



Old-age pension reforms in France: improved adequacy and sustainability but at what price?

ESPN Flash Report 2017/15

MICHEL LEGROS – EUROPEAN SOCIAL POLICY NETWORK

MARCH 2017

Old-age pension reforms began in 1993 and intensified in 2010. They are producing tangible effects. The raising of the statutory pensionable age has reduced the duration of pension payments and the total amount of these payments over the entire life span. Although the pension system's resources have increased and the deficit of the system has been contained, evaluations show that some of the gains accrued have in fact been transferred to other social expenditure.

LEGAL NOTICE

This document has been prepared for the European Commission. However, it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Description

Starting from 1993, a series of old-age pension reforms have taken place. In 1993, 2003, 2010 (2012) and 2014, the duration of contributions required to obtain a full pension was extended. In 2010, the statutory pensionable age (SPA) was raised by two years (from 60 to 62) before being lowered back to 60 for those who could meet the contribution year requirements (41-42 years) already at that age, because they had started working before the age of 20. In 2014, contribution rates were increased and pension amounts were reduced. During the same years, trade unions and employer organisations modified the rules applying to complementary regimes in order to reduce the return on these. Only the 2003 and 2012 reforms went against this trend, by allowing those with long careers (first year worked between 16 and 20 years of age) to retire at an earlier age.

Microsimulations, macro-economic analyses and investigations using data from 2010-2015 reveal the first results of these successive reforms.

The Pensions Advisory Council (*Conseil d'orientation des retraites*) that carried out these studies indicated in late 2016 that the financial balance of the main schemes will have improved by an amount corresponding to about 1.3 percentage points of GDP in 2020 and 1.5 points in 2030. Based on assumptions of unemployment rates,

productivity and demographic change, the pension system should reach equilibrium between 2025 and 2047 and a surplus between 2040 and 2060.

Evaluations of the impact of reforms on retired people show that the duration of the receipt of old-age pensions has stabilised at around 24 years for men and 27.8 years for women. Due to the increase in the number of years worked, pension amounts have increased by 3% for women and 1% for men (average wage and generation 1980). Yet, those higher pensions are received for shorter periods and the total amount of pensions received over the entire life span has in fact decreased by 6% for men and 3% for women. The greatest drops concern those who already had the lowest incomes. From this point of view, the age-related measures are therefore less redistributive.

Between 2014 and 31 Dec 2016, the increase in SPA will have sent close to 150,000 people towards disability benefits, with 80,000 of them receiving additional minimum social benefits, which amounts in total to 2 billion in supplementary benefits. Lastly, a little over 30,000 people are now unemployed between the ages of 60 and 62, which is 2% of this age group. So, the positive effects of the reforms should be nuanced: the increase in the SPA has resulted in an increase in the number of people going on benefits. (DREES, 2016).

Outlook & Commentary

Unlike other reforms in the social policy field, recent analyses (COR, October 2016) concerning pensions show that these reforms have been effective and that their impact has been gradual but real. Although the macro-economic impact is clearly moving in the direction of more balanced accounts, it is dependent on changes in demography, productivity and unemployment levels.

The effects on the career paths of people transiting between employment and retirement are undeniable, and most people aged 60 to 62 now remain in employment. However, for a non-negligible share of older people, the SPA shift from 60 to 62 leads to a period of illness, unemployment, disability or minimum social benefits. Altogether, extra costs in terms of unemployment, disability, illness and minimum social benefits correspond to 32 euro of expenditure for every 100 euro saved – i.e. almost a third of the gains accrued (Rabaté & Rochut).

The law No 2014-40 of 20 January 2014 implemented the “account for arduous work” (*Compte pénibilité*), which enables employees to earn “points” every three months if they are exposed to one or several arduous working conditions. Employees can use their points for vocational training,

working time reduction and early retirement. One might assume that the implementation of this account could initially absorb some of these transfers. In the longer term, the success of this “account” will be measured by the preventative transformations of working conditions. The improvement in arduous conditions in numerous jobs and the possibility to change jobs following a training course should make it less immediately desirable to stop work and retire.

In the French pension system, the legislator can use four types of measure to implement reforms: change the rate of contributions; vary the level of pensions; modify the duration of work required to claim a full pension; and change the SPA. The latter, which is simple and immediately visible, is the most frequently used measure and is subject to the most political debate. It appears to be the measure that maintains, or even accentuates, inequalities the most.

The successive reforms of pay-as-you-go pension schemes have had very little impact on the take-up of (affiliation to) voluntarily funded pensions, which remain marginal.

Pensions are one of the major social issues in French electoral campaigns. The forthcoming presidential and legislative elections are unlikely to break with this trend.

Further reading

Conseil d'orientation des retraites, 2016, Report de l'âge de la retraite: effets macroéconomiques [Macroeconomic effects of postponing standard pensionable age], Dossier mensuel, octobre 2016. Available at: <http://www.cor-retraites.fr/article475.html>

Duc C., Martin H. and Tréguier J. (DREES), 2016, Les réformes des retraites menées entre 2010 et 2015. Effets sur la situation des assurés, les dépenses des régimes et l'équité [Pension reforms from 2010 to 2015. Impact on the situation of beneficiaries, scheme expenditure and equity], Études et Résultats, No 985, Drees, décembre 2016.

Duc C., Martin H. and Tréguier J. (DREES), 2016a, Les réformes des retraites de 2010 à 2015. Une analyse détaillée de l'impact pour les affiliés et pour les régimes [Pension reforms from 2010 to 2015. A detailed analysis of the impact on beneficiaries and schemes], Les dossiers de la DREES, No 9, décembre 2016.

Rabaté S. and Rochut J., 2016, Impact de la réforme des retraites de 2010 sur l'activité des seniors en France [Impact of the 2010 pension reform on the activity of seniors in France], COR, Octobre 2016.

Author

[Michel Legros](#), Ecole des Hautes Etudes en santé publique & Observatoire national de la pauvreté et de l'exclusion sociale)