Cour des comptes

PUBLIC ENTITIES AND POLICIES

CONTINUING PENSION SYSTEM ADAPTATIONS TO REDUCE DEFICITS AND STRENGTHEN EQUITY

STRUCTURAL ISSUES FOR FRANCE

OCTOBER 2021

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FOREWORD

This policy paper is part of a body of work intended to present, on several major public policies, the main challenges that public decision-makers will face in the coming years and the levers that could make it possible to meet those challenges. This series of publications, which runs from October to December 2021, is a follow-up on the June 2021 report submitted to the President of the Republic, entitled, *Exiting from crisis: A public finance strategy.* This summary work aims to develop, concerning a few essential structural issues, diagnostic elements resulting from previous works by the Court and avenues of action capable of consolidating long-term growth, while strengthening the equity, effectiveness, and efficiency of public policies.

The Court, in accordance with its constitutional mission of informing citizens, wished to develop a new approach, which differs from its usual work, and thus make its contribution to the public debate, through this series of deliberately very synthetic and targeted notes, while taking care to leave open the various possible avenues for reform.

This note was deliberated by the 6th chamber and approved by the Public Report and Programs Committee of the Court of Accounts.

Publications of the Court of Accounts are accessible online on the website of the Court and the regional and territorial chambers of accounts: www.ccomptes.fr.

EXECUTIVE SUMMARY

The French pension system is complex because it is made up of many schemes. Its financing is based on the principle of pay-as-you-go, according to which the youngest working generations finance, in particular through their contributions, the pensions of the older generations. Its financial balance is weakened by the ageing of the population.

In this context, the pension system has been reformed several times since 1993. These reforms have led to a sharp slowdown in the growth of its spending and have made it possible to initiate a convergence of rules between the schemes, which has yet to be completed, however. Despite this, in an international comparison, pension expenditures still represent a high share of the GDP (14.7% in 2020), the average retirement age is lower, in particular given the frequency of early retirements, and the average standard of living of retirees is high, greater than that of the population. In the absence of a new reform, deficits (€13 billion in 2020), even if out of proportion with those which were anticipated thirty years ago, would be observed at least for another ten years.

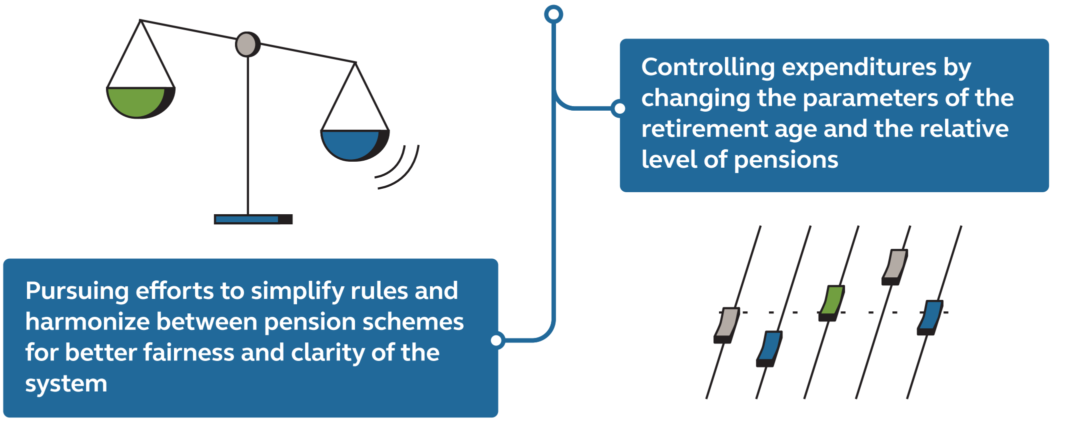
Reducing deficits requires controlling pension spending, which is part of the broader context of controlling social spending and the sustainable return of social security to financial equilibrium. To achieve this, there are many parameters (age of pension entitlement, early retirement arrangements, conditions for full pension, pension indexing, etc.) but, ultimately, controlling retirement expenditure requires pushing back retirement ages or reducing the relative level of pensions. The measures should take into account considerations of equity between generations and within each generation, while aiming to simplify the rules and harmonize them between the schemes.

Key figures

- Pension expenditures in 2020: **€338bn**, i.e., **14.7%** of GDP
- Number of working people to one retiree with a direct entitlement: **2.1** In the early 2000's, **1.7** currently, **1.5** in 2040
- Average standard of living of retirees compared to that of the general population: **103%** in 2018
- Early retirement arrangements: **nearly 1 in 2**
- Average retirement age: **63.3 years old** in the European Union in 2017, versus **61.9 years old in France** (with strong disparities between schemes, the average age in certain special schemes still being **57 years old or younger**)
- Pension system deficit in 2020: **€13bn**

CONTINUING TO ADAPT THE PENSION SYSTEM

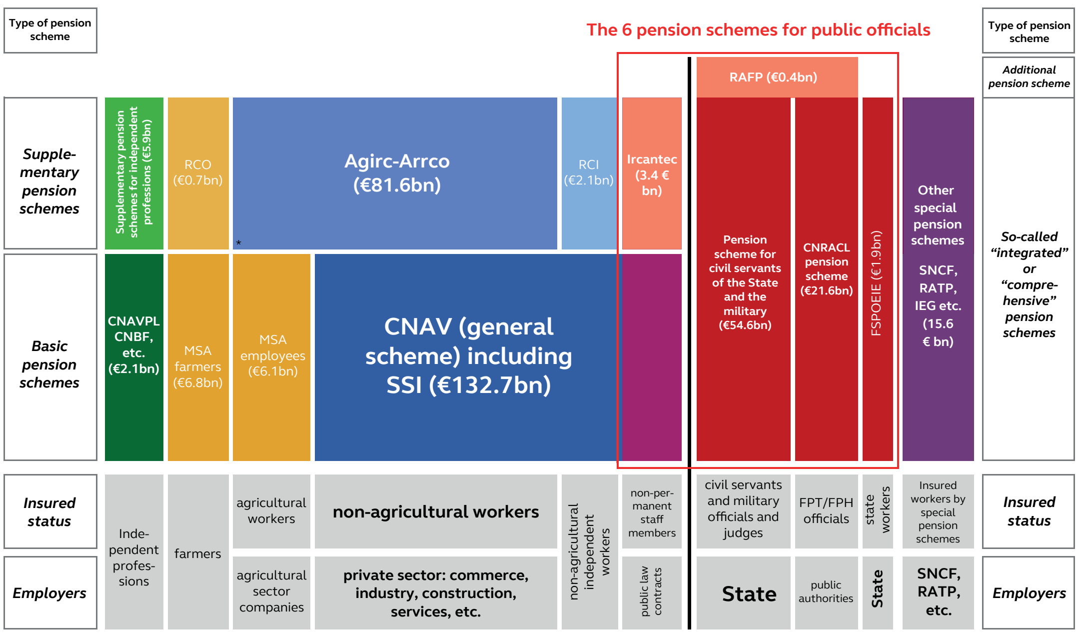
TO REDUCE DEFICITS AND STRENGTHEN EQUITY



INTRODUCTION

As the Court recalled in its report, *A public finance strategy for exiting the crisis* last June, the French pension system is complex because it is composed of a great diversity of organizations: basic compulsory schemes, managed by the State in consultation with the social partners (organizations representing employees and employers), and additional compulsory schemes, under the sole responsibility of the social partners. The special schemes that remain are the heirs of schemes and institutions that pre-dated the 1945 reform, in a logic of solidarity within the same profession.

Diagram No. 1: organization of the pension system: a multitude of schemes structured by profession



Source: 2021 Finance Bill - The amounts correspond to those of the legal benefits provided by the compulsory pension schemes in 2019

Compulsory retirement expenditures represented €338 billion in 2020, or 14.7% of GDP. Their financing is essentially based on the principle of distribution - a choice that has been the basis of the French pension system since 1945: contributions from active workers are used immediately to pay pensions, while giving them entitlements for their future retirement. The share of funded schemes out of all pension expenditures remains very marginal. In addition to compulsory retirement expenditures, the benefits paid under the supplementary retirement (or retirement savings) contract represented only €6.9 billion in 2019. This choice of mainly pay-as-you-go financing, which is based on trust and solidarity between generations, is at the heart of our social pact. The youngest agree to finance the retirement of the elderly, anticipating that the generations which will succeed them will do the same for them.

In order to last, this system assumes that its financial equilibrium is guaranteed over the long term. This equilibrium depends on fundamental economic and social data: demographics (fertility, mortality and migratory balance on which the ratio of active/retirees depends) but also economic activity (growth, unemployment, etc.).

To consolidate pay-as-you-go financing, the French pension system has been reformed several times over the past thirty years. Successive reforms have contributed to sharply slowing the growth in spending, and their effects will continue to unfold over the next decades. However, the persistence of deficits, currently accentuated by the health crisis, raises the question of new adjustment measures.

These developments could follow on from past reforms and concern the parameters of the system, or be part of a structural reform, such as that specified in the universal pension system bill.

1 - THE PENSION SYSTEM HAS BEEN REFORMED SEVERAL TIMES, MAKING IT POSSIBLE TO CONTROL ITS EXPENDITURES AND MAKE IT FINANCIALLY SUSTAINABLE

A - A succession of reforms and adaptations since 1993

The ageing of the population undermines the balance of the pension system. The demographic ratio of 20-59 year-olds to 60 year-olds and over has fallen from 3 in 1960 to 2.8 in 1990, then to 1.9 in 2020. This decline accelerated from 2006 with the of *baby boom* generations born after 1946 beginning to turn 60. It is also explained by the continuous increase in life expectancy, particularly in life expectancy at age 60 which rose, between 2000 and 2020, from 25.6 to 27.3 years for women and from 20.4 to 22.7 years for men.

In twenty years (1993-2014), to cope in particular with the ageing of the population, the pension system has undergone five major reforms affecting basic pensions. These are referred to as "parametric" reforms, because they have modified the operating parameters of the system (contribution rate, duration, retirement ages, etc.) without calling into question its logic or its structure. In addition to measures to increase contributions, these reforms have mainly led to a review of the pension calculation rules.

Table 1: Reforms of basic pension parameters since 1993

1993	Basic pension schemes for employees and non-employees in the private sector, including the general scheme	• Confirmed indexing of pensions - as well as wages taken into account for the pension calculation - to prices. • Increase from 10 to 25 for the number of best years taken into account for the reference wage (generations 1933 to 1948). • Extension of the insurance period required for the full rate from 150 to 160 quarters (1933 to 1944 generations).
2003	All basic pension schemes, including those of the civil service, but excluding other special pension schemes	• Extending the indexing of pensions to prices to civil service pension schemes. • Extending the insurance period for civil servants, to align it with that of the general scheme from the 1948 generation. • Continued lengthening of the insurance period for all pension schemes from 160 to 164 quarters (1948 to 1952 generations), then according to the gains in life expectancy (up to the 1960 generation). • Gradual introduction of a discount/premium system harmonized between all the pension schemes, which reduces or increases the amount of the pension when the duration is shorter or longer than that required for the full rate. • Creation of an early retirement system for long careers.
2008	Certain special pension schemes	• Extending the 2003 provisions to other special pension schemes (SNCF, RATP, electricity and gas industries, etc.) according to a staggered schedule.
2010	All basic pension schemes	• Two-year increase in the legal retirement ages, from 60 to 62 for the minimum age and from 65 to 67 for the age for cancelling the discount (1950 to 1955 generations). • Confirming the extension of the insurance period introduced in 2003 up to the 1960 generation.
2014	All basic pension schemes	• Insurance period increased to 172 quarters from the 1973 generation, at the rate of one quarter every three generations. • Creation of an early retirement arrangement in respect of the arduous nature of the work under the general scheme.

Supplementary schemes have also been adapted.

All the age and insurance period measurements mentioned in the table above have been transposed to the compulsory supplementary schemes. The social partners, managers of the supplementary scheme for private sector employees (Agirc and Arrco, merged in 2019), signed around ten agreements since 1993, which have led to each euro contributed to these schemes creating less entitlement to retirement benefits than in the past, in order to maintain Agirc-Arrco's solvency over the long term.

The latest agreements of 2015, 2017 and 2019 were particularly innovative: for the first time, the social partners have chosen to act on the retirement age, by de facto postponing the permissible age by one year to benefit from a full-rate supplementary pension (since 2019, the supplementary pension has thus been reduced by the application of a solidarity coefficient of 10% for 3 years within the limit of the age of 67 years, if the insured persons collect their pensions at full rate, unless they delay their retirement by one year). On the other hand, they adopted prudential regulations under the terms of which the financial reserves of the Agirc-Arrco scheme must not be less than six months of benefits within 15 years and pensions must evolve in line with wages, possibly minus a "sustainability factor" to take into account the economic situation as well as demographic trends.

The **convergence of special schemes**, including that of the civil service, with the general scheme is **largely started**, even if specificities persist, in particular in terms of retirement age, reference salary for calculating the pension, solidarity measures linked to children and reversion in the event of widow/widowerhood.

B - A significant reduction in expenditures compared to the level that would have been reached without reform

According to INSEE, without the basic pension reforms that have taken place since 1993 and the switch to price indexing, pension expenditures in relation to GDP would have represented 17.6% in 2020 and more than 19% in 2030, so that they are now limited to less than 14%, excluding the current effects linked to the health crisis.

The most significant savings result from the move to indexing to inflation and no longer on the increase in wages, for retirement pensions as well as for wages taken into account for the pension calculation. In a period when inflation was lastingly lower than the rise in wages, this measure, initiated in 1987, made possible savings of around €40 billion on annual pension expenditures currently paid and has, thus, allowed the sustainable maintenance of the system. According to INSEE, this measure alone may have saved 1.8 percentage points of GDP in 2020, against 2.3 percentage points for all the other reform measures taken since 1993. In 2030, it may even lead to savings at least equal to those resulting from all the other measures (around 2.7 percentage points of GDP). The magnitude of these savings depends on the growth differential between wages and prices. Indexing to prices makes pension expenditures relative to GDP sensitive to the growth rate of the economy: the stronger the growth, the more wages increase in relation to prices, which helps to curb pension expenditures as a share of GDP; conversely, the weaker the growth, the more pension expenditures as a share of GDP increase. Indexing to wage growth, corrected for a sustainability factor, like the principle retained for Agirc-Arrco, would avoid this strong dependence on growth while containing the increase in pensions.

With regard to the extension of the period required for the full rate (insurance period), the increase in the allowable savings is very gradual. According to the Ministry of Health's Directorate of Research, Study, Evaluation, and Statistics (DREES), if the roll-out of this extension for the assets concerned between 2020 and 2035 (following the 2014 reform) would reduce the mass of pensions by €5.5bn in 2030 and €10.2bn in 2040.

Conversely, the effects of the reduction in the legal retirement ages decided in 2010 were more immediate: again according to DREES, they would result in savings of €18.9 billion in 2020. But, by 2040, the savings would only be €12.2 billion, which is the same as lengthening the insurance period. Lowering the legal ages would thus contribute to expenditure savings linked to reforms since 2010 to the tune of 80% in 2020, but only one third in 2040.

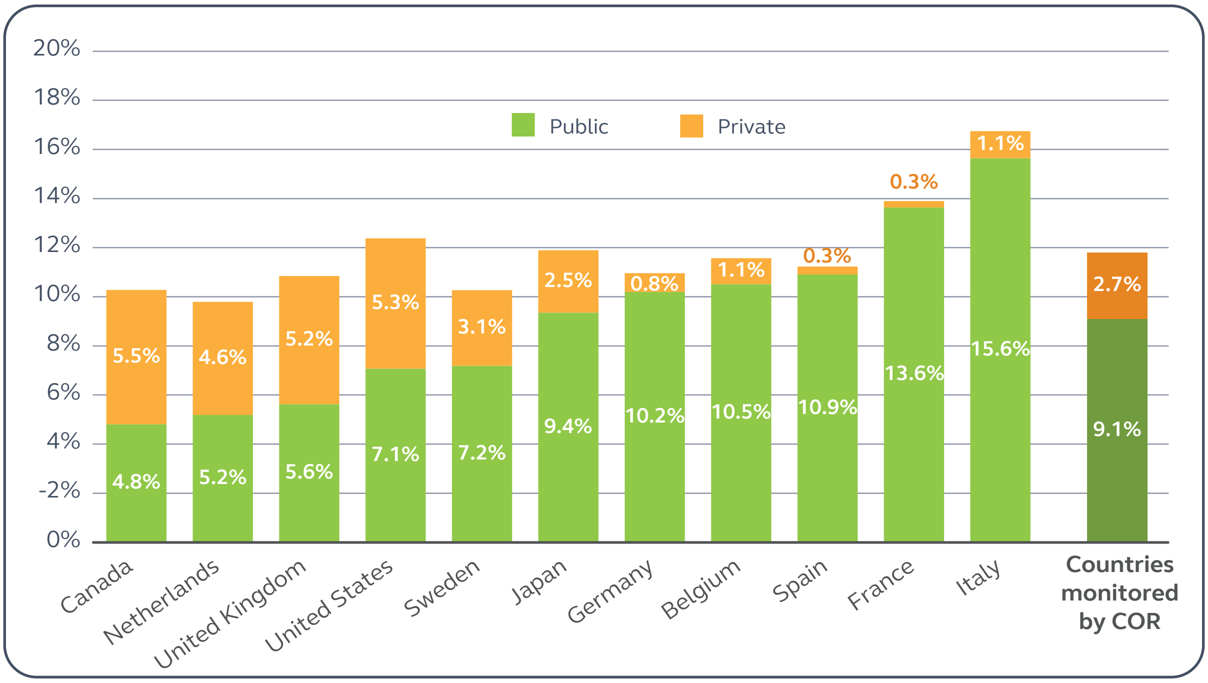
For the supplementary schemes, the savings linked to the Agirc-Arcco agreements since 2011 would represent €5.2 billion in 2020, which is in addition to those resulting from the reforms of the base pension schemes.

Pushing back the retirement age, however, leads to an increase in other social expenditures, for example for unemployment or disability

With the raising of the legal minimum retirement age, people who cannot extend their employment are added to the recipients of such social benefits, and the people affected by these allowances remain beneficiaries for longer. However, this deferral to social expenditures is not taken into account in previous evaluations. The expenditures incurred however reduce the amount savings achieved or expected. Thus, raising of the legal minimum age from 60 to 62 years would have caused in 2017, at the end of its increase in costs, of the order of €3 billion in additional social expenditure (including approximately €800 million for insurance). Unemployment, €700 million for social minima and €1.2 to €1.5 billion in disability expenses, or around 20% of the gain made that year on retirement expenses.

Finally, despite these reforms - which severely limited their growth - the share of pension spending to GDP remains high in France compared to other OECD countries.

Graph No. 1: share of pension expenditures to GDP in 2017



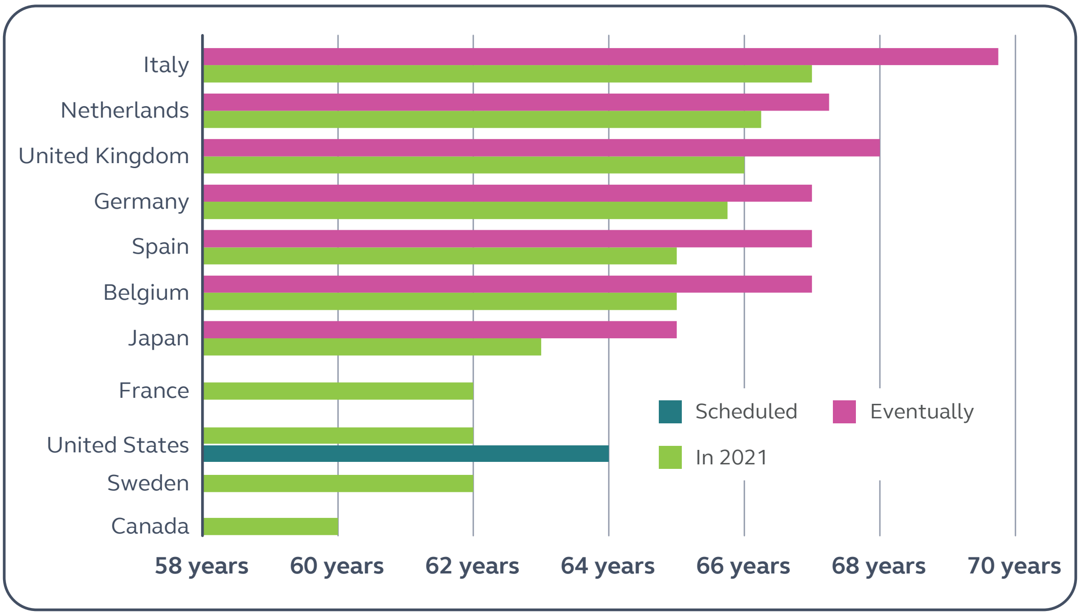
Interpretation: in 2017, pension spending (public and private) represented 10.3% of GDP in Canada, including 4.8% of GDP for public pension spending and 5.5% for private pension spending.

Note: Countries are ranked in ascending order of the share of public pension expenditures to GDP in 2017.

Source: Panorama of pension systems in France and abroad, 15th report of the Pension Orientation Council, December 2020

Also by comparison with other OECD countries, the retirement ages observed, as well as the legal ages of entitlement, are on average lower.

Graph No. 2: Ages for opening pension entitlements as at 1st January 2021 and eventually



Source: Annex of the 2021 Finance Bill on public service pensions and data in 2020

The relatively high level of pensions contribute to the fact that the average standard of living of retirees today is higher than that of the general population. In 2018, the average standard of living of retirees was 2.9% higher than that of the general population. That difference is as high as 9.1% if we take into account the fact that retirees more often own their homes. Among the eleven developed countries monitored by the Pension Orientation Council (COR), it is in France, where it reached 103.2% in 2016, that the average standard of living of people over 65 compared to that of the population as a whole is the highest. This ratio is also very close to 100% in Italy, but around 85% in the United Kingdom, Sweden and the Netherlands, 90% in Germany and 95% in the United States and Spain. The trade-off for the indexing measures mentioned above is a relatively slower increase in the resources of retirees compared to those of active workers. However, this effect is gradual and is not yet fully visible.

Finally, the poverty rate of retirees is much lower than that of the population as a whole (8.7%, against 14.8% in 2018). It is also lower than the poverty rate for retirees in other developed countries monitored by the COR, with the exception of the Netherlands.

Unevenly distributed efforts: all in all, despite the solidarity and equity measures that accompanied them, the reforms, through general measures, would weigh more heavily on those insured with low wages or having left employment early. For example, for the 1980 cohort, the cumulative pension loss linked to the reforms since 2010 would be more than 10% for those insured outside the labour market from the age of 50, against 3.4% for those with high salaries. In particular, such pension holders have been more strongly affected by the raise in legal ages, especially the raised age for cancelling the discount from ages 65 to 67, which concerns them more because of shorter careers. In addition, the redistributions conducted solely by the rules for calculating pensions, without taking into account explicit solidarity measures (minimum pensions, family pension entitlements, etc.), overall increase inequalities to the detriment of pension holders with a short career, therefore pension holders with lower wages and women in particular. These redistributions are linked to several factors: non-linearity of the period calculation validated in the basic annuity schemes, calculation over only part of the career of the reference earned income in such schemes, dependence on discounts and premiums on both the retirement age and the insurance period for all schemes, superimposition of basic and supplementary schemes, or differences in rules between schemes.

2 - A SYSTEM MARKED BY VERY NUMEROUS AND COSTLY EARLY RETIREMENTS, BY CALCULATION RULES WHICH HAVE BECOME MORE COMPLEX AND WHICH STILL PRESENT CERTAIN DISPARITIES DEPENDING ON THE SCHEME

A - Trade-offs for reforms, particularly in terms of early retirement, the cost of which is considerable

The reforms occurring since 2003 provided for specific solidarity and equity measures intended to limit the unfavourable effects on certain categories of contributors. Thus, exemptions concerning the legal minimum retirement age have been introduced for long careers (from 2003) and arduous work (2010, 2014). Measures have also been taken in favour of women and small pensions (such as the increase in the minimum contribution for the quarters paid in 004 or the reduction in the salary necessary to validate a quarter in the general scheme from 200 to 150 minimum wage hours, allowing a third-time employee paid the minimum wage to validate four quarters per year in 2014).

Early retirement arrangements are the cause of nearly one in two retirements. These exemptions, which concerned around 400,000 new retirees in 2017, have a high cost for the community (around €14 billion in 2016). For the measures provided for by the 2014 reform alone, the cost would be €0.7bn in 2020, €2.7bn in 2030 and €4.1bn in 2040, according to the estimates of the impact study conducted for the bill.

Early retirement for long careers

Among the measures derogating from the legal minimum age, the most significant today is the so-called long careers arrangement, which is open to all and whose associated costs are significant (€6.1 billion in 2016). The flow of early retirements for long careers reached a high point in 2017. The gradual increase in the length of insurance period required to benefit from the full rate and later entries into the labour market have resulted in a reduction in the number of early retirements under this system since 2018. This reduction is nevertheless very gradual since, according to CNAV projections, it is only in the mid-2030s that early retirements for a long career would return to their 2009 level.

Others early retirement arrangements are specific to certain sectors: employees in the private sector may benefit, due to the arduous nature of their work, from an early retirement by up to two years; some civil servants occupy "active" job categories presenting "*a particular risk or exceptional fatigue*", which allows an early retirement by five years (professional firefighters, nursing assistants, etc.) or even ten years (police officers, sewer workers, etc.) compared to the "sedentary" categories. These reasons for early retirement exist in the other special schemes, in particular at SNCF, where they are generalized, and at RATP, where the possibilities of ten years' early retirement are frequent. Thus, the average retirement age in 2019 was around 63 years for sedentary civil servants and employees in the private sector, around 59 years for civil servants in the active category, around 57 years at SNCF and around 56 years at RATP.

These measures, known as "age measures", contribute to the fact that the average retirement age is lower in France than in most other countries. The European Commission estimates this average age at 61.9 years in 2017, compared to 63.3 years across the European Union (including 64.3 years in Germany, 64.4 years in the United Kingdom and 65.3 years in Sweden).

All in all, the reforms have made it possible to contain the fall in the number of working people compared to the number of retirees with direct entitlement (therefore excluding retirees only benefiting from a survivor's pension), without halting it, however. The number of working people to one retiree with direct entitlements has gone from 2.1 at the start of the 2000s to 1.7 today, and would only be 1.5 in 2040.

B - A convergence between special schemes and general scheme initiated but incomplete

The reforms, since the reform of 2003, have reduced the inequalities of treatment between insured persons under different schemes and have very significantly brought the parameters of the general scheme and most of the special schemes closer together, starting with those of the civil service. The main measures of the 2010 and 2014 reforms have indeed concerned all the schemes, but based on the staggered application timetables for special schemes other than those for the civil service.

Civil service pensions: rules now partly aligned with those of the general scheme

The 2003 reform converged the insurance period required for the full rate of civil servants towards that of private sector employees and extended to civil servants the principle of revaluation of pensions based on prices. It generalized and harmonized the discount and premium system between civil servants and private sector employees, with a convergence period of nearly 20 years for the discount. Following the 2010 reform, the convergence also focused on aligning the contribution rates of pension holders, with implementation over a ten-year period.

The other special schemes, in particular those of the RATP, the SNCF and the electricity and gas industries (IEG), began to be reformed from 2008. These reforms were acquired at the cost of a significant spread of their effects over time and of generous support to guarantee their social acceptability. All the reforms thus entered into force with a significant delay compared to the other schemes, of 4.5 years for the 2008 reform relating to the insurance period in relation to the civil service and 14.5 years in relation to the general scheme. The two-year increase in the legal retirement age decided in 2010 will not be fully effective until 2024, against 2017 for the other schemes; the new extension of insurance periods provided for by the 2014 reform has also been postponed to take into account the timetable for the 2008 and 2010 reforms.

Certain differences and peculiarities remain, depending on the specificities of the schemes concerned. Among the rules that are still different between the private and public sectors, in particular we find that of the reference salary (the 25 best annual salaries in the general scheme, compensation excluding bonuses for the last six months in the civil service), the definition of the contribution base (the full salary under the general scheme, compensation excluding bonuses in the civil service) and the possibilities of early retirement, with the “active” categories, seen previously. Among the other differences, in particular are the calculation of the duration (one quarter validated for a salary of 150 minimum wage hours under the general scheme, prorated by the working time for civil servants), the distinction between basic and supplementary pensions (only in the private sector), solidarity measures linked to children (increase in the insurance period of up to one year per child for civil servants, against two years under the general scheme) and reversion in the event of widow-/widowerhood (subject to resources under the general scheme but not for civil servants).

According to the Ministry of Health’s Directorate of Research, Study, Evaluation, and Statistics (DREES), if the pension calculation rules for private sector employees were to be used for Public civil servants born in 1958, for example, their retirement age would be significantly different: 62% could benefit from the full rate at the same age, 27% later (active categories) and 11% earlier (especially women benefiting from increases in the insurance period for children). The impact on the amount of pensions would be low on average but highly variable depending on the insured.

Inequalities in pension treatment, linked to the existence of different rules, can also be observed between insured persons with an international career and those with an equivalent career in France, despite international coordination on compulsory retirement. In particular, the self-employed are often excluded from the benefit of bilateral agreements: careers carried out in more than two countries (at least one of which is outside Community regulations) do not make it possible to add up the time spent working in all countries, even when bilateral agreements with those countries exist; resumption of professional activity after one’s pension has started to be paid under the general social security scheme allows for extra pension entitlements and may result in a revised pension calculation in France, but only if the activity is resumed abroad. Such a recalculation cannot happen when the resumed professional activity takes place in France.

C - More complex rules, a source of growing difficulties

While pursuing a goal of equity, the succession of reforms has contributed to complicating the rules on retirement, which are already difficult to understand by pension holders who are frequently affiliated with several pension schemes because of their professional background. This complexity can be difficult to manage for pension schemes and can facilitate errors or the fraudulent collection of pensions. At the same time, the old age branch of the general scheme has not adopted any risk management arrangements up to the challenges, in particular to handle management interactions with other pension schemes. This situation poses in particular difficulties in the proper payment of pensions, which the Court noted, particularly for the pension minimums and for the old age minimum.

The cap since 2012 of the pension minimum paid by the general scheme, a source of complexity

Some retirees, affiliated with several basic schemes, receive pensions which can be high in total but whose portion paid under the general scheme is very low. To prevent such members from benefiting from the minimum pension paid by the general scheme (entitled "contribution minimum" or MICO), which may increase the amount of the general scheme pension when it is low, the legislator has provided that from 2012, the MICO was not to be paid in full since it raised the sum of the retirement pensions received above a certain amount (under all the schemes concerned).

The introduction of this capping mechanism has made the MICO award procedure and the calculation of its amount much more complex, which depend on information from other pension schemes. Among the pensions paid in 2017, 37% were potentially eligible for the MICO before the cap was taken into account but, at the end of 2018, only 26.1% had been able to be processed and give rise to the calculation of the cap. Thus, at that date, the data relating to the other pensions of the insured - necessary for the determination of the MICO - remained unavailable for 10.9% of the pensions paid out, representing nearly 30% of potentially eligible cases, i.e., nearly 70,000 cases. Within this backlog, just over one quarter benefited from the payment as an advance of a provisional amount pending a regularization thus involving subsequent risks of undue hardship, and for the remaining three quarters, the MICO was neither calculated nor served (thus likely to lead to recalls).

Weaknesses of the internal control mechanisms of the minimum old age pension were documented by the Court in a Pension division financial statements audit, as well as in its recent report on social benefits fraud.

Fraud and errors in the payment of the old age minimum

Almost 75% of the fraud detected in the old age branch concern the old age minimum, mainly for non-compliance with the residence or resources conditions (these represent 71% of the amount of damages suffered in this respect, while fraud only concerned 3.5% of retirees with their own entitlements and 2.1% of benefit amounts in 2019).

The frequency of errors continued to increase in 2020, reaching 23.8% for the old age minimum. Thus, nearly one in four pension calculations includes at least one error, which in 75% of cases is to the detriment of retirees. This situation is partly due to the complexity of the eligibility rules, including the conditions of residence and regularity of the stay, and to the still non-dematerialized exchange of information with the applicant.

More generally, the errors of a definitive nature which affect the retirement benefits newly granted by the general scheme have continued to increase, even though the old age branch is the one whose usual functioning was the least affected by the pandemic. Thus, between 2016 and 2020, the proportion of pensioners affected by a financial error fell from 11.5% to 16.4% - which means that one in six benefits newly awarded or revised in 2020 included at least one financial error in favour of or to the detriment of the insured - and such errors represented 1.9% of the amount of the new benefits paid in 2020, compared to 0.9% four years earlier.

The errors relating to the monthly amount of retirement pensions affect the situation of the insured and the expenses of the old age branch throughout the duration of the service of such benefits. Thus, the errors that occurred in 2020, if they are not researched and corrected *a posteriori*, will have a cumulative financial impact of €1.6 billion over the entire payment period of such benefits to newly retired people (compared to €1.1 billion for errors made the previous year, in 2019).

3. THE DEFICITS FORECAST FOR THE NEXT TEN YEARS REQUIRE CONTINUED FINANCIAL EFFORTS WHILE ENSURING RESPECT FOR INTER- AND INTRA-GENERATIONAL EQUITY.

A - Without new reforms, the persistence of deficits for at least ten years

Projecting the financial situation of the pension system is a complex exercise, which is based on many assumptions: growth in economic activity, demographic trends (births, deaths and net migration), level of State intervention to subsidize the schemes, etc.

In its latest annual report, the Pension Orientation Council (COR) notes that the share of pension expenditures to GDP reached a particularly high level in 2020, at 14.7%, mainly due to the contraction of the activity, while pensions indexed to prices are insensitive to economic conditions. It predicts that this ratio should decrease from 2021 with the rebound in activity, return to a near pre-pandemic level from 2022, and then remain until 2030 at around 13.7% of GDP. Beyond that, the COR anticipates that this ratio will decrease, given the full effects of past reforms, despite the ageing of the French population (to establish this projection, in 2021 the COR revised downward the fertility hypothesis to 1.8 children per woman and no not 1.95, as well as that of life expectancy, of -1 year in 2040, for example).

In total, pension expenditures as a percentage of GDP would decline mainly due to the fall in the average pension compared to average earned income (the average pension would continue to grow in constant euros, but less quickly than the average earned income): this ratio is currently 50.1% and in 2040 it would be between 41.5% and 44%. This decline would be all the greater the stronger the growth.

However, the fall in the share of pension expenditures to GDP does not mean that there is no problem with funding pensions. Indeed, the deficit of the entire pension system widened massively and reached €13 billion in 2020 (taking into account the one-off payment of €5 billion from the Reserve Fund for pensions in the old age branch of the general scheme), i.e. 0.6% of GDP, including €3.7 billion for the old age branch of the general scheme (CNAV), €2.5 billion for the old age solidarity fund, and €5.6 billion for the supplementary schemes for private sector employees.

This sharp deterioration in the deficit is said to be essentially tied to the current situation. However, the deficits, even if they are out of proportion with those which were anticipated thirty years ago in view of past reforms, may be observed at least for another ten years.

The extent of future deficits in the pension system

Price indexing makes pension expenditure relative to GDP sensitive to the rate of growth of the economy. According to the latest COR projections, pension expenditures as a share of GDP in 2040 would thus be between 12.8%, with the highest productivity growth assumption used (1.8% per year) and 13.6% with the lowest assumption (1% per year). The financial situation of the pension scheme is closely related to the overall expected growth in GDP: the lower the growth, the more deteriorated the situation. However, it is not excluded that growth could be even lower than that envisaged by the COR in its least favourable scenario.

The deficits appearing in those pension schemes which do not benefit from balancing subsidies would remain significant over the next 25 years: from -0.2 to -0.5% of GDP per year on average from 2021 to 2045 depending on whether we use the most favourable (1.8% per year) or least favourable (1% per year) COR growth forecasts. At the same time, the state budget should be less used to continue to balance the state civil service scheme and other special schemes which benefit from a balancing subsidy. In the assumption examined by the COR, where this lower financial effort was offset by subsidies to schemes which do not currently receive any (particularly the general scheme), so that the GDP share of the State contribution to the pension system remains constant, the pension system as a whole would be close to equilibrium, with a surplus or deficit of 0.1 percentage point of GDP on average per year over the 2021-2045 period. But, even in this case, the near balance over 25 years does not exclude short-term residual deficits, reaching up to - 0.2% of GDP around 2030, before being absorbed more or less quickly.

3.2. Measures aiming at reducing the deficits, which must also take into account considerations of inter and intra-generational equity

The reduction of deficits in the pension system thus raises the question of the level of retirement expenditures, which are determined by the retirement ages and the amounts of the pension, as well as its financing, as pointed out by the Pension Monitoring Committee in its opinion of July 2021.

With regard to financing, the room for manoeuvre for further increases in contribution rates appears limited, since France already has the highest compulsory levy rate in the European Union.

Controlling retirement spending is part of the broader context of controlling social spending and the sustainable return of social security to financial equilibrium, which requires reducing the trend in social security spending, through a continuous effort, below potential growth, as the Court has regularly recalled in its annual reports on the application of social security financing laws.

New measures could make it possible to control increases in pension expenditures. There are many parameters to achieve this, whether it be the age at which pension entitlements are granted, the age conditions and insurance period for a full pension, discount and premium mechanisms, rules for calculating the pension or indexing the pensions paid. Ultimately, the control of pension expenditures would result in later retirement ages or a fall in the relative level of pensions.

Such measures must take into account considerations of equity between generations and within each generation. The possible adaptations of the pension system thus have distinct effects on current and future working and retired people, depending on their professional situation, their career profile and their wealth. A precise analysis of their impacts is necessary in order to preserve the situation of economically or socially vulnerable people.

Inter-generational equity, intra-generational equity

Inter-generational equity consists in seeking a fair distribution of the efforts that must be made by retirees on the one hand, and working people on the other. The questions that arise, for example, are the following: how far can we reduce the relative level of pensions, while preserving the lowest pensions? To what extent can we reduce the average retirement period (a period of time which, in the absence of new reforms, would tend to stagnate over generations)?

Intra-generational equity consists in seeking the fair distribution of the efforts that must be made by contributors or members of the same generation according to their sector of professional activity and their membership in a specific scheme. It involves seeking to objectively correct unfair situations. It refers, for example, to the fact that past reforms have placed more strain on people with low wages and that the current pension rules are more unfavourable to them. It also refers to unjustified differences in rules between pension schemes, for objectively comparable situations.

From this point of view, the question of the effective retirement age is inseparable from actions involving the social partners and the companies themselves, aimed at promoting the retention of employees in employment. Particular attention must be paid to early retirement mechanisms, avoiding measures that are too general in scope, and paying more attention to taking into account the arduous nature of jobs, by reviewing them and targeting them more narrowly, both in the private sector and in the civil service (active categories), as recommended by the Court during recent audits.

Regarding the relative level of pensions, it is important to take into account the diversity of situations among retirees, while preserving the lowest pensions. We also note that the average standard of living of retirees is higher than that of the general population, and that the younger generations should not benefit from this favourable situation once they retire. Under the gradual effect of past reforms, the average pension for retirees is expected to increase more slowly than average earned income, leading to a lower increase in living standards for retirees than for the general population. In the future, without further reforms, the average standard of living of retirees will once again fall below that of the general population (from 5 to 10% in 2040).

In addition, the simplification of the rules and their harmonization between schemes, whatever the modalities, which may range from the pursuit of the gradual convergence of the parameters of the different schemes to the merger of all the schemes into a unified system, remain desirable goals.

The Court's recent pension recommendations

In its 2016 report on Public service pensions, the Court highlighted various pathways for reform, which remain fully relevant: particularly, the need to maintain efforts to make calculation rules converge between the public and private sectors, the need for harmonization of family and marital retirement entitlements, and the systematic review in the event of categorical negotiation of the scope of professions falling under "active categories".

For special pension schemes of the RATP (Paris Underground), the SNCF (France Railways), and the electricity and gas industries (IEG), in 2019 the Court reiterated pathways for reform, recommending that the rules of these schemes continue to be harmonized with those of the civil service and to finance the cost of the specific entitlements of the various schemes, at least for future entitlements, through contributions from companies and employees. It indicated that, with a view to the establishment of a universal pension system, such measures would be part of a wider movement to harmonize the rules and the usefulness of their implementation would be linked to the length of the transition period to the new system.

Among the specific entitlements of special schemes, including those of the civil service, are the possibilities of early retirement, which has become the majority. In 2019, when examining the various arrangements that allow derogations from the legal retirement age, the Court recommended, in addition to re-examining the scope of professions falling under the active categories and, within those professions, the positions that entitle employees to early retirements (due to arduousness), stabilization of access to the so-called "long career" system - the successive extensions of which have made it the most frequent early retirement method today.

More generally, in its June 2021 report entitled, *Exiting from Crisis: A public finance strategy*, the Court recommends continuing to adapt pension schemes in order to control the rise in expenditures and to improve its equity. It emphasizes that a resumption of the pension system reform or an adjustment of the parameters of entitlement or pension calculation would require enhanced expertise to help reach a common understanding of the issues at stake, an in-depth and broad consultation of stakeholders, and an implementation schedule that is sufficiently spread out to facilitate acceptance and allow private employers to make the necessary changes.

REFERENCES TO THE WORK OF THE COURT OF ACCOUNTS

The Court has carried out a great deal of work in recent years on which it has drawn, in particular the following publications:

- *The old age minimum and the back-to-school allowance: a strong contribution to poverty reduction, contrasting management performance (Le minimum vieillesse et l'allocation de rentrée scolaire : une contribution forte à la réduction de la pauvreté, des performances de gestion contrastées),* Report on the application of social security financing laws (Ralfss) 2021, chapter X, October 2021;
- *Exiting from Crisis: A public finance strategy (Une stratégie de finances publiques pour la sortie de crise),* June 2021;
- *Report on the certification of the accounts of the general social security system, fiscal year 2020 (Rapport sur la certification des comptes du régime général de sécurité sociale, exercice 2020),* May 2021;
- *International coordination in matters of compulsory retirement, referral (La coordination internationale en matière de retraites obligatoires, référé),* March 2021;
- *The rise in expenditures on family benefits and pension insurance: reforms and important effects for the insured (L'évolution des dépenses de prestations familiales et d'assurance retraite : des réformes et des effets importants pour les assurés),* Ralfss 2020, chapter III, October 2020;
- *Minimum retirement pensions: a complex system whose logic has become uncertain (Les minima de pension de retraite : un système complexe à la logique devenue incertaine),* Ralfss 2020, chapter VII, October 2020;
- *The fight against fraud in social benefits (La lutte contre les fraudes aux prestations sociale),* communication to the Senate Social Affairs Committee, September 2020;
- *The Agirc-Arrco supplementary pension: recovery and rationalization efforts to be continued (La retraite complémentaire Agirc-Arrco : des efforts de redressement et de rationalisation à poursuivre),* annual public report 2020, volume I, chapter 4, February 2020;
- *Retiring earlier: numerous and unequally justified measures, a necessary redefinition (Partir plus tôt à la retraite : des dispositifs nombreux et inégalement justifiés, une redéfinition nécessaire),* Ralfss 2019, chapter V, October 2019;
- *End of career: a risk of precariousness for seniors excluded from the labor market, an increasing cost for solidarity (Les fins de carrière : un risque de précarité pour les séniors exclus du marché du travail, un coût croissant pour la solidarité),* referral, July 2019;
- *The special retirement schemes of the RATP, the SNCF and the electricity and gas industries (Les régimes spéciaux de retraite de la RATP, de la SNCF et des industries électriques et gazières),* communication to the Social Affairs Committee of the National Assembly, July 2019;
- *Retirement pensions for civil servants: changes to be pursued (Les pensions de retraite des fonctionnaires : des évolutions à poursuivre),* thematic public report, October 2016.

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