

INTERGENERATIONAL ECONOMIC TRANSFERS AND POPULATION AGEING IN LATIN AMERICA

Luis Rosero Bixby¹

Using estimates from the National Transfer Account (NTA) and drawing upon the theoretical and methodological work by Ronald Lee, Andrew Mason, and collaborators², this paper shows the patterns of intergenerational transfers and economic life cycle in five, middle income, Latin American countries: Brazil, Chile, Costa Rica, Mexico, and Uruguay. The estimates are based on age-profiles derived from national surveys on income and expenditures in households, as well as macroeconomic totals from the National Income and Product Account system. The method is summarized by Lee, Lee and Mason (2008).³ All per capita estimates presented here were normalized to “income units”: the national average per capita labor income earned in the peak age bracket from 30 to 49 years.

The NTA estimates show some surprising or little known realities regarding the systems of intergenerational transfers and intra-generational reallocations in Latin America, namely:

1. Old adults aged 65 and over are far from being a net economic burden to their families; the economic transfers they give to their family members are, on balance, larger than what they receive from them. Only at very high ages in some countries old adults receive more than they give (Figure 1)
2. Elderly Latin Americans are, on average, wealthy individuals. Their per capita income from assets by age 65 is as high (or even more) as per capita labor income at peak ages (Figure 2).
3. Elderly Latin Americans receive a disproportional high share of public transfers in per capita terms (Figure 3). However because this population has been relatively small, this reality may not be self-evident (and it may be unsustainable with population ageing)
4. While family transfers is by far the main funding source of consumption at young ages, asset income and public transfers (especially pensions) fund most consumption at old ages and these even allow for substantial savings and out-transfers to family (Figure 4).

A United Nations (2005)⁴ study on living arrangements of old persons around the world found that, in Latin America, about 71% co-reside with children or grand children, well above the 20% co-residence in North America and Europe. This high level of co-residence with young generations (reflection in part of high fertility levels) results in high intensity of family transfers per old person. However, a precision is in place regarding the generational direction of these transfers. Although there is a fair amount of reciprocity, downward transfers dominate. A semantic clarification seems necessary: in most cases, parents do not “live with children,” but children are the ones who live with parents. A Costa Rican survey to the population aged 60 and over investigated the issue of

1 Central American Population Center; University of Costa Rica

2 National Transfer Accounts Web pages at: <http://www.schemearts.com/proj/nta/web/nta/show>.

3 Lee, Ronald, Sang-Hyop Lee, and Andrew Mason. 2008. Charting the Economic Lifecycle: Population Aging, Human Capital Accumulation, and Productivity Growth. In *Population and Development Review*, edited by A. Prskawetz, D. E. Bloom and W. Lutz.

4 United Nations (2005) Living Arrangements of Older Persons Around the World. New York: United Nations publication ST/SEA/STAT/SER.A/240.

who lives with whom and found that in 96% of cases the children were the ones living with their parents (they never left parental home or they at some point returned to it). It seems that the perception of elderly population (defined as 65 and over) as a burden for their children is a myth in Latin America. Perhaps that is true for the oldest-old population. However in the five study countries, population 80 years and over is only about 20% of that 65 and over. Men and women 65 to 79 years old, that is 80% of elderly population, most of the time are far from being a burden and, instead, they are an asset for their children: they are relatively wealthy, they receive substantial transfers from government (pensions), and some even have labor income.

The intergenerational transfer system prevalent in Latin America might make the National Treasure the first and most important (and maybe the only) economic casualty of population ageing if no changes are introduced in the age patterns of taxes and/or public transfers. Families, by contrast, might be better off with population ageing, since old persons provide on average more than they receive from children. Before reaching a high proportion of elderly population, Latin American economies have been profiting from the relatively faster increase in the population at the lifecycle surplus ages. This *demographic dividend*⁵ is, however, almost over. A second demographic dividend might have started, and will continue for many years, from the relatively faster growth of the population in ages of maximum accumulation of wealth and the corresponding increase in the capital per labor ratio that should improve productivity.

These *dividends* are, however, just *potential* effects that may or may not occur in reality. They will occur under the assumption that everything else stays constant. However, these dividends might be reduced or amplified by changing circumstances. If, for example, the faster growth of working-age population only translates in higher unemployment, there will be no first dividend. If, on the other hand, government and families invest the first dividend in human capital, there will be a multiplicative effect. Moreover, some of the potential effects might be unsustainable and will push for changes to avoid this takes place. The Government, for example, might introduce corrections to reduce public transfers to old persons and increase tax revenues from these people in an effort to avoid the negative fiscal dividend associated to population ageing.

5 Mason, Andrew, and Ronald Lee. 2007. Reform and Support Systems for the Elderly in Developing Countries: Capturing the Second Demographic Dividend. *Genus* LXII (2):11-35.

Figure 1. Private transfers over the life cycle in 5 Latin American countries and the USA

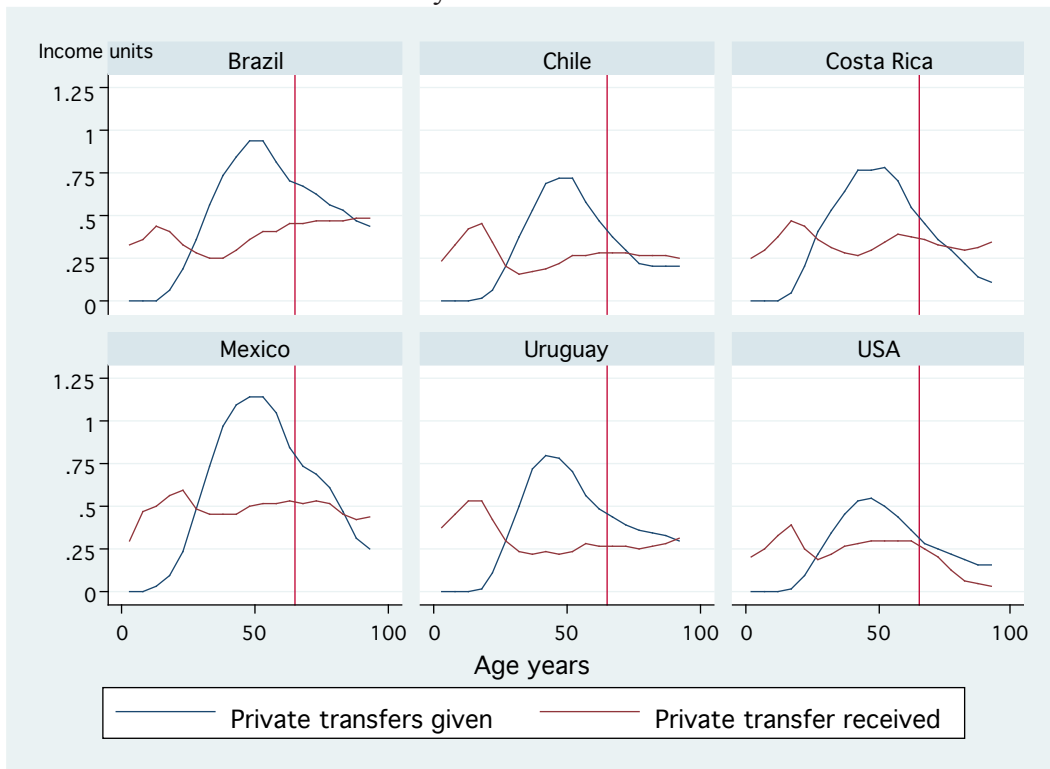


Figure 2. Per capita income from assets by age in 5 Latin American countries and the USA

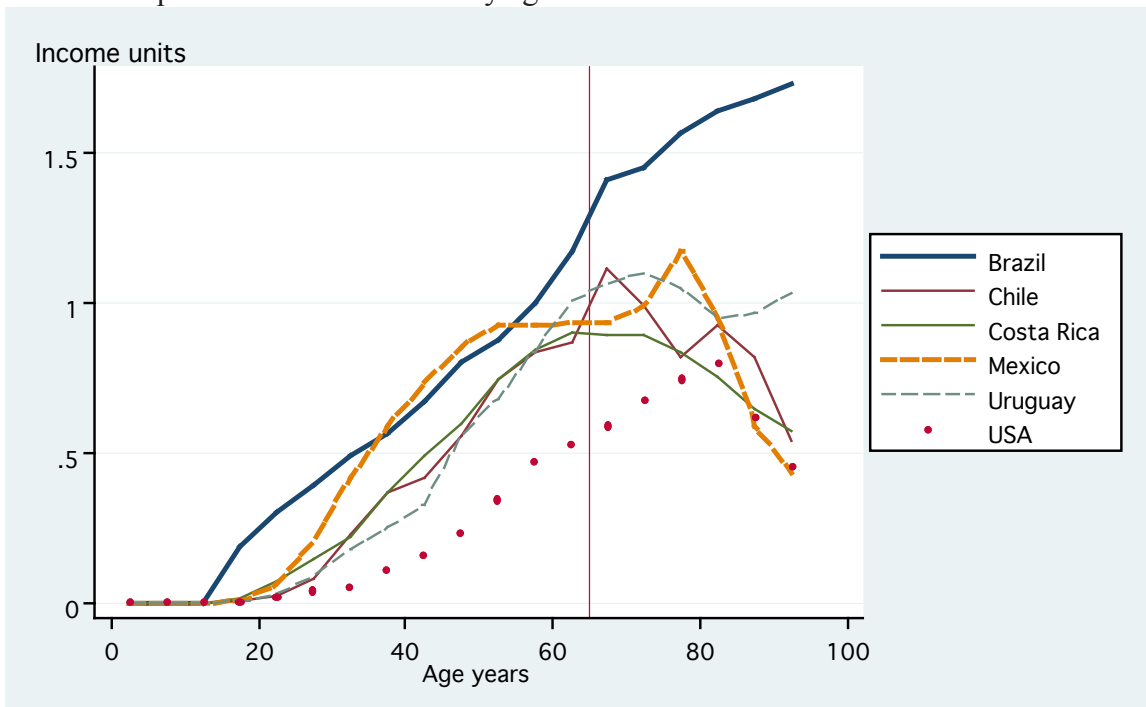


Figure 3. Fiscal life cycle deficit in 5 Latin American countries and the USA

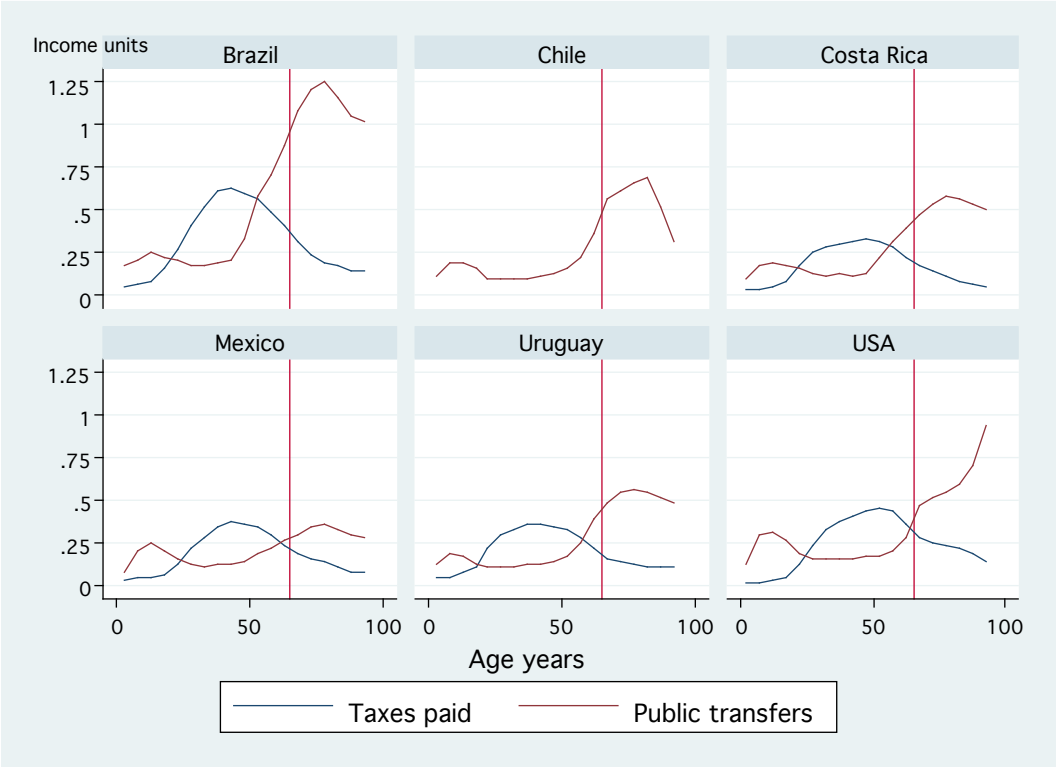


Figure 4. Financing consumption of the young and the elderly

