

SOCIAL SECURITY REFORMS IN AGING ECONOMY

NAI-WEN CHANG & YUAN-HO HSU

Department of Economics, National Cheng Kung University, Tainan, Taiwan

ABSTRACT

It has been a fervently discussed that the government may not be able to collect enough tax revenue to finance its enlarging welfare expenditure arising from the demand of increasing elders in an aging economy and the current pay-as-you-go pension system may also encounter deficiency problem in the future. This paper investigates the impacts of population aging in Taiwan and analyzes the effects of social security reforms with multi-period overlapping generation (OLG) model. The simulation results indicate that population aging may not necessarily leads to a reduction in GDP, as long as the economy maintains a constant stream of technological progress. Three social security reform programs proposed in this paper, two on national health insurance (NHI) and one joint reform on pension and NHI, indicate that proper reforms improve financial soundness of the social security system. Moreover, the joint reform program has a more prominent effect on the improvement of the sustainability of the NHI program and government budget stance.

KEYWORDS: National Health Insurance, Overlapping Generation Model, Population Aging, Social Security Reforms