

## **Ageing, Pensions and Fertility**

*Principal Netspar investigators:*

*Bas van Groezen, Utrecht University and Lex Meijdam, Tilburg University*

### **Scope**

Ageing is the consequence of increased longevity and decreased fertility. This project explores the links between fertility, longevity, pension systems and labor-market developments.

To that end, it treats fertility as an endogenous variable. Agents decide to have children because children provide utility to their parents and because they provide income during old age. The introduction of extensive pay-as-you-go pension schemes implies that, at the individual level, the latter argument is not relevant anymore. Indeed, these pension systems socialize part of the return to children. The fact that children form the tax base for future public pensions is not taken into account when agents decide on the number of offspring and thus creates an external effect. Previous literature has shown that in a small open economy pay-as-you-go pension systems should be accompanied by child allowances in order to correct for the external effect of children.

### **Extensions**

This project extends this analysis to a closed economy setting with endogenous wage and interest rates and by accounting for the costs of raising a child that are related to the endogenous wage rate (these costs can be interpreted as the wage income forgone as a result of raising a child), endogenous labor supply, the flexibility of the labor market (including the availability of child care, part-time work, and the extent of employment protection) and heterogeneous labor. The project also explores the effects of a rise in longevity. In particular, whether one form of ageing (an increase in longevity) leads to another form, i.e. a decrease in fertility.