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CROSS-NATIONAL EVIDENCE ON THE BURDEN OF AGE-RELATED PUBLIC TRANSFERS AND HEALTH BENEFITS

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This paper uses micro-census income data from the Luxembourg Income Study (LIS) and the Medical Expenditure Panel Survey (MEPS) in combination with previously published data on the age profile of public health spending to measure the current and future burden of financing public transfers, particularly benefits supporting the aged and near-aged. The burden of unfunded transfers is defined as the tax on factor income that is needed to finance paygo transfers under a balanced budget rule. I develop a framework for estimating and forecasting this burden using micro-census reports on the current age distribution of factor incomes, the age distribution of transfer incomes, and projections of the future age structure of the population. I adjust micro-census income reports to reflect under-reporting in household surveys. In an extension of previous research, I develop new estimates of public health benefits by age of recipient. Estimates of current and future tax burdens are derived for four OECD countries. These show that the burden of U.S. transfers is unusually sensitive to the effects of an aging population. In contrast, transfers in Finland and the United Kingdom are less heavily tilted toward aged beneficiaries. Factor incomes received by aged Americans are high by international standards, providing a partial offset to the sharp tilt of U.S. transfers in favor of the elderly. A major surprise is the relatively high disposable incomes of aged citizens in Germany and the U.S. When the full cost of public health benefits is added to other sources of cash and near cash income, the aged in those countries receive effective incomes that are approximately as high as adults who are near the peak of their working careers.

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