

National report - France

ETUC SociAll Project

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Participating National Trade unions: FO



Executive Summary

The French pension system was developed in the aftermath of WWII, the 1945 Social Security Act was its basis; supplementary schemes have then been added on to it. It is an occupational pension system covering all workers irrespective of their employment status; it is only very casual workers and the ones with marginal employment situations having extremely low labour incomes that are not covered. The full coverage of the various schemes is one of the main strengths of the French pension system. Most basic (first tier) schemes are defined benefits (DB) schemes whereas supplementary (second tier) schemes are defined contributions (DC) ones. The pension system is almost entirely financed on a Pay As You Go (PAYG) PAYG basis and is, in this regard, an exception among most pension systems across the developed world.

The situation of pensioners greatly improved in the 1970s when the pension system was upgraded. As a consequence, the poverty rate among old age people declined sharply, and is today among the lowest compared to international standards. However, this snapshot of the pension system does not take into account the full consequences of ongoing reforms that have already been carried out over the past 30 years. Without any new change in the pension system, both the coverage and the level of pension benefits shall decrease significantly over the next decades. The situation for future pensioners shall therefore become similar to the one of the 1970s when the poverty rate among old age people was 4 times higher than today (35%). This trend threatens the adequate provision of benefits in the future; this is one of the greatest weaknesses of the French pension system, even though this weakness is not clearly perceived by all social actors due to the delayed impact of past reforms.

Furthermore, the planned reform of the Macron's government would totally disrupt the structure of the current system by merging all occupational schemes into a unique pension scheme that would encompass both basic and supplementary schemes. The governance of this unique scheme would be totally in the hands of the government and the consequences of decisions made would be obscured since the system would be entirely a DC one. A majority of French Trade Unions (Tus) are strongly opposed to this reform, which has been temporarily withheld due to the Covid crisis.

Given the very occupational nature of the French pension system, the inadequacy of future benefits would essentially be the result of incomplete careers and too low wages. To cope with this challenge, basic parameters of the pension system (the minimum legal retirement age and the contributory period required to get a full rate pension) should be set in accordance with the opportunities provided to workers in the labour market. More generally, economic policy should really promote full typical employment while at the same time improving the situation of low wage workers. Specific issues concerning the lowest minimum pensions, the improvement of women's pensions and arduous work, are also priorities that should be on the agenda of future pension reforms. The financial sustainability of the pension system would greatly benefit from a transfer of public funds, which are today devoted to finance subsidies to private companies without any sensible improvement of the economic situation, and the employment situation more generally.



1. National Context

Pension structure and coverage

According to the European standard classification, the French pension system is almost entirely a public one. All workers are covered by a pension scheme, irrespective of their employment status. Workers are covered by a basic scheme (first tier) and also a supplementary one (second tier); both schemes are mandatory. However, the relative size of the basic and supplementary schemes may vary greatly for the various occupational groups. For the most important occupational group (private employees in the non-agricultural sector), the basic pension makes up 62% of the whole pension benefit, on average. This percentage is lower for low wages and increases as wages increase. Most basic schemes have defined benefits¹, whereas supplementary schemes are usually based on a point system.

Since there is a variety of pension occupational schemes, it is hard to give a simple overview of the whole French pension system. Official reports (COR, 2020a) usually distinguishes three broad categories:

- Private sector basic schemes. These include the basic schemes for 1. private sector employees in the non-agricultural sector (*Régime général*), 2. employees in the agricultural sector (*MSA*) and 3. self-employed (*SSI*), with the exception of farmers and professionals. For these basic schemes, the same rules apply for the definition of pension credits and benefits. This category also includes supplementary schemes for private sector employees (with two separate schemes for non-agricultural and agricultural workers)
- Specific schemes for self-employed. These include the basic schemes for professionals, farmers, and supplementary schemes for all self-employed;
- Specific schemes (« *régimes spéciaux* ») for civil servants and for other specific occupational groups or enterprises (e.g. railway workers).

The most representative basic scheme is the *Régime général* for private workers in the non-agricultural sector. This scheme covers more than 2/3 (68,6%) of the workforce. That is the reason why in the public debate this scheme is mostly quoted.

With the multiplicity of pension schemes, workers are often covered by more than one scheme over their working life. Approximately one out of three pensioners born after 1942 receives more than one basic pension benefit (DREES, 2012). This proportion is higher for men (40%) than for women (30%) and has decreased over time as a consequence of the shrinking labour force in the agricultural sector.

All workers, legally employed, are eligible to pension benefits. However, there is a minimum and maximum income from work that is used for eligibility to pension benefits. The minimum annual wage necessary to be entitled to pension credits is 150 times the hourly minimum wage. With such a very low threshold, therefore only workers with very marginal and casual

¹ The only exception is the basic scheme for professionals.



employment are not covered². The maximum wage in the *Régime général* is the social security ceiling: approximately 80% of employees earn less than this ceiling and are thus fully covered. Concerning the supplementary schemes in the non-agricultural sector, the ceiling is much higher, one may conclude that all wage-earners are also fully covered, except few managers at the very top of the wage distribution.

In addition to these public pension schemes, individual arrangements related to employment also exist. Approximately one out of five workers (22%) were affiliated to such a scheme in 2018, whether on a voluntary basis (mainly self-employed) or within some kind of collective agreement. This percentage is much higher for self-employed (36%) than for wage earners (10%). However, despite the strong efforts made by all governments over the past 20 years to promote these schemes, they still only provide a very small portion of all pension benefits (approximately 2%).

Legal and effective retirement age

Today, the standard legal minimum retirement age is 62. The 2010 reform gradually increased this minimum age from 60 (for people born before 1951) up to 62, for people born in 1955 and after. At the same time, the minimum age at which workers can get a pension without any penalty for incomplete careers has been increased from 65 to 67. Early retirement is possible in some situations, notably for so-called « *long careers* » and for severely disabled workers. For some specific occupational groups – mainly in the public sector – the legal minimum retirement age may be lower. These early retirement schemes benefit mainly male workers. That is the reason why the effective retirement age is somewhat lower for men (62,5) than for women (63,0). Without the early retirement schemes, the effective retirement age is approximately the same for both sexes (63,2 for women, 63,1 for men).

Figure 1 - Average effective retirement age in 2019 (*Régime Général*)

	Including early retirement	Excluding early retirement
Women	63,0	63,2
Men	62,5	63,1
All	62,8	63,1

Source: COR, 2020 - Private sector employees in the non-agricultural sector

Other changes were also explicitly made to adapt the pension system to the increase in life expectancy. The 2003 reform thus increased the contribution period necessary to get a full pension. The explicit rationale behind this change was to share the expected increase in life expectancy between an increase in working life and an increase in the retirement period, keeping the same ratio between the length of the working life (2/3) and the duration of retirement (1/3). In 2014, another reform extended this process and included a gradual increase of the contribution period necessary to be entitled to a full pension. The contribution period increased by a quarter every three years, depending on the date of birth. Therefore, for people

² To be entitled some pension credit, a full time worker earning the minimum wage should have worked at least one month in the year ; for a full year worker, at least 3 hours a week.



born in 1973, the contribution period will be 43 years ending in 2035 whereas, currently it is 41,75 years for people born in 1958-1959-1960.

The involvement of TU in the governance of public pension schemes

Social partners participate in the management board of the basic (first tier) pension scheme (*Régime général*). However, following the social security reform of 1995 and the introduction of the “Social Security Finance Acts” (LFSS), their role is merely consultative and decisions are made by the government with the formal approval of the French Parliament.

The supplementary (second-tier) pensions’ schemes, Agirc and Arrco, for private workers in the non-agricultural system are driven by social partners. In January 2019 the two have merged into a single scheme, Agirc-Arrco.

Social partners are part of the Pensions Advisory Council (COR, *Conseil d’orientation des retraites*), an official body created in 2000 to provide the government with expertise and recommendations concerning the financing and the adequacy of the French pensions’ system.

Elements of solidarity in pension schemes

Some elements of solidarity exist in the French pension system. Whether some pension benefits may be classified as elements of “solidarity” is a matter of convention. The analysis carried out by the French Ministry of Health and Solidarities (DREES, 2016) accounts for two definitions (strict or broad) concerning solidarity.

In the “strict” sense of solidarity, these elements may be grouped into three main categories:

- Those measures that directly increase the pension benefits (workers who have raised at least three children, workers who are entitled to a “full pension” that falls short of the guaranteed minimum – *minimum contributif*);
- Those which increase the number of annuities or the number of points that determines the level of pension benefits in the pension formula. Quarters or points are thus granted to workers with career breaks (unemployment, maternity leave, education of children);
- Those which allow workers in arduous or dangerous jobs, or severely disabled, to retire before the minimum legal age.

In 2016, these elements of solidarity amounted to 43.8 billion € or 16.3% of all direct pension benefits (excluding widow survivors’ pensions). In a broader definition, the elements of solidarity would represent 22.7% of all direct pension benefits.

Figure 2 – Elements of solidarity in the French pension system (2016)

	Mds €	% direct pensions
Increase in pension benefits		
Parents with 3 children or more	8.0	3.0
Minimum pension	8.5	3.2
Increase in the number of annuities and/or points		



Career breaks	10.1	3.7
Birth and education of children	6.9	2.6
Early retirement	10.3	3.8
Total strict definition	43.8	16.3
Other measures	17.1	6.4
Total broad definition	60.9	22.7

Source: DREES, 2016.

Pension finance

The French public pension system is entirely financed on a PAYG basis. Social contributions make up the bulk of the financing (more than 80%). Comparisons of contributions rates across the schemes are not straightforward for many reasons:

- Contribution rates do not apply to a standardised contribution basis; and
- Pension schemes do not deliver the same level of benefits. In the French contributory system, higher or lower contribution rates (even on a standardised basis) are associated with higher or lower benefits. A sound comparison should take into account these differences.

Moreover, because the French system is financed on a PAYG basis, transfer mechanisms across schemes have been set up in the 1970s in order to take into account differences in demographic structures (the so-called "*compensation démographique*"). These transfers are calculated on a minimum basis³ but they may, in some schemes, contribute greatly to the financing of pensions. This is notably the case for the farmers' pension scheme.

Pension Outcomes

In the French system, pension benefits are linked to the former employment career and pension reforms have strengthened this link.

In most basic schemes, the pension formula takes into account the past wages (or labour income) and the length of the working life. We consider here the formula concerning the *Régime général* that concerns 77% of the labour force.

The pension P is calculated as: $P = SAM * n/N * T$

- the reference wage SAM is an average wage of the best 25 years from 2008 onwards. There is a ceiling to the wages. Past wages considered for the calculation of SAM are indexed with the CPI (with the average gross wages before 1987).

- the *prorata* coefficient n/N: the insurance period in quarters (n) is divided by the number of quarters (N) required to get the full pension rate, the maximum coefficient is 1. N depends on the date of birth (see above). It is 41,75 years for people born in 1958-1959-1960 and will gradually increase up to 43 years for people born in 1973.

- the rate of pension T: the full rate (50%) is for a leave at 67. If the age at the time of retirement is lower than 67 and the number of quarters worked lower than N (the number of quarters

³ The transfer mechanism is computed on a purely demographic basis in relation to a pension benefit that does not take into account differences in labour incomes nor inequality within these labour incomes.



necessary to qualify for a full rate pension), T is reduced ("*décote*"). If the number of quarters is higher than N, the pension benefit is increased ("*surcote*")

The proportion of new pensioners retiring in 2018 that were penalised (*décote*) was 9.9% in the Régime Générale and 13.7% for State civil servants (PLFSS). In the same year, the percentage of new pensioners benefiting from an increase in their pension (*surcote*) was respectively 13.3% for private employees and much higher for State civil servants (30.6%).

Since 1987, P is indexed to CPI instead of gross wages.

The basic pension is raised up to a minimum level (*minimum contributif*) for workers who are entitled to a full-rate pension but paid contributions on a low labour income. This minimum pension amounts to 645.50€ or 705.36€ a month, depending on the length of the insurance period. This involves approximately one out of every two new pensioners in the *Régime général*. These are mostly women (80%).

A guaranteed minimum income is awarded to people residing in France aged 65 and over (Elderly Solidarity Allowance or *Allocation de solidarité aux personnes âgées/ASPA*). This benefit is means-tested so brings claimants' income up to a level that would depend on their family circumstances (1402.22 € a month for a couple, 903.2 € a month for a single person).

The gender pension gap and the main drivers for inequality

In 2018, the average net monthly pension was 1367 € for women, 1806 € for men and 1576 €, on average, for both sexes. Overall, women's pensions represent nearly 76% of men's' pensions. The gender gap is higher if we consider direct pension benefits of women, that is pension benefits that are directly linked to past careers. In that case, women's' pensions represent only 62,5% of men's' pensions. This last percentage (direct pension benefits) is much lower for women employed in the private non-agricultural sector (54%) than for women working as civil servants (84%).

Figure 3 -Average pension by gender in 2018 (€/month)

	Women	Men	All	Ratio W/M (%)
Direct pension benefits	1081	1729	1390	62,5
Other benefits	286	76	186	376,3
Total	1367	1806	1576	75,7

Source: PLFSS, 2021

There are two main reasons for gender inequality in pensions:

- Women have lower wages and these account for little more than 60% of the gender gap. This gap tended to slowly decrease over time but this trend seems to have stopped over the past few years; and
- The shorter insurance period of women, accounting to around 35% of gender inequality in pensions.



Pension Trends and Current Reforms

Over the past 30 years, many pension reforms have been carried out in France. Meanwhile, social partners also changed the rules concerning supplementary pensions in the private non-agricultural sector. These reforms may be classified as “parametric” ones (increase in legal retirement age, increase in the insurance period needed to get a full rate pension, de-indexing of pensions, etc.). The overall consequences of these changes have been twofold:

- Reducing the overall funding of pension benefits;
- Tightening the link between pension benefits and past careers. Inequality in pension benefits thus reflects more and more inequalities on the labour market.

At the beginning of March 2020, the Macron government initiated an extraordinary procedure to start the legislative process concerning another radical and structural pension reform. However, with the unexpected Covid crisis, the government decided to temporarily withhold the project. Without this crisis, there is no doubt that the Macron reform would have been adopted, notwithstanding the strong opposition of TUs and citizens more generally. The relentlessness of the pandemic reduces the probability that the reform will be adopted before the upcoming presidential election in Spring 2022. However, considering the predominant influence of the conservative political forces in France today, one may expect that the main aspects of this reform will be part of some future pension restructuring. The main features of this planned reform are outlined hereunder.

One of the main objectives of the planned reform of the Macron government is to merge all occupational schemes (both basic and supplementary) into a single scheme for all workers, whatever their employment status. This is a radical change disrupting the whole structure of the French pension system whose foundation is the 1945 Social Security Act and the subsequent development of supplementary schemes. The planned reform would create a global defined contribution scheme (a point system) whereas most basic schemes are today defined benefit schemes, thus shifting the entire longevity and political risks to workers.

The planned reform will also lower the coverage of the higher wages by introducing a lower wage ceiling for the contribution rate. Approximately, 2% of the highest wages would thus not be covered by the reformed pension scheme. This will reduce the contribution basis of the public pension system and, at the same time, provide an incentive for the so targeted employees to invest in other (funded) individual arrangements for their future pensions.

The planned reform of the Macron government does not formally change the minimum legal age. However, it creates a new - and higher - age benchmark (« *âge pivot* ») at which workers could get a full rate pension. This is, indeed, an increase in the retirement age. The 1983 reform that is often characterised as having lowered the retirement age from 65 to 60 did not, in fact change the legal retirement ages. It essentially put an end to the huge penalty that workers had to face at the time in they wanted to retire at 60. Reintroducing such penalties is therefore an indirect way to increase the retirement age.

The solidarity elements of the pension system will still formally continue. However, the planned reform sets a limit to such solidarity elements that should not exceed, in the future, the current



share of all pension benefits. There is thus no guarantee that increase solidarity needs will be met under the planned reform.

Finally, the governance of the pension system will be entirely under the governments' hands, with a lot of crucial parameters being totally undefined by law. A major consequence of this change would be that the social partners would not be managing any longer the most important supplementary schemes in the private non-agricultural sector.

The State Council (*Conseil d'Etat*), the French supreme Court, issued a severe statement on the government's report of the project. Reviewing the impact study of the government, the Court deemed this study "insufficient" and not meeting "the general requirements of objectivity and sincerity". The Court also underlined the "incomplete" nature of the financial projections and criticised the extensive use of ordinances to define the key elements of the new system. The Court stated that this situation is "all the more regrettable" since it is about a reform "unprecedented since 1945 and intended to transform for decades to come (...) one of the major components of the social contract.

2. The Challenges

Demography and the ageing of the population

As in all other countries, the French pension system is facing the so-called challenge of ageing. Life expectancy is projected to increase for both women and men in the next decades, this increase will be slightly higher for men, narrowing the gap between genders.

Figure 4 - Life expectancy for women and men (2020-2070)

	2020	2030	2040	2050	2060	2070
At birth						
Women	86,1	87,3	88,4	89,4	90,3	91,1
Men	80,2	81,7	83,1	84,3	85,5	86,6
At 65						
Women	23,8	24,6	25,4	26,1	26,8	27,5
Men	19,9	20,8	21,7	22,5	23,3	24,0

Source: Ageing report, 2018

Fertility rates remain quite high in France, together with Ireland, it is the highest amongst the EU countries and official forecasts do not project any change. Moreover, the final descendance – that is the number of children that women will have born at the end of their lives – never fell below 2 up to now. In other words, the "ageing" of the population will be less important in France than in most other EU countries. Consequently, the demographic ratios will not show a dramatic increase, more so if we consider the fact that people in employment finance – in whatever way - the needs of older people, but also the needs of other categories that are not part of the labour force (children, unemployed, other inactive people below the retirement age). The dependency ratios clearly illustrate this fact. We consider here three dependency ratios:



- Old-age dependency ratio: the ratio of older people (aged 65 and over) to the working age population (15-64 years);
- Demographic dependency ratio: the ratio of the non-working population (below the age of 15 and above 65) to the working age population (15-64 years);
- Economic dependency ratio: the ratio of the total unemployed population to the employed population which is, at the end, the most relevant indicator to assess the economic burden that workers will bear due to demographic changes and other economic factors.

Figure 5 – Dependency ratios (2020-2060)

	Absolute value of ratios					Percentage change	
	2020	2030	2040	2050	2060	2020-2040	2040-2060
Old age	0,33	0,40	0,45	0,45	0,43	36	12
Demographic	0,63	0,70	0,76	0,76	0,73	21	8
Economic	1,47	1,48	1,51	1,48	1,44	3	0

Source: Ageing report, 2018.

As can be seen from figure 5, the ageing of the population will with no doubt increase transfers from the working age population to the older population. This dependency ratio shall increase by 36% between 2020 and 2040 and further increase by 12% over the period 2040-2060. However, from an economic point of view, the true economic burden that will fall on workers because of demographic changes will not increase so much and will, in fact, remain at the same level (+3% between 2020 and 2040, no increase between 2040 and 2060).

This does not mean that the current demographic changes do not raise questions. Types of transfers between the working-age population and the rest of the population vary according to whether they concern older or younger people. Transfers to pensioners normally take the form of public compulsory contributions, whereas the overwhelming majority of transfers that go to young people occur within the family and take the form of private outlays. This is essentially a qualitative difference in the way economic resources are allocated, and whose impact on the economic burden on workers is *a priori* marginal. In other words, the issue of ageing does not raise an economic question but rather a political one.

Past reforms have already largely mitigated the effects of ageing. According to the European commission, ageing should have translated in a sharp increase of pension expenditure (+ 4.9 points GDP) between 2020 and 2040. However, the impact of past reforms will offset this increase and public pension expenditure should remain quite stable (+0.1 point GDP). This is mainly due to a drop in the coverage ratio (the proportion of people aged 65 and over receiving a pension benefit) as well as a decrease in the generosity of the pension system (the benefit ratio should decrease by 1.6 point GDP). Over the period 2040-2060, the share of pension expenditure of the GDP should continue to decrease (- 2.5 points GDP) while the effect of ageing would have resulted in a much smaller decrease (- 0.5 point GDP). Over this period, the major effect lies in the continued decline in the benefit ratio (- 1.9 point GDP).



Figure 6 - Public pensions, gross as % of GDP - p.p. over the period 2020-2060

	2020-2040	2040-2060	2020-2060
Total	0,1	-2,5	-2,5
Dependency ratio	4,9	-0,5	4,3
Coverage ratio	-2,0	0,0	-2,0
Benefit ratio	-1,6	-1,9	-3,5
Labour market ratio	-0,9	-0,2	-1,1
Interaction effect	-0,3	0,0	-0,2

Source: *Ageing report 2018* (Tables III.1.66 and tables III.1.99 to III.1.103)

Good health life expectancy and needs for health care

Differences between women and men are far less important if we consider indicators of healthy life years (HLY) which are very close (approximately one year difference between women and men) for both sexes. Over the past decade, this indicator slightly increased for men but remained stable for women. By contrast, differences across occupational groups are much more important. At 35, life expectancy in good health is 34 years for men in upper occupational categories, whereas it is 24,4 years for blue collar workers. This gap is smaller for women but remains quite significant.

Figure 7 – Indicators of HLY (Healthy Life Years)

Life expectancy in good health (2018)			
At birth		At age 65	
Females	Males	Females	Males
64,5	63,4	11,3	10,2
Life expectancy in good health at age 35 (2003)			
		Females	Males
Upper management		35,4	34
Middle management		32,1	30,8
Farmers		29,4	29
Other self-employed		31,7	30,1
White collar workers		28,9	28,4
Blue collar workers		26,8	24,4
Inactive		25,5	10,5
All		28,8	27,7

Sources: Eurostat/Cambois et al.

These indicators show that actual and probably future pensioners will need some long-term care at the age of retirement and this will be more so for pensioners with the lowest pensions (blue-collar and white-collar workers). In this regard, the situation of women might be seen as more worrying since their life expectancy is higher than that of men. As a consequence, old age women spend more time in retirement facing difficulties in their daily lives over a greater proportion of this retirement time.



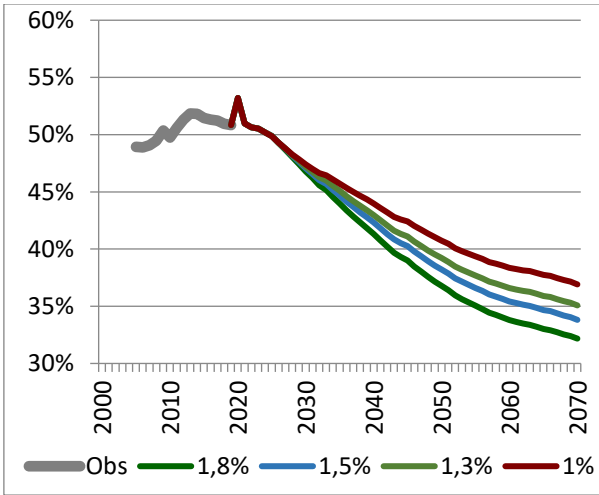
Coverage is not an issue in France. In the most important scheme (*Régime général*), workers are covered up to a wage ceiling (« *plafond de la sécurité sociale* ») which is quite high: among private sector employees, a little less than 80 % of workers (77%) earn a wage which is below this ceiling. In addition to this basic pension, supplementary schemes provide benefits for wages up to 4 or 8 times this ceiling, thus providing benefits covering the full wage of more than 99% of the employed labour force. As noted above, the planned reform of the Macron government would challenge this situation by decreasing the coverage of the highest wages.

The adequacy of pension benefits may be considered at two levels:

- At a country level, a pension system may be considered adequate if it provides pensioners (as a whole) with a fair share of the global income, i.e. with an income share that allows the group of pensioners to be part of society. The ratio between the average pension and the average labour income (or per capita income) is a useful indicator to assess this dimension.
- At the individual level, a pension system is adequate if it allows pensioners to satisfy, at the least, their basic needs. The percentage of pensioners who fall below this basic minimum necessary income is another indicator of the (in)adequacy of pension benefits.

At a country level, the ratio of the average pension to the average labour income is expected to decrease sharply (between 30% and 40%) over the next decades as a consequence of the past reforms (figure 8). The planned reform of the current government would exacerbate this trend. Whatever view we may have on the current situation, it is clear that the pension system will provide pensioners with less and less adequate benefits. This is one of the main concerns of French TUs today.

Figure 8 – Average pension benefit as a % of average gross labour income



Source: COR, 2020a.

Note: The scenarios depend on the projected annual growth (between 1,8% and 1%).

At the individual level, assessing the adequacy of benefits is not a straightforward exercise since needs are defined at a household’s level and pension benefits at an individual level. Moreover,

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pension benefits are not the only source of pensioners' income. At the individual level, the issue of adequacy mixes all these dimensions and is therefore quite complex. We refer here to two indicators to assess the minimum income needed to provide pensioners with a minimum adequate income:

- The usual statistical poverty line defined as a percentage (60%) of the households' equivalent income;
- The reference budgets defined by the ONPES (*Observatoire national de la pauvreté et de l'exclusion sociale*) in its 2015 report. These reference budgets are similar to the ones developed in the UK by the Joseph Rowntree Foundation (JRF).

Overall, around 10% of pensioners' households are poor in the conventional statistical definition (<60% of equivalent income) and 38% of pensioners' households have an income which is above the poverty line but below the reference budget (figure 9). In other words, nearly one out of two (48%) pensioners' households cannot meet their basic needs. These percentages are much higher for single pensioners (59%) than for couples (32%).

Figure 9 – Pensioners' households below the poverty line or the minimum reference budget (%)

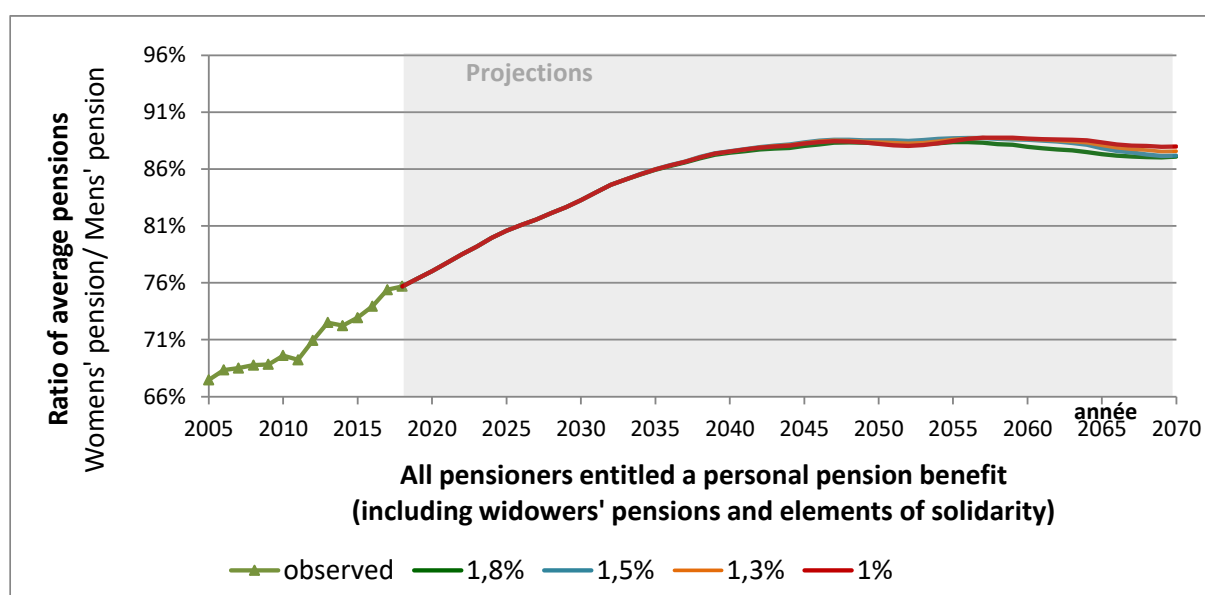
	Number of households (millions)	Percentage of households...	
		Below the poverty line	Between the poverty line and the reference budgets
Pensioners living in couple	3,1	4	28
Single pensioners	4,0	14	45
All pensioners	7,1	10	38

Source: ONPES, 2015 (2014-2015 Report).

There are two reasons for the worse situation of single pensioners. First, single people have to face the full expense of some fixed living costs, such as housing. Second, the vast majority of single pensioners are women, whose pension benefits remain far below those of men (cf. supra). According to official forecasts, the projected level of total pension benefits (including widowers' pensions) for women should increase over the next decades as a proportion of men's' pensions (standing at 76% today and going up to 88% in 2040). This should be the consequence of two factors. First, the insurance period of women should still increase for the youngest generations of women whereas this would not be the case for male workers. Second, the average wage of women should also increase as a proportion of male wages. However, this last trend is much more debated and uncertain.



Figure 10 - Projected situation of pension benefits for women.



Source: COR, 2020a (Table 2.53)

Poor indexing mechanisms obviously have a significant impact on the adequacy of benefits. Since 1987, indexing mechanisms are based on the CPI instead of the average wage index. This change has two consequences on the French system. First, this indexing mechanism is used to compute the reference wage (25 best annual wages) used in the pension formula, so that all past wages revalued do not take into account the average growth in wages. Second, this mechanism is also used to revalue year after year pension benefits, so that these benefits gradually decrease in proportion of the average wage.

Inadequate pension perspective for new entrants into the labour market

The increase in the minimum retirement age together with the increase in the insurance period necessary to get a full rate pension already have an impact on pension benefits. This effect is likely to become more prominent in the future with the reforms already implemented and the planned reform of the Macron government. There is indeed a growing gap between the average insurance period that workers can validate over their working life and the required insurance period necessary to get a full rate pension.

For people born in 1956, the average insurance period of pensioners is 40,2 years to be compared with the required insurance period necessary to get a full rate pension (41,5 years). The average gap is 5 quarters. For people born in 1973, the average insurance period is projected to be 38 years with a minimum insurance period targeted at 43 years. The average gap would increase up to 5 years (20 quarters).

More and more workers will therefore be forced to stay on the labour market with no job or a precarious working life and, potentially, no unemployment benefit until they have reached the minimum legal age to retire. This is already the case for 40% of the workers.

Once they have reached the minimum legal age, these workers will face the following alternatives:

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- To stay in the labour market with no job and/or no unemployment benefit until they have reached the minimum legal age (67) to get a full-rate pension;
- To retire with an incomplete insurance period and some (more or less) severe penalties on their pensions (*décote*)

Shifting the risk onto employees

In the French system, there are virtually no funded schemes. Shifting of risk may essentially take the form of a political decision associated with the planned reform of the Macron government, with the shift from a DB basic pension system to solely a DC pension system (including both current basic and supplementary pension schemes).

Risk shifting may also concern the highest wages that would less likely be covered with the planned reform of the Macron government. This would go hand in hand with the fragmentation of pension provision since highest wages would have less incentives to contribute to the reformed public scheme and that would probably reduce their support in this public scheme. The great uncertainty around many of the crucial parameters of the planned reform would probably reinforce this trend.

The overall situation of the labour market (poor employment integration, poor wages).

Since the retirement age has gradually increased from 60 to 62 following the 2010 reform, the situation on the labour market changed dramatically for older workers and also for younger ones. The participation rate of people aged 55-64 increased by 32% between 2010 and 2018, with a similar increase in the employment rate (31%), but also a sharp increase in the unemployment rate (nearly 20%). The increase is higher amongst people aged 60 and over whose unemployment rate is now above the one of 55-59 years old workers, which had never been the case before. Under 55, participation rates and employment rates have stagnated or slightly declined over the same period.

As a result, while the total population aged 15 to 54 declined by around 0,43 million between 2010 and 2018, the number of jobs held by this age group fell by a roughly the equivalent number. Conversely, while the population aged 55 to 64 slightly increased as a result of ageing (+0, 23 million), the growth in the number of jobs held was much stronger.

Figure 11 - Changes in the total population and employment for people aged 15-64 (between 2010 and 2018)

(millions)	Population	Employment
All people aged 15-64 years	-0,20	+0,65
15-54 years	-0,43	-0,46
55-64 years	+0,23	+1,11

Source: INSEE, Labour Force Surveys

The consequence of the reforms that have been implemented seems to be twofold. First, these reforms increased inequality among older workers, between those who have the capacity to

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stay in their jobs and others. Second, it also increased inequality between older people and young workers who have less opportunities to get or stay in a job, a situation that undermines their future pension prospects.

Finally, the Covid crisis will probably have a significant impact on the financial sustainability of the pension system in the future. Over the year 2020, the impact on pensions' expenditure was limited while at the same time the decrease of the labour income and related social contributions was far more important. According to the latest official estimates, the GDP dropped by a little more than 8% in 2020. Other consequences of the health crisis – such as the increase in the mortality rate or the rise in unemployment – might mitigate this effect and slow the expected increase in pensions' expenditure. However, at present it is quite hard to precisely assess the combined effects of these very recent changes on the financial sustainability of the pension system.

3. Possible Reforms

As it is today, the French pension system provides all workers with an effective retirement coverage. The variety of the existing schemes offers a tailor-made solution to all occupational groups whatever their employment status. There is therefore no reason to merge these schemes into a unique one as the current government intends to do. Moreover, it is important that basic schemes remain defined benefit schemes that guarantee visibility and transparency to workers. This is the predominant view shared by a majority of French TUs.

However, the past reforms have gradually altered the basic principle of solidarity that is at the heart of the French pension system. Some direct action is therefore needed to restore the adequacy of the French pension system, which would otherwise collapse in the future following the gradual implementation of past reforms (see above §2). These direct actions on the pension system include general measures and more specific ones.

General measures should be taken to restore the adequacy of the pension system, both at the time of and during the period of retirement.

- *Basic parameters for the calculation of pension benefits.* The past increases in both the minimum retirement age and the contributory period needed to get a full rate pension contradicts the trends observed in the labour market. These two basic parameters should gradually be set at a level that is in line with the actual opportunities faced by workers.
- *Indexing mechanisms.* Productivity is the result of both today's efforts of workers and the past work of pensioners when they were engaged in the labour force. There is therefore no reason to exclude pensioners from sharing productivity gains. Indexing mechanisms should be in line with changes in wages.

The aim of these specific measures is to improve the adequacy of pension benefits for the most disadvantaged groups. Priority actions include:



- *Increase in the minimum contributory pension.* All TUs share this view even if they may have different views on the level of this adequate minimum pension. For the CGT-FO, this minimum pension should be raised up to the net minimum wage.
- *A better gender equality.* One of the main actions in this respect is to cater for career breaks, in particular those related to raising children and unemployment periods. All unemployed workers should get some pension credits, which today is only the case for the unemployed who receive some unemployment benefits (approximately one out of two unemployed).
- *The issue of arduous jobs.* There is no doubt that structural measures are needed to improve working conditions, especially in the most arduous jobs, and also to allow workers holding such jobs to switch to other jobs over their working life. However, these measures will not benefit older workers who spent most of their working life in arduous jobs and will retire in the near future. Specific measures are needed for these workers, in the form of early retirement and/or increased pension benefits.

Besides these actions that are directly targeted at improving the adequacy of pension benefits, other reforms are needed to better cover the needs of older people, in particular concerning health care and long-term care. The growing need for long term care should be the opportunity to create a new branch of social security that would be in line with the current Health insurance system. All workers and citizens – and not only pensioners – should bear the financing of this “new risk”. An overall plan is necessary to enhance the capacity of the society to cover this need for long-term care – whether it be at home or in care centres. If implemented consistently, this reform would, in turn, create jobs that would be directly targeted to the needs of older people.

All these measures will increase pension expenditure, thus raising the issue of the financial sustainability of the pension system. The CGT- FO and the other TUs, which are part of the coalition against the planned reform of the Macron government, consider this issue is largely overestimated, not the least because of the huge public expenditure diverted through various subsidies to companies. According to the official estimates of the government, the fiscal advantages amount to between €140 billion and € 150 billion, that is approximately 6% of the GDP. These fiscal advantages are largely wasted without any clear improvement to the economy or employment. These public funds could be much better targeted to the financing of the pension system and other social and economic measures more generally.

Finally, some overarching structural actions are needed in respect to economic policy. Since pensions mainly reflect the past careers of workers, the inadequacy of pensions is largely the result of inadequate employment profiles and insufficient wages. Economic policy should be a priority targeted at restoring full employment through a variety of measures. This action would, in turn, help increase the share of wages, thus enhancing the living conditions of workers and providing, at the same time, extra resources for the financing of the pension system. Substantially increasing the minimum wage, as the two major French TUs insist today, should be a priority action.



4. Guidelines and recommendations *(independently prepared by CGT-FO)*

Currently, the French pension system is working relatively well, however some improvements can be made without undermining its fundamental principles. CGT-FO has suggested guidelines and recommendations that would reinforce its adequacy, in order to offer to everyone a decent level of income that would guarantee further dignity in ageing, and ensure a stronger access to fairer rights for all.

a. Improve the current French pension system to respond to a real social promise

- *Ensure the preservation and improvement of the pay-as-you-go pension system.* This would entail rejecting the ongoing pensions' reform; maintaining the Civilian and Military Retirement Pensions Code; and setting the minimum pension for a full career to 100% of the French statutory minimum wage (SMIC) by adding 100€ of the activity premium ("*prime d'activité*").
- *Extend the list of periods taken into account by pension insurance.*
- Upgrade the remuneration paid during the periods of traineeships, validate the trimesters and pay the "retirement" contribution for the related periods at the level of the SMIC.
- Take into account, in respect of the duration of the pension insurance, the entire period when the worker is a job seeker, compensated or not through the unemployment insurance scheme.
- Take into account, in respect of the duration of the pension insurance, the entire periods when the worker receives benefits from a supplementary pension scheme, in the furtherance of a collective contract.
 - *Facilitate the repurchase of quarterly periods of contributions.* Open a nationwide cross-sectoral negotiation to put in place mechanisms to facilitate the repurchase of quarterly periods of contributions (*traineeship in company, study or incomplete periods; fairer, more adapted and more financially accessible repurchase program*)
- *Better take into account the impact of disability on the career.*
- Reintroduce the RQTH (*recognition of the quality of disabled workers*) criteria, which was cancelled as of 2016, for early retirement due to disability
- Diminish the duration of contribution needed to go into early retirement at the age of 55 due to disability
- Calculate the capping of the accumulated "invalidity pension + part-time work income" on the basis of the salary that would have been received for full-time work instead of the basis of the salary received prior to stopping from work due to invalidity.
 - *Reinforce again the right of information in terms of pensions.* Extend the existing right of information to 25 years, and every five years, on all pension's rights and dispositions.

b. Secure career paths to improve the retirement age and pension

- *Fight against the abusive use of part-time employment contracts.* Initiate nationwide cross-sectoral negotiation to put in place mechanisms to fight against the abusive use of part-time employment contracts (*increase in additional hours at a rate of 25%; employers*



take over, for each contract, the additional contributions "retirement" from employees and employers to achieve a level of contributions equivalent to that calculated on a full-time contract)

- *Promote the recruitment and retention of senior workers.* Start nationwide cross-sectoral negotiation to put in place mechanisms promoting the recruitment and retention of senior workers (payment of all employee and employer "retirement" contributions that would have been paid up to the employee's full retirement age in the event of dismissal; set a flat-rate contribution to be paid by any company that dismisses a senior worker; creation of a specific open-ended employment contract favouring the hiring of senior workers and their retention in employment until they reach a basic and complementary pension at full rate; reinstatement of the intergenerational employment contract ("contrat de generation") that favours both the hiring of young people on permanent contracts and the retention or hiring of senior workers; ease conditions of progressive retirement for arduous occupations; etc.)
- *Foster the expression of intergenerational complementarity.*
 - Start a nationwide cross-sectoral negotiation to improve the conditions of certain training schemes to facilitate access to training for older workers. Thus, ensuring continuity of vocational and wage promotion throughout their working lives, including the last part of their career.
 - Possibility for senior workers, in priority and on a voluntary basis, to take up the status of tutor and/or apprentice teacher of an apprentice hired on a professional or apprenticeship contract – with the right to receive prior training and payment of a monthly bonus for the entire duration of the tutoring.
 - Encourage companies to build policies that allow older workers to participate in training of the company workers (especially in the context of on the job training) – with the right to follow a train the trainer programme and the payment of a monthly bonus throughout the duration of the training activities.
 - *Fight against the fragmented and arduous career paths.*
 - Put in place a real bonus-malus on employers' unemployment insurance contributions, in all sectors of activity, in order to make companies that abuse short and precarious contracts responsible for cost of compensation during periods of unemployment, instead of putting the burden on the job seeker.
 - Top-up the Old Age Solidarity Fund ("*Fonds de solidarité vieillesse*"), which may involve an over-contribution of companies using short-term fixed-term contracts. This would ensure that breaks in activity and periods of part-time work, which are imposed mostly on young people and women, are better taken into account.
 - Psychosocial risks should be taken into account and integrated in the arduous account ("*compte pénibilité*") to acquire points facilitating early retirement.
 - Reintegrate the 4 factors of risks that provide for further points for the arduous account and a better recognition of poly-exposure that could facilitate an early retirement.
 - Provide a right to early retirement at least 5 years before the retirement age, in order to limit the effects of occupational activity on health and to enable workers to enjoy their retirement.
 - Provide the right to bring the disagreements related to the arduous account to the CARSAT or the management body at the local level, without the need to address their employer beforehand.
 - Guarantee accountability of companies by restoring the employer contribution through sanctioning those who expose their employees to hardship.



- Uncap resources for benefit from the old age insurance of parents at home (AVPF) for caregivers who interrupt or reduce their activity to take care of a loved one.
- Provide a specific increase of the pension for parents of disabled children.
 - *Offset the impact of parenthood for stronger equality.*
- Postpone the choice of the distribution of the education trimesters of a child from the age of 4 to 18 years. This would allow a fairer distribution within the couple, allowing for the real impact of the education of the child on the career, and not on simple projections.
- In the absence of consensus on the distribution of education quarters⁴, they should be allocated in full to the parent who has further reduced his/her work activity to care for the child. In case of separation, they should be granted to the parent who had custody of the child, and in case of equal activity rate and/or in case of shared custody, the quarters are distributed equally between the parents.
 - *Modernise the survivor's pension in the direction of social progress.* Extend the survivor's pension to couples having concluded a civil solidarity pact ("PACS"); raise the survivor's pension to 60% of the pension that the deceased was receiving or could have received, without means testing.

c. General recommendations for workers in the private sector

- *The average annual salary should be based on the 10 best years of earnings.*
- *Return to a retirement age of 60 and elimination of the discount ("décôte")*
- *Restoration of full compensation for exemption from contributions*
- *Recapitalisation of the Pension Reserve Fund*

d. General recommendations for workers in the public sector

- *Early retirement with bonus for active service and recognition of unsanitary and arduous jobs*
- *Put in place an effective dispositive⁵ "long career"*
- *Restore the "active / retired" link (ex-art. L.16 of the Civil and Military Retirement Pension Code)*
- *Reintroduce family advantages (bonuses/early retirement) and their extension to both parents (under the conditions required before 2003)*
- *Reintroduce the validation of services of officials that don't hold a continuous appointment (this had been cancelled in 2013)*
- *Reintroduce the temporary retirement allowance (ITR) and its extension to all DOM-COM to compensate for the cost of living in these territories*

⁴ Parents are entitled to 4 quarters of contribution for the French pensions' scheme to balance the impact of the interruption of the working life for education responsibilities of parents. The French legislation provides 4 quarters for the mother only for children born before 2010 and can be distributed between the parents for children born from 2010.

⁵ reference to the French special scheme called "Carrière longue" that foresees the possibility for workers that started to work at an early age, under certain conditions, to retire before the legal retirement age.



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