THE FIELDS INSTITUTE
FOR RESEARCH IN MATHEMATICAL SCIENCES

ABSTRACTS 1.2

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Macro-Economic Impacts of Population Impacts of Aging on Financial Security Systems

In his lecture, Professor Brown will report on two recent pieces of research on which he has been working. Both have to do with the Macro-economic impacts of Population Aging on Retirement systems.

In the first paper, Professor Brown will argue that it is inevitable that the labour force retirement age will rise between sometime after 2006. Depending on the level of labour force productivity that we can achieve, this rise in the retirement age may not have a large political impact. However, once incentives for early retirement change into incentives for later retirement, we can expect some kind of behaviourial response from the work force. In particular, we should expect demands for more flexible retirement systems as workers attempt to smoothly transit into retirement. Many of the requests for pension flexibility are now obviated by pension legislation. Thus, this legislation will have to be questioned and (hopefully) redesigned.

In the second paper, Professor Brown will argue that our present system of Registered Pension Plans (RPPs) and Registered Retirement Savings Plans (RRSPs) will provide the government(s) with exactly the correct amount of cash flow and at exactly the right time, to pay for the increased demand for health care created by the aging baby boomers. Thus, accidentally, we may have created the perfect macro-economic immune portfolio (i.e. RPP/RRSPs versus Health Care costs). However, this is dependent upon the government not looking at RPPs/RRSPs as a source of Tax Expenditures but rather as the perfect deferred tax asset. In particular, the government must embrace a philosophy whereby the RPP/RRSP system will be allowed to expand as rapidly as per unit health care costs are allowed to rise.