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Abstract

We analyze the effects of population aging in the next decades on the Colombian pension system and on several macroeconomic variables. We also consider the impact of several reforms that are gradually implemented in the economy (increasing the retirement age, reducing the replacement rate, and increasing the number of years considered in calculating pensions in the Pay-As-You-Go regime (PAYG)). A diminishing population growth rate would considerably affect the real returns of the PAYG; therefore, in maintaining the current pension conditions under such a regime, significant increases on taxes would be required. Conversely, with the implementation of the parametric reforms considered, the subsidies granted under PAYG regime would slowly be reduced. The resulting lower tax rates and greater savings in the economy, hence a greater capital stock, would increase the labor productivity as well as the real salary. It would also decrease the real interest rate. The welfare gap between pension regimes could shrink because of the reforms and their effects. In the long run, the welfare of all individuals, irrespective of their pension regime choice, would increase.