Pension Reform in France

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The French Pension System

- **Social Insurance Design : Bismarck**
  - Contributory system funded by SSCs
  - Mostly unfunded system

- **Non-contributory elements : Beveridge**
  - Minimum pension and family benefits
  - Funded by general taxation

- High level of spending and contributions
  - Spending : 13.8% GDP
  - Pension SSCs : \( \approx 28\% \) gross earnings
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- **Private sector: annuity scheme up to threshold**
  - Pension = 50% of average of last 25 years
  - Past earnings indexed by inflation
  - Minimum age = 62; Normal retirement age = 67
  - Years of contribution for full rate = 41/43 years
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- **Private sector complementary schemes : point-based system**
  - Pension contributions lead to points
  - Accumulated point converted into pension annuity
  - High earnings threshold (290K euros)
The French Pension System

- Public sector: annuity scheme
  - Annuity scheme based on last 6 month earnings
  - Bonuses excluded from earnings base
  - Bonuses = 25% of civil servant earnings
  - Except for teachers (10% of earnings)

- Non-contributory benefits
  - Minimum pension for full-careers at 62
  - Unemployment spells taken into account

- Children-related benefits
  - Incapacity pensions
  - Means-tested benefit above 65
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The Pitfalls of Price Indexation

- **Price indexation reduce pension liabilities**
  - Big impact of price indexation on reducing pension benefits
  - Biggest reform in terms of financial balance
  - Not very salient reform

- Large uncertainty created in long-term balance
- Large variations in financial balance for small changes in expected growth
- Large variations in effective replacement rates
- Increase anti-redistributive effects of pension formula
- Affects negatively wage earnings with career breaks (women) and less steep earnings profile (low earners)
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**Figure 1** – Projection of public pension spending in France according to long-term productivity growth (% of GDP)

Source: Conseil d'orientation des retraite, Report June 2019, Fig 2.2, p. 85.
The initial reform proposal

“*Our project is not to change this or that parameter of our pension system.*
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“Our project is not to change this or that parameter of our pension system.

It is to restore trust, (…)  
It is to clarify rules once for all, by installing a universal system, fair, transparent and sustainable (…)  
We will create a universal pension system where one euro contributed offers the same pension rights, whatever the period it was contributed, whatever the occupation or status of the person who contributed.”

Emmanuel Macron, En Marche platform
Academic/policy contributions

- Blanchet, Bozio and Rabaté (2016)
  - Simulation of structural reform: NDC, points-based or other reforms
  - Focus on long-term sustainability

- Bozio, Lallemand, Rabaté, Rain and Tô (2019)
  - Estimation of redistributive effects of change in pension formula (private sector only)
  - Using microsimulation on administrative data

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  - Simulation of demographic and economic shocks to point-based systems depending on indexation rules
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Impact on growth dependence

Figure 2 – Pension spending as a share of GDP

Source: Blanchet, Bozio and Rabaté (2016), PENSIPP 0.0.
Figure 3 – Median change in pension from current formula to incorporate the entire career indexed by wage growth

Source: Bozio, Lallemand, Rabaté, Rain and Tô (2019), IPP Briefing Note, No. 44, Fig 5.a.
Note: private sector wage earners, born in 1946, pension excluding solidarity mechanisms.
Figure 4 – Share of winners/losers in each decile of cumulative earnings

Source: Bozio, Lallemand, Rabaté, Rain and Tô (2019), IPP Briefing Note, No. 44, Fig 5.b.
Note: private sector wage earners, born in 1946, pension excluding solidarity mechanisms.
**Figure 5** – Median change in pension from current formula to incorporate the entire career indexed by wage growth

Source: Bozio, Lallemand, Rabaté, Rain and Tô (2019) IPP Briefing Note, No. 44, Fig 6.

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Recent announcement

• **Prime minister’s speech yesterday**
  • Point-based system postponed to 2037
  • Increase in NRA from 62 to 64 by 2027
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  - New age parameter in current system
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• **Point-based system**
  • New entrants from 2022 onwards
  • Progressive switch for cohorts born from 1975 onwards starting in 2025
  • First pension in new system in 2037, full phased-in by 2066-2071
Academic vs policy debate

- **Automatic rules vs discretionary rules**
  - French policymakers largely opposed to automatic rules
  - Rejection of NDC framework in favor of point-based system

- Salience does matter
  - Large literature suggesting salience does matter
  - Policymakers agree
    - Hence price indexation

- NRA: norms vs incentives
  - Recent research suggesting large impact of age reference (Behaghel and Blau, 2012; Seibold 2016)
  - Policymakers largely convinced of importance of NRA
    - But more because its short-term financial impacts
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