Does a Change in Retirement Age Affect a Regional Economy? Evidence from the Chicago Economy

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Abstract: This paper continues the exploration of the impacts on an aging population on an economy employing a two region computable general equilibrium model that is linked with an overlapping generations framework. Two regions are specified, the Chicago metropolitan area and the Rest of the US (ROUS). A series of experiments is conducted; first, the impacts of changes in retirement age are considered, incrementing retirement from 65 to age 69. Secondly, the impacts of reduction in pension benefits are examined, reducing the replacement rate from 50% (baseline) to zero percent. Thereafter, an attempt is made to explore some optimal combinations of policies that include changing retirement age, reducing pension benefits and increasing immigration. A final set of experiments explores the impact of retiree out-migration. While the focus of attention is on the Chicago economy, some of the impacts on the ROUS are presented. The results reveal that, in combination, the results are not monotonic – for different policy mixes at one point in time and over time. A larger number of immigrants into the Chicago region and more generous pension benefits do not necessarily result in more desirable (welfare) benefits while an increase in the retirement age turns out to monotonically improve average welfare.