

INTERGENERATIONAL REDISTRIBUTION IN AN AGEING SOCIETY

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***Abstract.** This study explores the critical issue of intergenerational redistribution within the context of an aging society, using data from National Transfer Accounts (NTA) for Moldova 2019-2021. As the population of Moldova continues to age rapidly, the allocation of resources among different age groups becomes increasingly pertinent. This research aims to understand how financial resources are distributed across generations and assesses the implications of these patterns for the overall well-being of society. The NTA framework provides a comprehensive and detailed analysis of economic flows between age groups, encompassing public and private transfers, labor income, and asset-based transfers. Our findings suggest that intergenerational transfers are not uniform across age groups and older people make a significant contribution to supporting younger generations through the allocation of private resources. We also identify the role of public policies and social safety nets in shaping these outcomes. Furthermore, we assess the potential consequences of these redistribution patterns on income inequality, poverty rates, and the overall economic stability in aging societies. Understanding the dynamics of intergenerational redistribution is crucial for policymakers and stakeholders as they grapple with the challenges posed by aging populations. This study contributes valuable insights to the ongoing discourse on how to ensure fairness and sustainability in an aging society and emphasizes the importance of creating policies that foster intergenerational equity and support the well-being of individuals across all age groups. The study was carried out within the project 20.80009.0807.21 "Migration, demographic changes and stabilization policy", 2020-2023.*

Keywords: national transfer accounts, intergenerational redistribution, demographic ageing, Moldova

JEL: D64, D69, E01, E20, E29

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Introduction. In an aging society, there is often a need for intergenerational redistribution, which refers to the transfer of resources or wealth from one generation

to another. This is because an aging population may put a strain on the economy and social welfare systems, as there are fewer young people to support the elderly.

One way to achieve intergenerational redistribution is through government policies and programs that aim to redistribute resources from younger to older generations. This can be done through social security programs that provide income support for retirees or through healthcare programs that provide medical care for the elderly. Another approach to intergenerational redistribution is through private transfers of wealth from parents to their children or grandchildren. This can take the form of inheritance, gifts, or financial support for education or other expenses.

Intergenerational redistribution is a complex issue that requires careful consideration and balancing of different interests and needs. Effective policies and programs must take into account the specific circumstances of society and aim to promote fairness, sustainability, and social cohesion across generations. Researchers suggest that there is a notable income gap between generations, with younger generations generally receiving more support from the state compared to older generations. This has the effect of increasing intergenerational income inequality, which may have broader implications for society and public policy (Rice et al., 2021). Countries with low income, such as Moldova, are facing a range of problems in intergenerational distributions due to their economic and demographic circumstances, limited financial resources for public transfers and social safety nets. As a result, older generations may receive inadequate support, leading to higher poverty rates among the elderly.

NTA (National Transfer Accounts) is a methodological framework that allows for the analysis of intergenerational transfers, providing a comprehensive picture of economic flows within a society, including those between different age groups, by analyzing data on labor income, consumption, saving, and transfers.

Socioeconomic background of Moldova. Moldova has experienced significant economic and social changes in recent decades, which have had a significant impact on intergenerational distribution. The country's social welfare system was weakened by the transition to the market economy, causing a rise in poverty and social exclusion among older Moldovans (Buciuceanu-Vrabie, 2020). The transition led to a sharp increase in income inequality and poverty, as well as a decline in the availability and quality of social welfare programs. These changes had a significant impact on intergenerational distribution, as older generations who had relied on state-provided pensions and healthcare services found themselves increasingly vulnerable and reliant on their own savings and family support.

Moldova also faces demographic challenges that have long lasting implications for intergenerational distribution. In the coming decades, the demographic decline and demographic ageing would continue at a fast pace. By 2040 the age-sex pyramid acquires an “hourglass” shape due to emigration of young people. About 50% of the population will be age 50 and older and a quarter in age 65 and over (Gagauz et al., 2021). These changes will have far-reaching socio-economic impact that demand ongoing attention.

The National Transfer Accounts helps identify the relationship between the age structure of the population, economic behavior throughout the life cycle, and the system of intergenerational support. The National Transfer Accounts constitute a complete, systematic and coherent accounting of economic flows from one age group or generation to another, typically for a national population in a given calendar year, being consistent with the System of National Accounts (SNA) by construction (Istenič, 2019).

The NTA relies on the economic lifecycle concept, which refers to patterns of consumption and earnings across ages. Age is one of the main determinants of individuals' economic behaviour. People experience three economically different phases in their life course. Working-age individuals are able to finance their own consumption by producing more than they consume, while at the youngest and oldest ages individuals' consumption exceeds their labour income (Leet & Mason, 2011). These transfers are called intergenerational because they capture flows between different generations (between young, working-age and old people). The gap between consumption and labor income (LCD) can be financed by private transfers (e.g. transfers from parents to children), public transfers (e.g. publicly financed pensions and education), and asset-based reallocations resulting from participation on capital and financial markets. These transfers are called intergenerational because they capture flows between different generations (between young, working-age and old people). The state has played a crucial role in this intergenerational income disparity. It collects taxes and public transfers from individuals at various points in time and uses these resources to fund social protection and public transfers to other individuals (Rice et al., 2021).

The study aims to demonstrate the application of the National Transfer Accounts (NTA) and to understand the intergenerational redistribution and the economic life cycle in Moldova.

Methodology of the study. The NTA methodology is applied using System of National Accounts, demographic and administrative data sets for 2019-2021. The macro profile of the NTA was developed on the base of the SNA, while the age profile is based on the Household Budget Survey. A detailed description of the construction of the NTS for Moldova can be found in Gagauz and Prohnițchi (2022).

Main results. The results show, that in Moldova LCD is very high. In 2019, the LCD was 67.6 billion MDL, which decreased to 57.0 billion MDL in 2020. This reduction might be attributed to the economic challenges faced during the Covid-19 pandemic. However, it rose to 85.2 billion MDL in 2021 (*Fig. 1*). In 2019, the LCD represented 32.8% of the GDP, indicating a significant deficit in relation to the overall economic output. In 2020, this percentage decreased to 28.5%, suggesting a relative reduction in the deficit. However, in 2021, the percentage increased to 35.2%, signifying a higher deficit relative to the GDP. The percentage of the deficit in relation to the GDP indicates the impact of these changes on the country's economic dynamics. A high level of the LCD can have significant consequences for a country's economy and the well-being of its population. This can lead to imbalances in the economy and reduce economic stability. Persistent deficits can strain a

country's financial resources and lead to macroeconomic challenges. The government need to cover the deficit, which can strain public finances, require increased government spending, leading to budget deficits and the need to borrow, potentially increasing national debt. Governments need to expand social welfare programs to support those with high LCDs, placing additional demands on public resources.

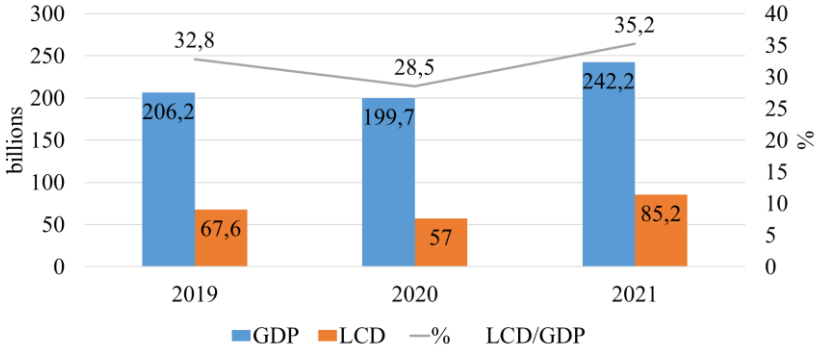


Fig. 1. Relation between LCD and GDP, 2019-2021

Source: calculate on base of the NBS and NTA data

The period when labour income is higher than consumption is very short (*Fig. 2-3*). People in the 30–50 age span produce the lifecycle surplus. They generate the largest share of labor income and contribute to both private and public transfers. The aggregate values of labor income and consumption reflect the population structure (*Fig.3*). An increase in the proportion of older people will lead to an increase in the value of LCD and the funds needed to cover it.

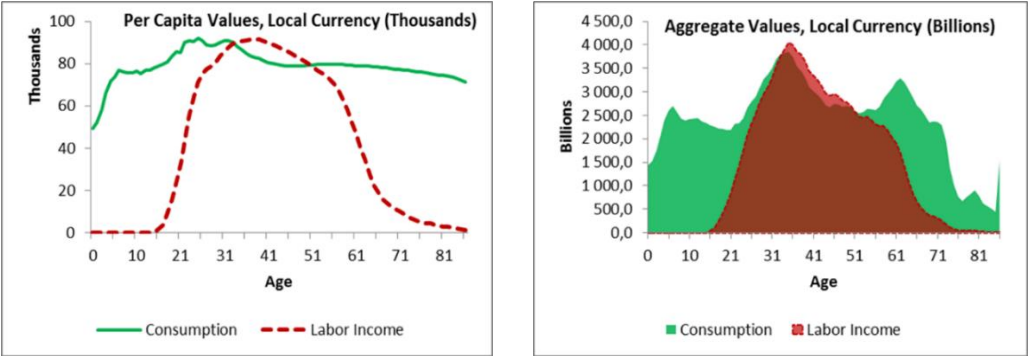


Fig.2-3. Age distribution of labor income and consumption, Moldova NTA 2021

Source: developed on base of the NTA data.

The value of the LCD for individuals aged 65 and older accounts for approximately one-third of the total LCD value. In contrast, for younger individuals, it comprises more than half of the total LCD value. When examining the flows as a percentage of consumption within each age range (*Table 1*), it becomes evident that public transfers, particularly pensions, cover less than half of the consumption

expenses for older people. A portion of the expenses for consumption is offset by labor income. In 2019, prior to the onset of the Covid-19 pandemic, labor income contributed to 17% of covering these expenses. However, in 2020 and 2021, this contribution from labor income decreased to 12.2%.

Private transfers accounted for 10% of covering consumption expenses in 2019. During the Covid-19 pandemic in 2020, the share of private transfers for older people increased to 14.3%. Furthermore, the share of government transfers also increased, rising from 46.6% in 2019 to 52.5% in 2020.

It can be observed that in the 65+ age group, the percentage covered by asset-based reallocations is also relatively high, around 25-26%, and remains stable over the three years.

Table 1. Flows as a percent of consumption at each age range, 2019-2020

	All ages	0-19	20-64	65+
2019				
Labor Income	62,8	3,5	92,1	17,0
Private Transfers	11,8	59,0	-3,8	10,0
Public Transfers	1,3	18,4	-13,6	46,6
Asset-based Reallocations	24,0	19,2	25,2	26,4
2020				
Labor Income	67,6	4,5	100,8	14,3
Private Transfers	14,2	56,4	-0,4	14,3
Public Transfers	0,9	20,3	-16,8	52,5
Asset-based Reallocations	17,3	18,8	16,5	18,8
2021				
Labor Income	59,2	3,1	88,6	12,2
Private Transfers	14,8	58,3	0,4	13,9
Public Transfers	1,6	19,7	-14,9	48,0
Asset-based Reallocations	24,4	18,9	25,8	25,9

Source: calculate on base of the NTA data

Education and health care are provided predominantly by the public sector. The public pension expenditure represented about one-third of the total volume of public transfers (*Fig.4-5*). These two key observations underscore the significant role of the public sector in Moldova's social welfare system. First, the predominance of the public sector in providing education and healthcare services signifies the government's commitment to ensuring accessible and equitable access to these essential services. This is particularly vital in a low-income country like Moldova, where access to quality education and healthcare can significantly impact the well-being and prospects of its citizens.

Second, the fact that public pension expenditure constitutes approximately one-third of the total public transfers highlights the importance of pensions as a component of the social protection system. This allocation of resources to pensions reflects the government's recognition of the elderly population's needs and its

commitment to providing financial security to retirees. In a society with a growing aging population, such support is indispensable to prevent elderly poverty and maintain a certain quality of life in retirement.

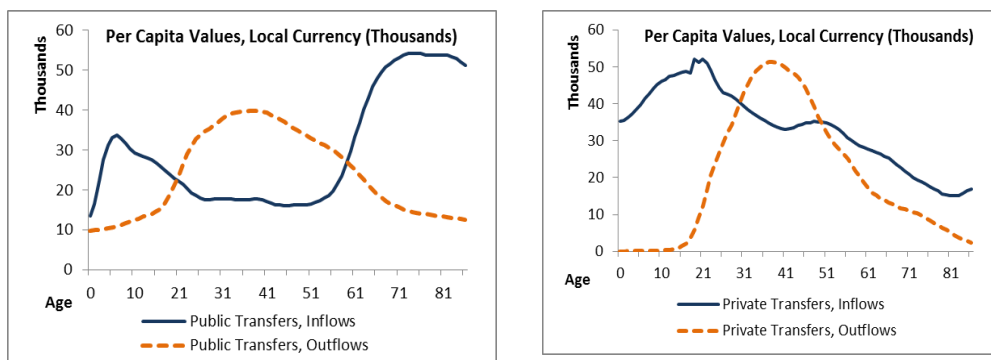


Fig. 4-5. Public and private transfers, 2021

Source: developed on base of the NTA data

In the context of private transfers, which encompass household-to-household exchanges, it's essential to note their significance in Moldova (*Fig.6-7*) Private transfers comprise remittances from abroad and intra-household transfers. Notably, in 2021, for the elderly population aged 65 and above, remittances accounted for a substantial 4,6 billion lei, which covers 17.7% of the LCD of this age group. Additionally, when considering transfers within the household, it's worth highlighting that the elderly population serves not only as recipients but also as contributors until reaching an advanced age, typically around 80 years old. This underscores their role in facilitating transfers that benefit younger generations within the same household.

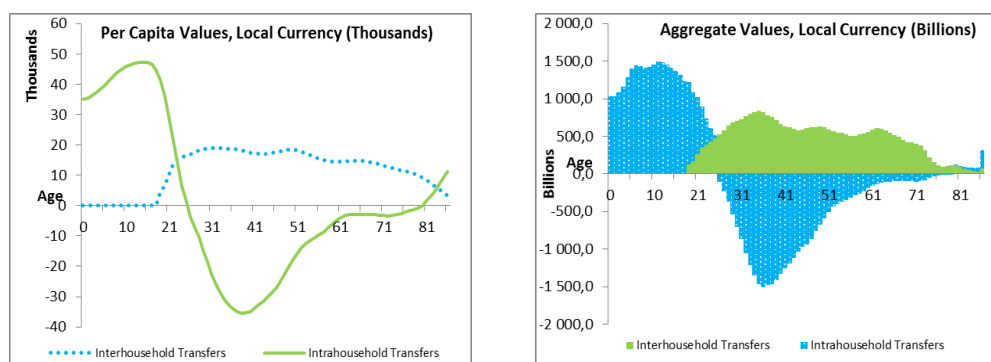


Fig.6-7. Interhousehold and intrahousehold transfers

Source: developed on base of the NTA data

Conclusions. Within the context of Moldova, NTA data highlights the significant role that older individuals play in intergenerational distribution. Public transfers facilitated by the government exhibit a substantial proportion of support directed

towards the elderly population. For the 65+ age group, public transfers and asset-based reallocations play a crucial role in supporting income, while labor income decreases with age. This may have significant socio-economic implications and requires attention in policy and social welfare planning. Successfully navigating intergenerational redistribution within an aging society necessitates a meticulous consideration of multiple factors, encompassing social, economic, and fiscal implications. Demographic aging will progressively heighten the burden on the working-age population. Promoting increased employment and welfare measures can contribute to alleviating the LCD (Chłoń-Domińczak, 2021).

Promoting active aging and increasing the duration of labor market participation is a key factor in ensuring the sustainability of economic and social systems in the face of an increase in the proportion of older people. Today's working generation faces multiple financial responsibilities. It must finance the care for older generations as they retire, partly through taxes paid. At the same time, they must also ensure the consumption of the younger generation through private transfers. In addition, the working-age generations must set aside funds to secure their future consumption through personal savings. In conditions of low wages and high poverty levels, few succeed.

Recent changes in pension system policies are aimed at compensating for the increase in pension costs caused by demographic changes, primarily through an increase in the retirement age. However, the lack of jobs, especially in rural areas, does not contribute to a real increase in the duration of economic employment. Rather, it leads to a decrease in the size and stability of contributions to the pension system. As a result, retirees may receive lower pensions, which may worsen their economic situation, and many retirees may become more dependent on government safety net programs such as unemployment benefits or benefits for the elderly.

A pension system based on the link between earnings during working life and the level of pensions also causes social inequality, as those who have lost their jobs or experienced interruptions in their working careers will receive much smaller pensions than those who have stable and well-paid jobs throughout their careers. In recent years, Moldova has implemented policies aimed at addressing the challenges of intergenerational distribution, including reforms to social welfare systems, investments in healthcare and education, and efforts to promote intergenerational solidarity and family support. However, the effectiveness of these policies is influenced by a range of factors, such as the level of economic development, demographic trends, and political priorities.

Intergenerational distribution in Moldova remains a complex and evolving issue that requires careful consideration and balancing of different interests and needs. Policymakers must continue to monitor trends and identify effective interventions to promote sustainable and fair intergenerational distribution. It's crucial to ensure the sustainability of public services and expenditures in the long term. As demographic trends evolve, with an aging population and changing economic dynamics, policymakers will face challenges in maintaining the balance between providing essential services, like education and healthcare, and supporting

the elderly through pensions. Careful planning and resource allocation will be essential to address these challenges and maintain a functioning social welfare system that serves all generations effectively.

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