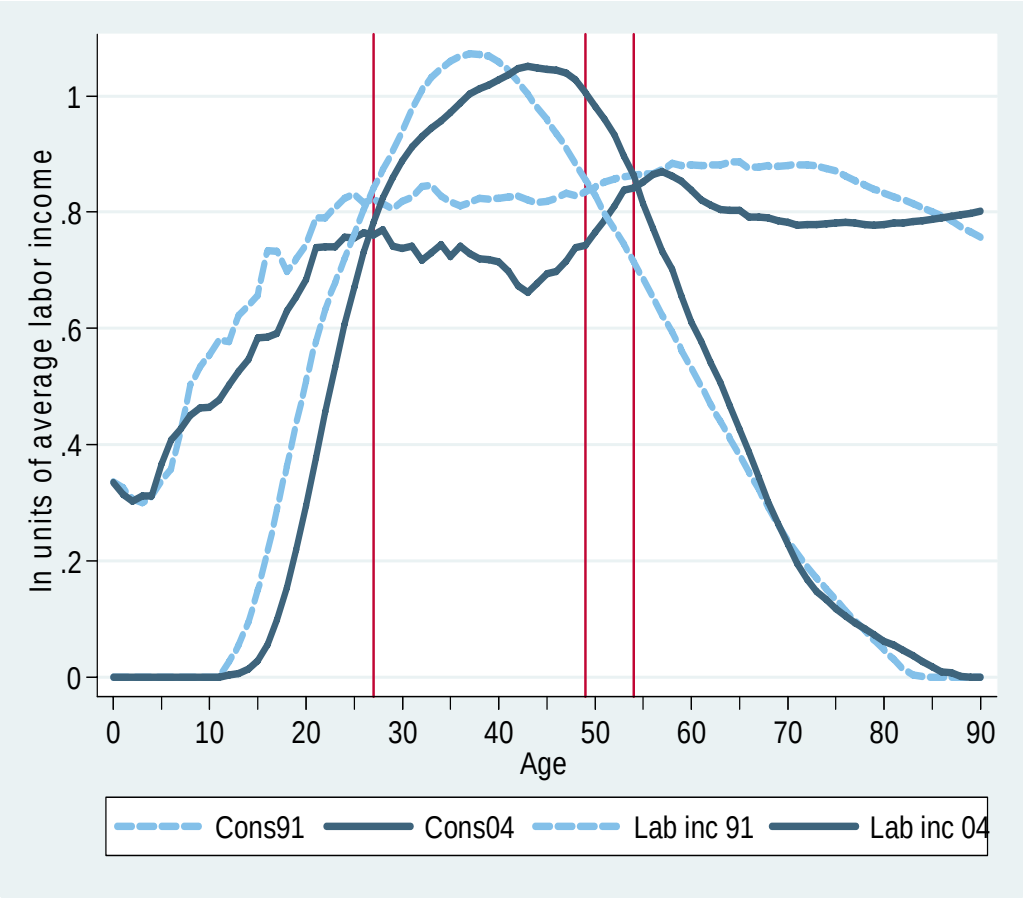
Costa Rica: Life cycle deficit 2004 & 1991



- Important increase in YL, especially for 45-60 age group, and shift to the right
- Smaller increase in consumption, especially for 40-50 age group
- Increase in YL is due to increase in earnings

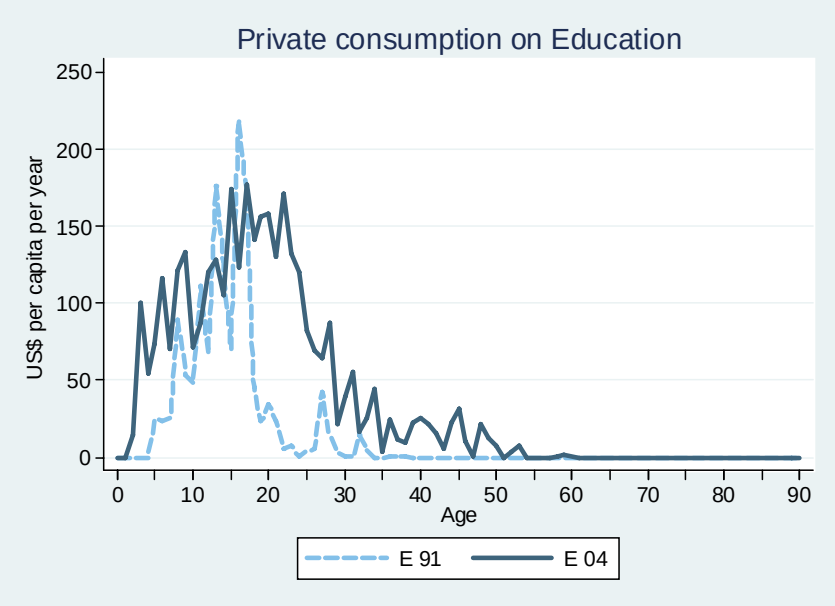
* Prices of 2004

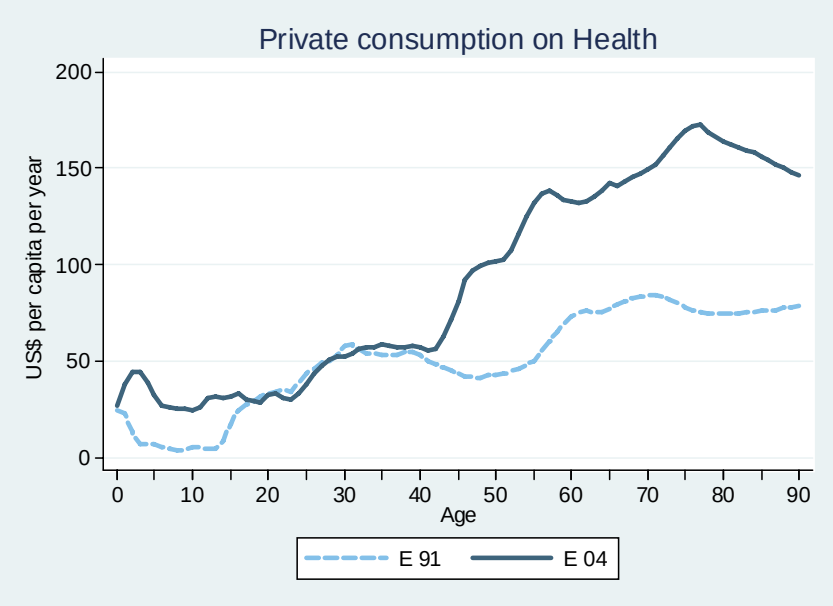
Costa Rica: Life cycle deficit 2004 & 1991



- Increase in surplus span from 27-50 in 1991 to 27-55 in 2004
- A bump in consumption in 2004. A cohort effect (vs. life cycle effect)

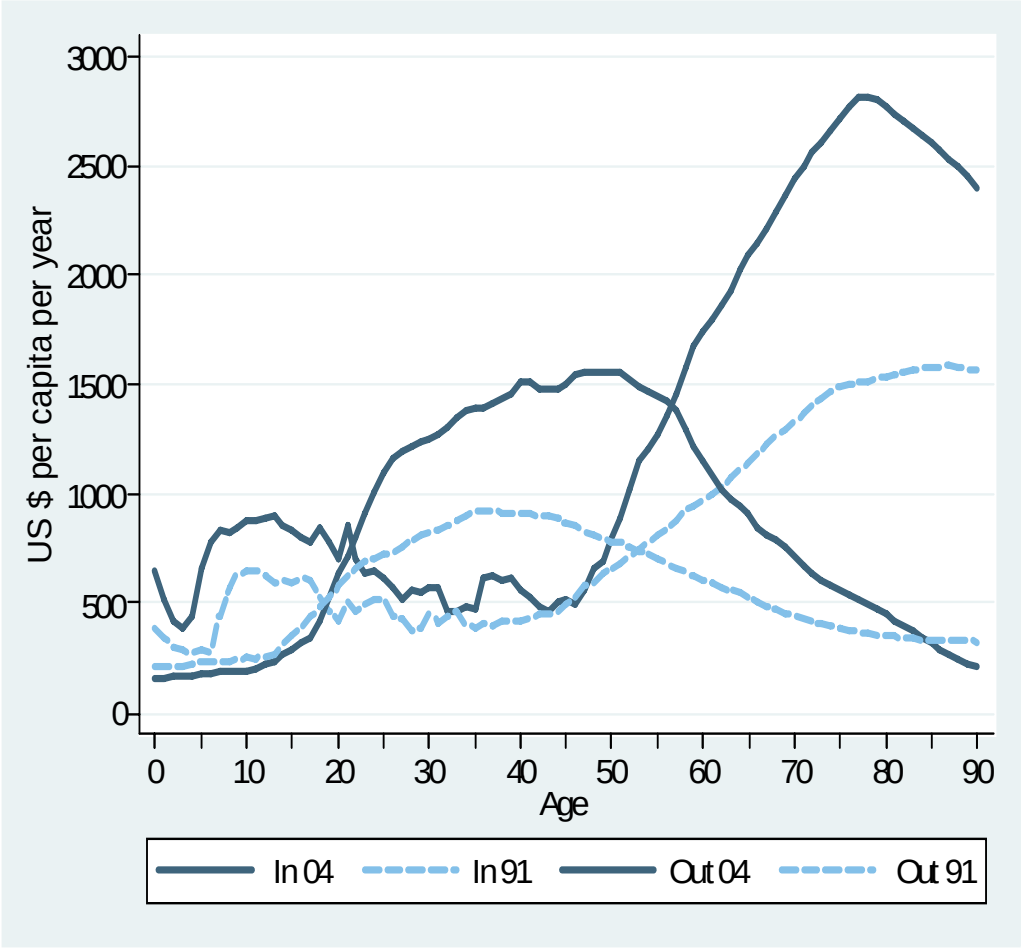
Consumption: some components



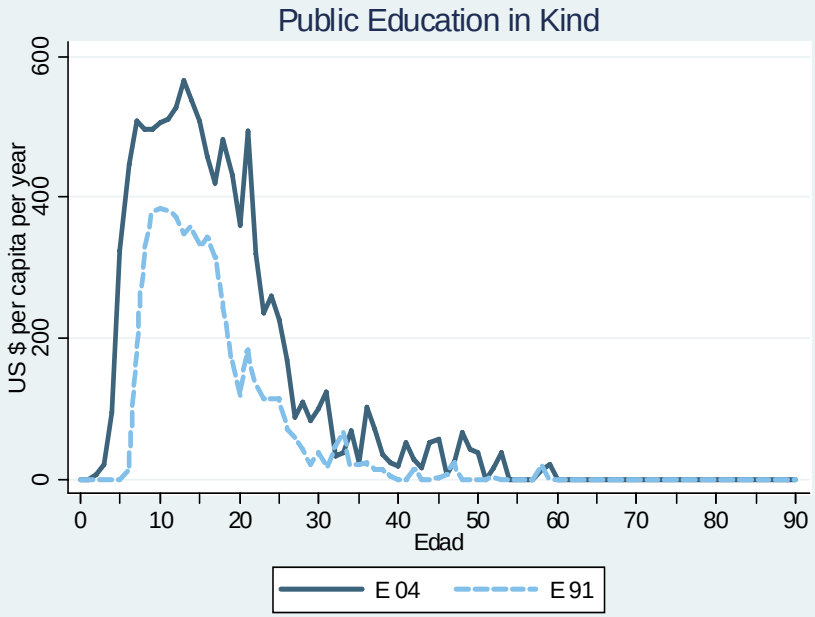


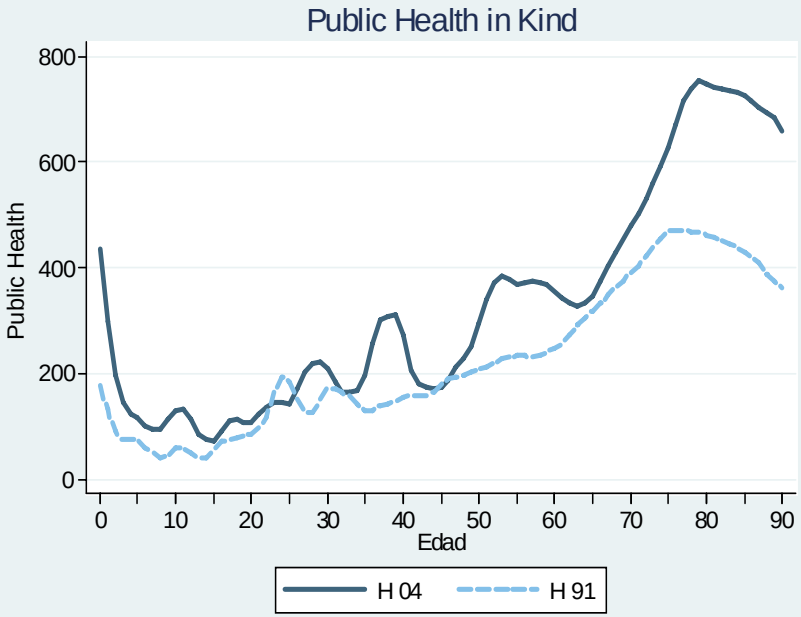
- Main component: other consumption
- Increase in private health for 40-90 age group
- Increase in education expenses for 20-30 age group

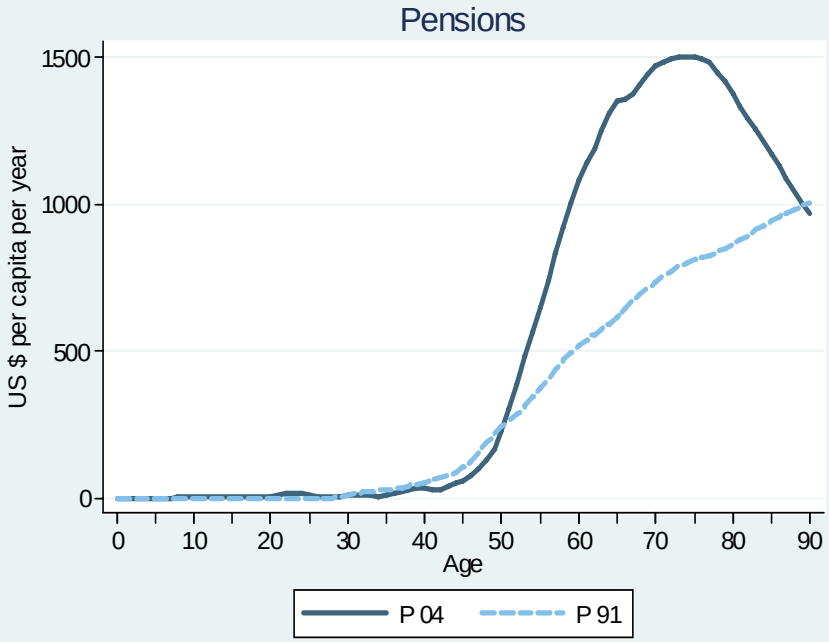
Public Transfers: IN and Out



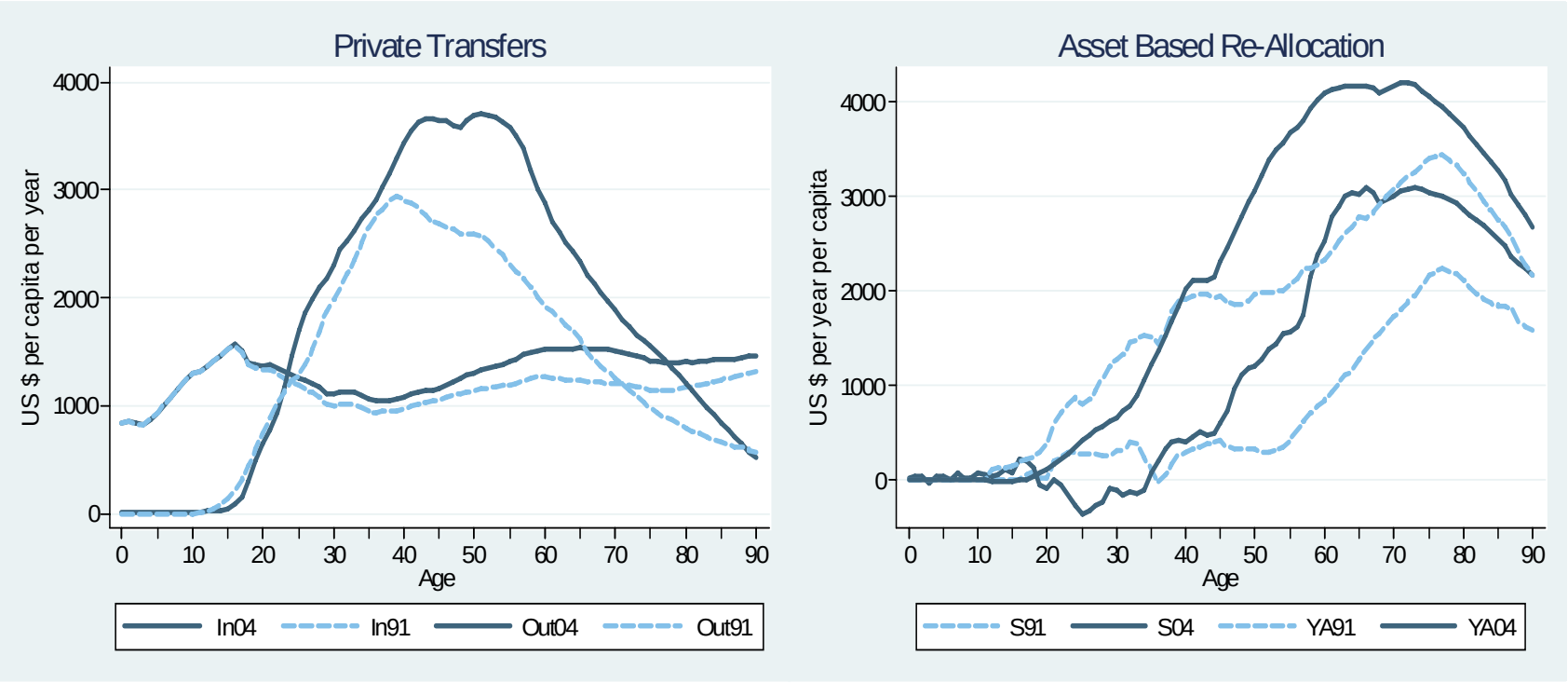
- Taxes revenue increase especially for those over 40-65
- Transfers received increases , specially for old age people.
- Public Transfers finance 50% of the total consumption of people of 65+







- Important increase in transfers for people of 65+ mainly due to pensions
- Increase in health expenses for people of 45-55 and 70+



Net private transfers become positive for 78 years old, in 2004

•The elderly always transfers money to other family members

•Income asset and savings increase with age until around 60, in 2004, and slightly flat until 70.

•Maybe pensions have been generous to allow savings and intergenerational transfers to other members of the family

Some key results

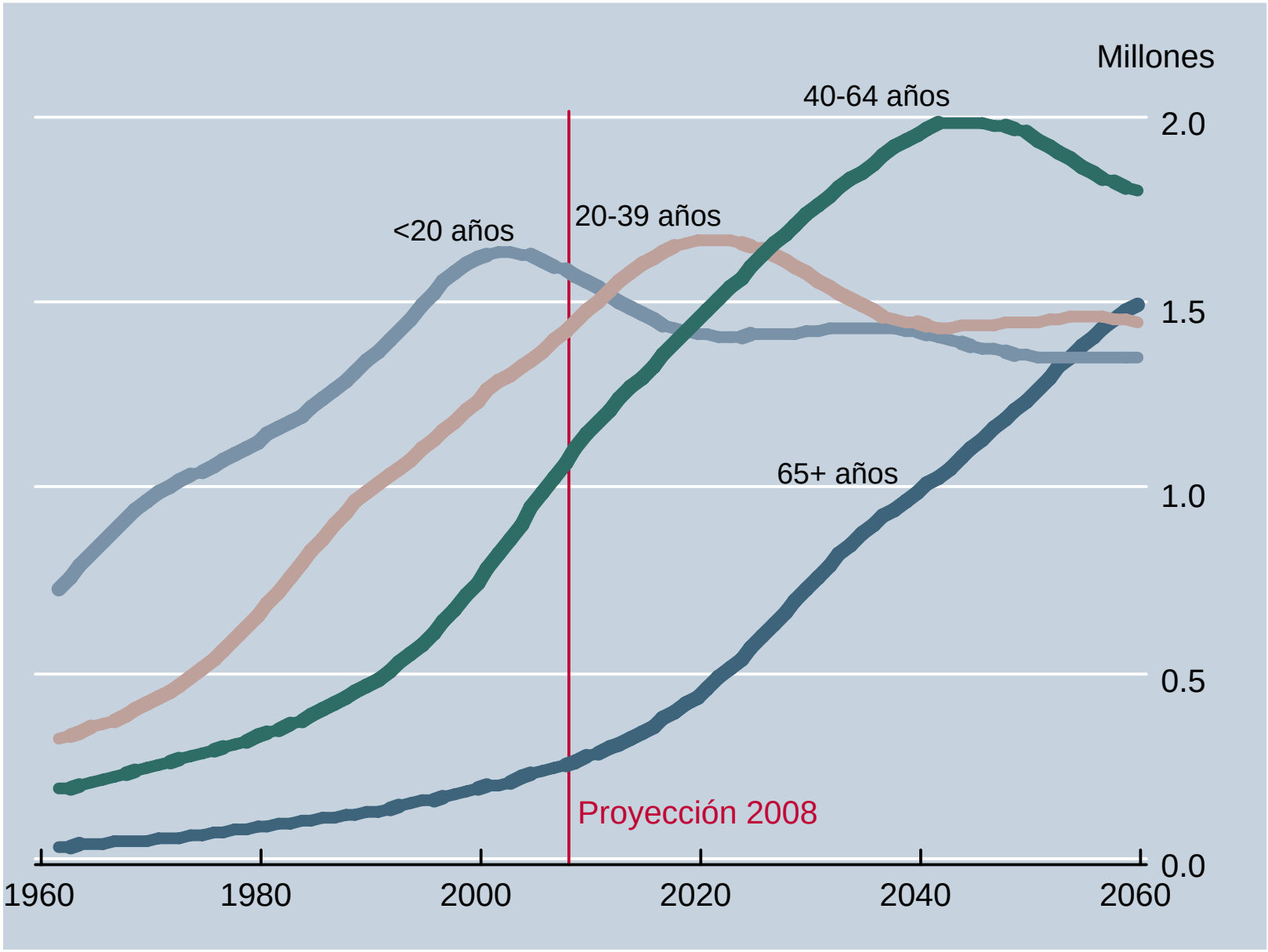
- Private transfers mainly financing the consumption of the youngsters and public transfers of the elderly. In 2004

- Elderly consumption: 50 % public transfers, 27% asset reallocation, 24% labor income, -1% private transfers (equivalent 2/3 of LCD with public transf.)

- Youngsters consumption: 73% private transfers, 23% public transfers, 7% labor income, -3% asset reallocation

Demographic change:
the dividends

The Costa Rican demographic tsunami



Demography induced growth:
(population number and age structure)

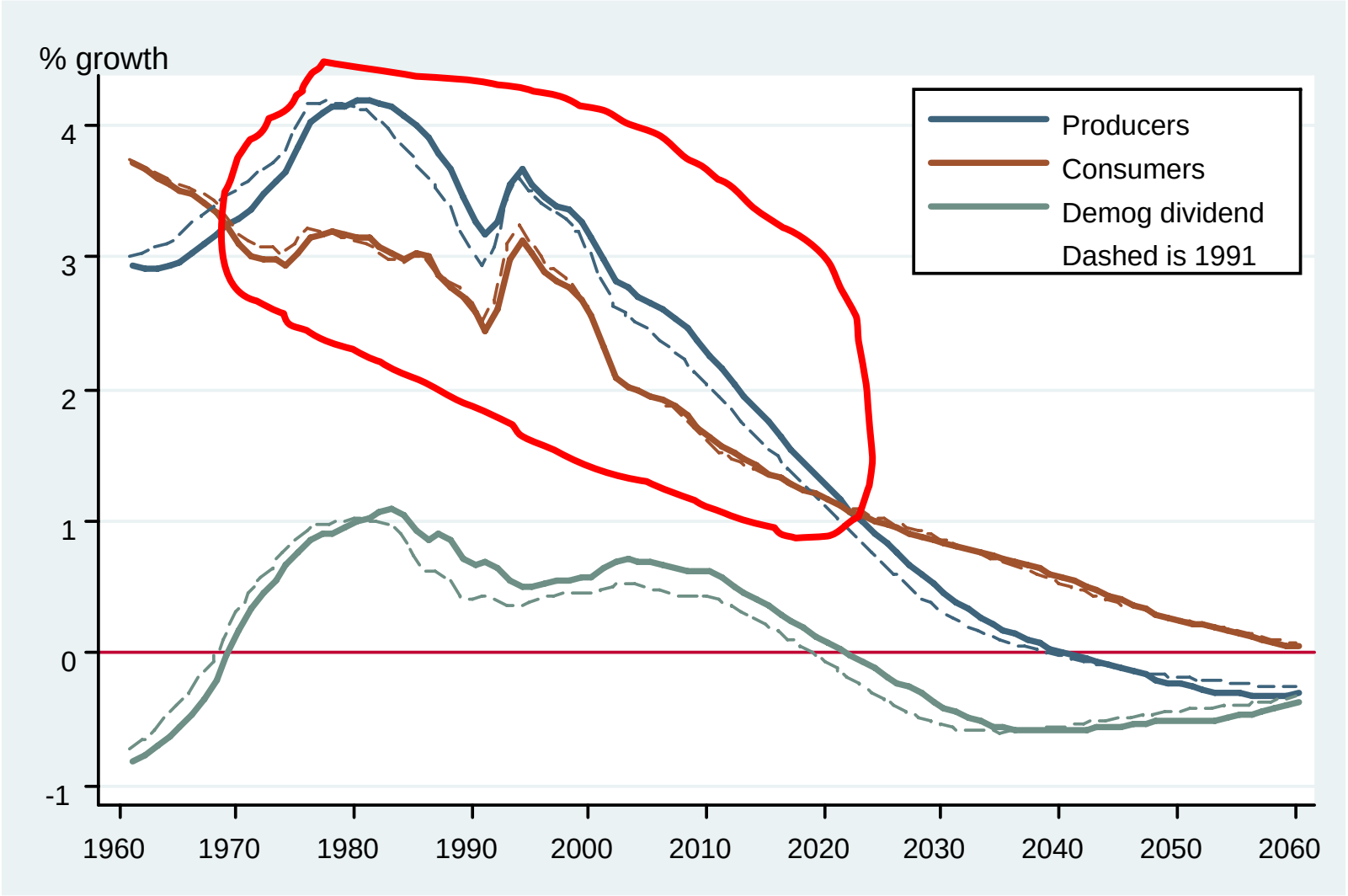
NTA age pattern 1991, 2004

$$\sum_{a} W(a)N(a,t)$$

Pop. projection

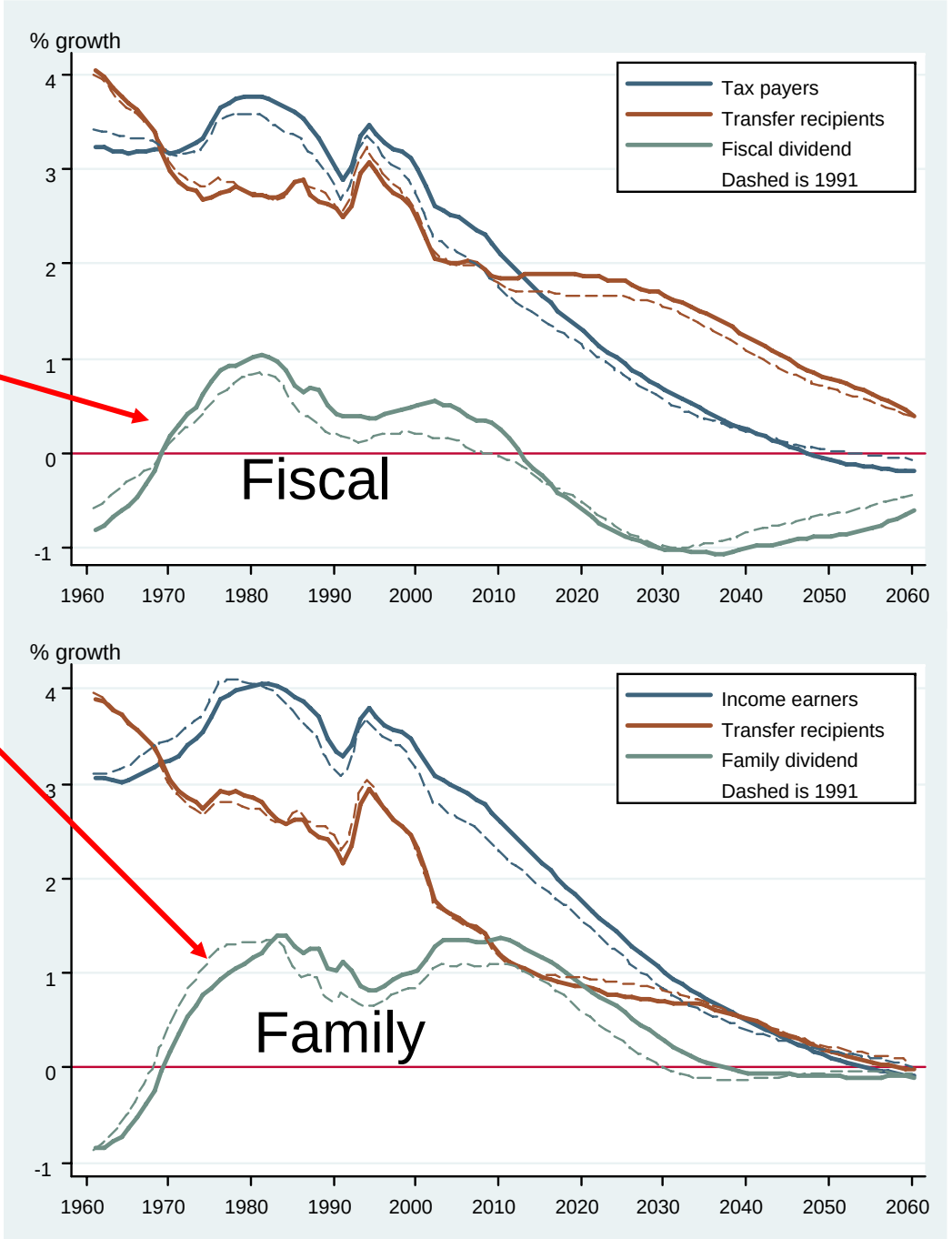
- Producers (*w* is labor income)
- Consumers (*w* is consumption)
- Tax payers (*w* is public transfers OUT)
- Pub. transf. recipients (*w* public transfers IN)
- Priv. transf. recipients (*w* private transfers IN)
- Wealth owners (*w* is asset income)

Growth in producers > consumers: first demographic dividend 1970-2020

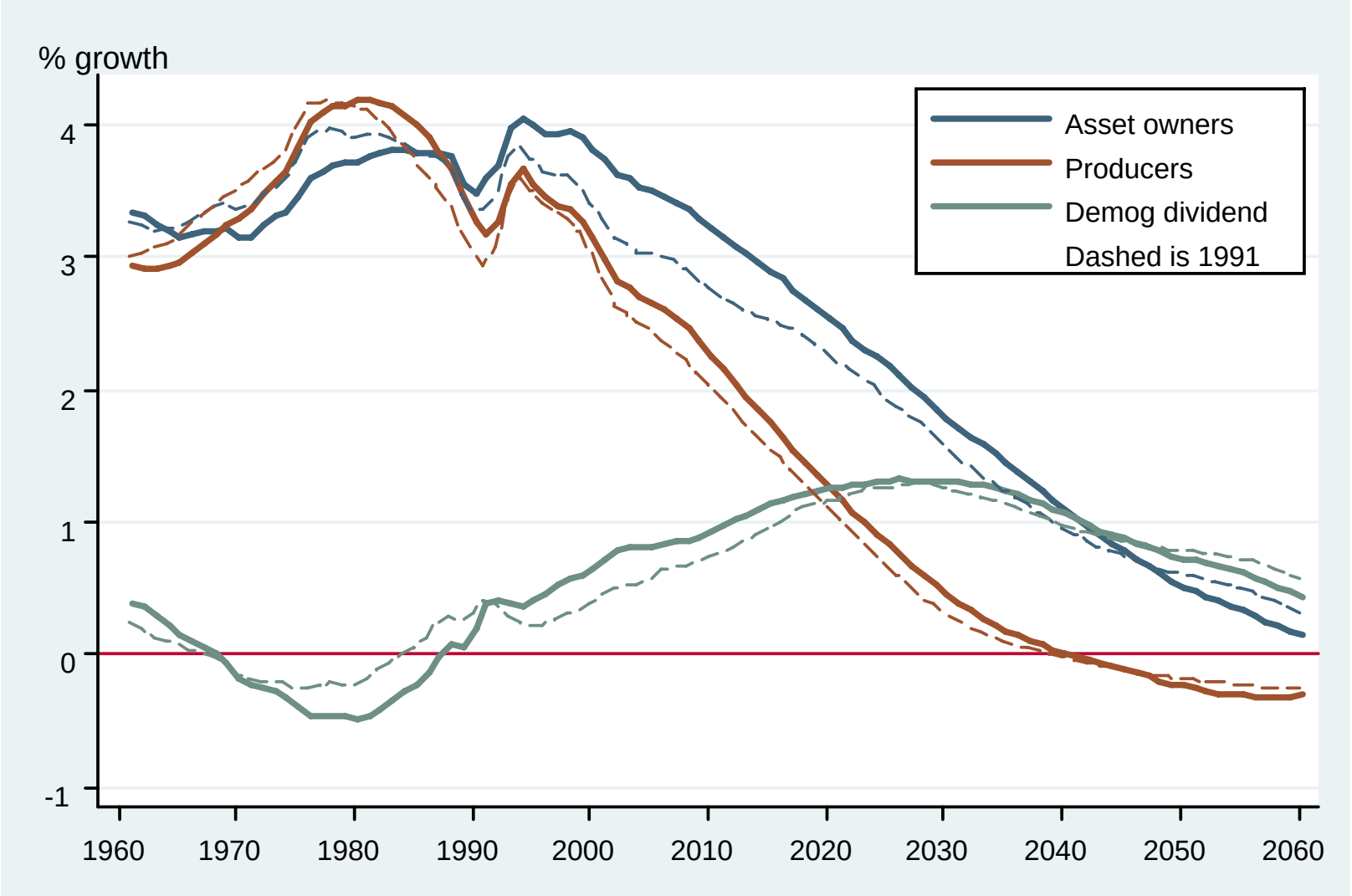


Fiscal < family first demographic dividend.

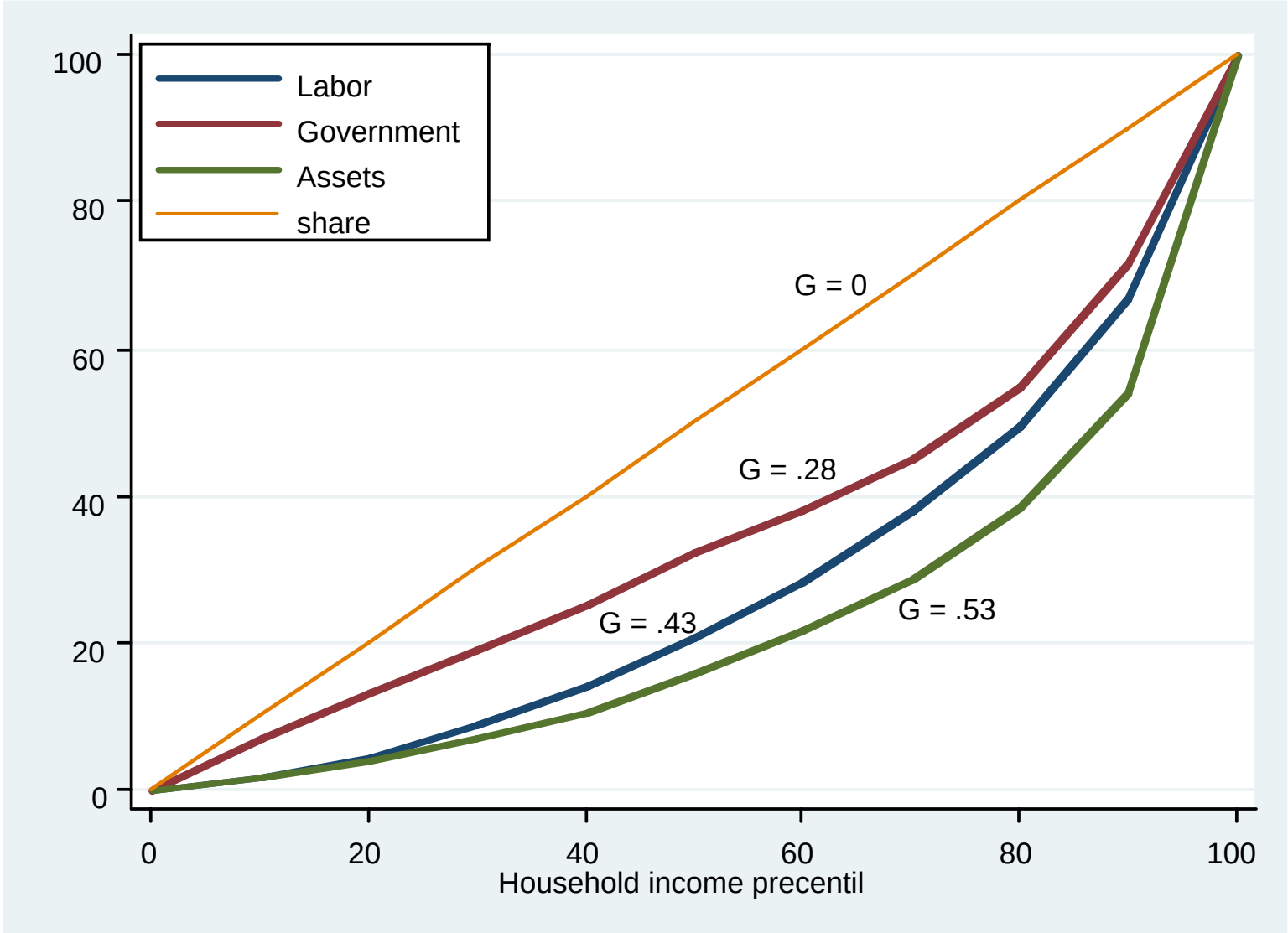
National treasury main casualty of pop. aging



Second demographic dividend:
extended growth in capital/labor ratio



Problem: Wealth distribution is highly unequal (Costa Rica 2004)



The dividends are not that sensitive to the choice of NTA age profile

The dividends are just **potencial** growth that may or may not materialize.

Gracias!