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NEWS RELEASE

Negative Economic Impact of Aging Exaggerated, Says New IRPP Study

Stronger Economic Performance Could Result From an Aging Society

Montreal – Many assessments of the effects of an aging population on the standard of living of Canadians and our public finances are too pessimistic. Population aging can also have positive consequences, says Marcel Mérette, economics professor at the University of Ottawa, in a new study published today by the Institute for Research on Public Policy (IRPP).

Mérette argues that, as wages rise and tax revenues from Registered Retirement Savings Plans (RRSPs) and other tax-assisted retirement savings grow, economic growth will be sustained and governments will be able to pay for old age-related expenditures. Until now, many assessments have emphasized the costs of population aging while neglecting likely positive factors, leading to overly pessimistic scenarios about the economic and fiscal consequences of aging in Canada.

The key positive factors that underlie the optimistic aging-related scenario argued in the paper are:

- The likelihood that wages will rise relative to interest rates, instead of the reverse as contended by pessimists. Mérette explains that although it is true that retired individuals will draw down their savings and that governments will need to increase expenditures on elderly-related programs, this will not cause the shortage of savings predicted under the pessimistic scenario. This is because the need to employ savings elsewhere in the economy will fall due to a reduced need to invest in bricks and mortar and other material assets. And if there is no shortage of savings, interest rates fall relative to wages, instead of rising.

- The higher wages (relative to interest rates) will have dramatic impacts, providing a strong incentive for younger individuals to increase their human capital through education or training, and encouraging older workers to remain in the labour force longer than they currently do.

- Government revenues will be bolstered by taxable withdrawals from Registered Retirement Savings Plans (RRSPs) and other tax-deferred private pension programs, precisely when upward pressure on public expenditures related to old age – particularly on health care and public pension – is expected to be most acute.

In short, many assessments of both the future ability of Canadian governments to handle aging-related spending pressures and the problem of intergenerational equity associated with the need to finance the baby boomers' old age out of the earnings of a less numerous younger generation, are too negative.

The public policy challenges associated with aging remain numerous. They will require greater flexibility in the face of changing spending priorities, encouraging human capital acquisition in younger generations when needed and removing barriers to labour force participation among individuals nearing retirement. They will also require addressing the expected regional imbalances in the country between aging-related needs and fiscal resources. As long as we deal with these important issues, says Mérette, there is no need to dread the impact of the aging of our population on Canadians' standards of living or on public finances. The public interest is best served by a more balanced approach to the aging issue.

"The Bright Side: A Positive View on the Economics of Aging" is the latest *Choices* paper released by the IRPP in its *Economic Growth* series. It is now available in Adobe (.pdf) format on the IRPP website at http://www.irpp.org – to access the document, simply click on the "What's New" icon on the homepage.

For more information, or to schedule an interview with the author, please contact the IRPP. To receive IRPP media advisories and news releases via e-mail, please subscribe to the IRPP e-distribution service by visiting the newsroom on the IRPP website.

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