

France

France: Pension system in 2012

In the private sector, the pension system has two mandatory tiers: an earnings-related public pension and occupational schemes, based on a points system. The public scheme also has a without means test minimum contributory pension (*minimum contributif*). In addition there is a targeted minimum income for the elderly (*minimum vieillesse*).

Key indicators

		France	OECD
Average worker earnings (AW)	EUR	36 700	32 400
	USD	48 400	42 700
Public pension spending	% of GDP	13.7	7.8
Life expectancy	At birth	81.6	79.9
	At age 65	20.8	19.1
Population over age 65	% of working-age population	30.0	25.5

StatLink  <http://dx.doi.org/10.1787/888932908744>

Qualifying conditions

A full rate public pension requires either both a minimum contributory record (increasing from 40 years to 41.5 years) and to have reached the minimum legal pension age (increasing from 60 to 62 years) or to have reached the age of the full rate pension (increasing from 65 to 67 years). The minimum contributory period is set by law to increase in line with increases in life expectancy.

The 2010 reform plans a gradual increase of the minimum pension age from 60 to 62 by 2017, which depends of the year of birth and of the age of the full rate pension from 65 to 67, between 2016 and 2022. The minimum contributory pension (*minimum contributif*) compensates the pension's level when the retiree reaches the legal conditions of the full rate pension.

In the modelling, the main assumptions are an entry in the labour market occurs at 20 in 2012; a contribution period of 47 years is assumed. These assumptions correspond to a pension age of 67 in 2059 (five more years that the retirement age of 62).

Benefit calculation

Earnings-related

The public pension targets a replacement rate of 50% after a full career (which is increasing as described above). For each missing quarter, the pension is reduced by two means:

- The pension rate is reduced by 1.25% (or by 5% for each missing year), these rates (*décote*) concern people born from 1953.
- In addition, the pension amount is reduced *pro rata* ($0.61\% - 1/N$ – for one missing quarter – N being the number of quarters for a full career).

The earnings measure is based on a number of best years of earnings, valorised in line with price inflation. From 2008 onwards, pay is averaged over 25 years.

Because of the threshold in the number of years included in the earnings measure for calculating pension benefits and the policy of valorisation in line with prices, the replacement rate in the French public system is sensitive to the time profile of earnings throughout the worker's career. Given the baseline assumption of continuous real earnings growth of 2% over a worker's career, combined with the fact that the OECD calculations use the lifetime revalued average earnings as reference salary, the replacement rates calculated are lower than those calculated using the observed salary progression in France, where increases are actually concentrated primarily in the first half of the career.

There is a ceiling on eligible earnings, which in 2012 was EUR 36 372. This is approximately equal to average earnings on the OECD measure. Benefits in payment are indexed to prices.

Contributory minimum pension (“minimum contributif”)

There is an untargeted minimum pension in the “regime general” and in related schemes – regardless of the amount of pension received from other basic or supplementary schemes. To be eligible for this benefit, 41.5 years of contributions, or being aged 65 and over (planned to be extended to 67 from 2023) are needed (the minimum pension is pro-rated for shorter periods). In 2012, the annual amount was EUR 7 451.10. This amount is increased to EUR 8 142.01 when the pensioner has contributed at least 120 quarters. This is worth 22% of average earnings on the OECD measure. The value of the minimum pension is indexed to prices.

Mandatory occupational

The ARRCO scheme covers private and agricultural sectors employees (“non-cadres and cadres”). In addition, different rules apply to “cadres” (those in professional or managerial positions) under the AGIRC programme; the following regulations apply to non-cadres.

Although actual contributions are higher, benefits are only earned on 6% of earnings under the ceiling of the public scheme. Between one and three times the public-scheme ceiling, benefits are earned on 16% of pay. Thus, the ARRCO ceiling is three times that of the public pension scheme: EUR 109 116 (the ceiling for the AGIRC scheme for cadres is eight times that of the public pension scheme).

Each year, the number of points earned is the value of contributions divided by the cost of a pension point. At retirement, the accumulated number of points is converted into a pension benefit by multiplying them by the value of a pension point. The pension-point value was EUR 1.2135 from April 2011 to April 2012 and EUR 1.2414 from April 2012 to April 2013, giving an annual figure for calendar 2012 of EUR 1.2344. The pension-point cost was EUR 15.0528 for calendar year 2012.

Uprating of the cost and value of pension points is agreed between the social partners. The current agreement, valid until 2012, is to increase the cost of pension points in line with earnings and the value of pension points in line with at least prices. The modelling assumes that this differential uprating between the cost and value of a point will continue. Again, this policy of effective valorisation of earlier years' entitlements to prices results in lower benefits than valorisation to earnings.

It is important to note that the uprating policy for these two parameters affects both the path of pensions in payment (here termed “indexation”) and the change in value of pension entitlements between the time they were earned and the time they are withdrawn (akin to the process of “valorisation” in earnings-related schemes).

Targeted minimum pension (Allocation de solidarité aux personnes âgées, APSA)

There is a means tested minimum income benefit for people reaching pension age worth EUR 8 907.34 a year for a single person (EUR 14 181.30 for a couple) from 1 April 2011 to 1 April 2012 (respectively EUR 9 325.98 and EUR 14 479.10 from 1 April 2012 to 1 April 2013). This benefit, equivalent to 24% of average earnings on the OECD measure, is adjusted in line with prices. Full-career workers will rarely be eligible for the old-age assistance programme, since the mandatory occupational pension supplements the public pension benefit.

Variant careers

Early retirement

Early retirement, namely before the minimum legal retirement age, is allowed in the public pension scheme, for people with full contributory periods. Retirement is possible at age 56 (and eight months) for people born in 1952 who have entered the labour force before 16 and have made at least 43.5 years of effective contributions; or at 59 (and four months) for people who have entered the labour force before age 16 and have validated at least 43.5 years (with at least 42.5 years of effective contributions); or at age 60 for people who have entered the labour force before age 20 and have validated at least 43.5 years (with at least 41.5 years of effective contributions). As the models assume entry at age 20 the early retirement age is 62.

Under the occupational pension, early retirement is also possible, often subject to reductions related either to age of retirement or years of contributions or both. Retirement is possible at age 60 with a full contributory record without a reduction. With less than the full contributory record, the pension is adjusted as shown in the table with the adjustment being that which is more favourable: relating to the retirement age or to the number of missing years. For retirement five years before the full pension retirement age, for example, the pension is reduced to 78% of the full value. However, if the individual retires missing only one year of contributions, the reduction is only to 96%.

Distance to full pension age (increasing from 65 to 67)	10	9	8	7	6	5	4	3	2	1
Missing years to full contributory record						5	4	3	2	1
Coefficient	0.43	0.50	0.57	0.64	0.71	0.78	0.83	0.88	0.92	0.96

Late retirement

When people work after age the minimum legal retirement age and have reached the qualifying contributory conditions for a full pension (which is 41 years’ coverage in 2012), each additional year increases the benefit under the public scheme by 5%. For the period of deferred retirement, people continue to accumulate ARRCO points.

Work and pension receipt can be combined without limit when people have full rate pensions. If not, it is subject to some limits.

Childcare

For children born or adopted since 2010, a credit of four quarters is given to the mother for each of her children in the public scheme, whether she continued to work or not during that time. Besides, another credit is given to one of the biologic parents for four years (a quarter per year of education). Both parents can receive a 10% increase in final pension payout in the public plan if they have raised three or more children for at least nine years before age 16.

Periods out-of-work or working part time caring for a child are also credited in the public and occupational pension schemes (Assurance Vieillesse des Parents au Foyer – AVPF). Credits are awarded as if the parent had earned the minimum wage. The three-year maximum applies to the first two children: credited periods are longer for subsequent children (qualifying conditions include entitlement to family benefits and earnings conditions). This credit can be cumulated with the two years credited per child in the public scheme.

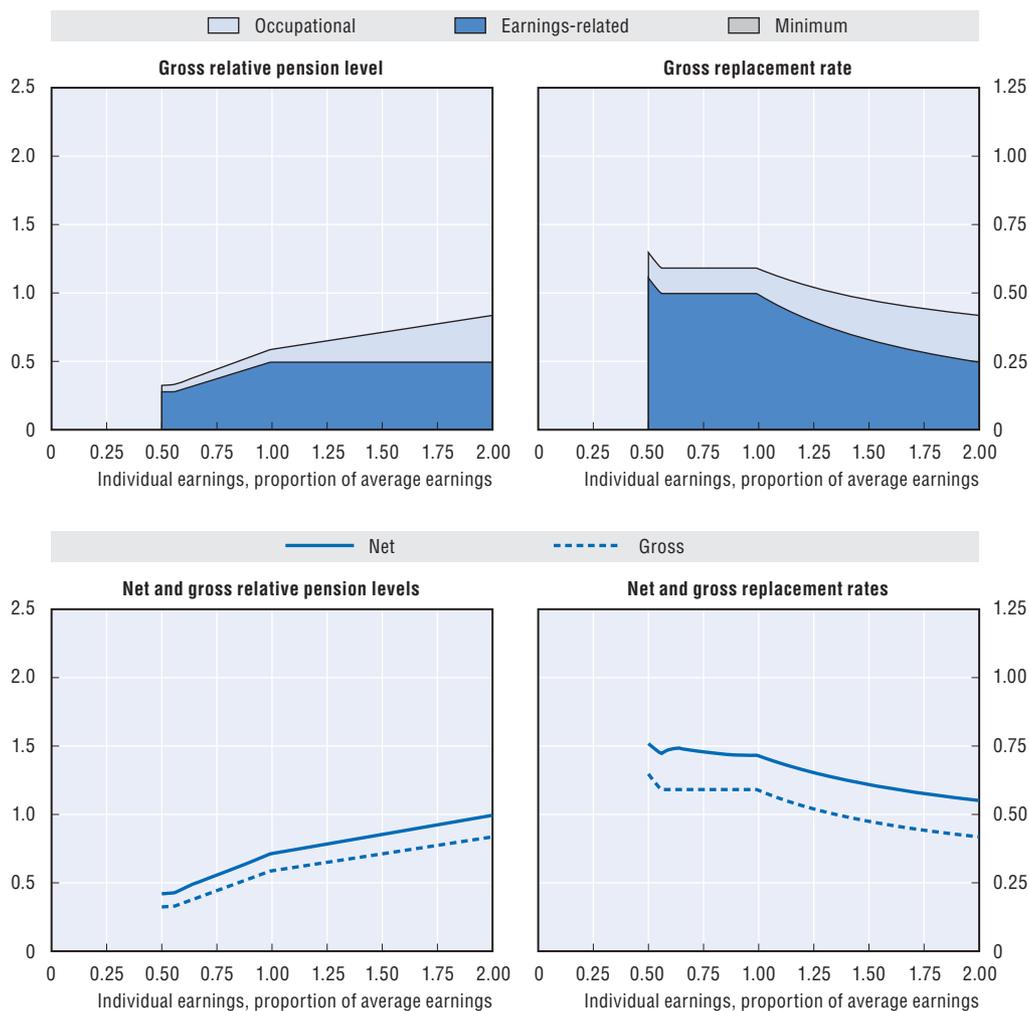
Unemployment

Each period of involuntary unemployment is credited towards the state pension, in a limit of one year when people are under 55 years old (five years at 55 and more), when unemployment benefits are not received. When unemployment benefits are received each completed 50 days attributes one quarter of contributions, with a maximum of four quarters per year. These periods do not enter into the calculation of the average reference wage (*salaire annuel moyen*) based on the 25 best years of earnings and therefore not into the pension calculation.

There is also a credit for the first period of unemployment without unemployment payments to a maximum of one year (one year and a half for unemployment periods at the beginning of the working life). Subsequent periods of involuntary unemployment without unemployment payments are credited to a maximum of one year only if this follows a period of unemployment with unemployment benefits. There is no credit for periods in receipt of social assistance (*revenu minimum d'insertion*).

In the mandatory occupational plans, periods of unemployment enable accumulation of pension points if the person had contributed to one of these plans before the beginning of unemployment. These points are calculated according to a “daily reference wage” (*salaire journalier de référence*) which is the last wage (on a year basis) divided by 365.

Pension modelling results: France



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	47.9	32.4	44.3	58.8	71.2	83.6
Net relative pension level (% net average earnings)	59.4	42.0	55.7	71.4	85.4	99.4
Gross replacement rate (% individual gross earnings)	59.1	64.8	59.1	58.8	47.5	41.8
Net replacement rate (% individual net earnings)	72.3	75.9	72.9	71.4	60.9	55.1
Gross pension wealth (multiple of individual gross earnings)	9.6	10.5	9.6	9.5	7.7	6.8
Net pension wealth (multiple of individual gross earnings)	8.5	11.4	12.5	11.4	9.2	8.1
Net pension wealth (multiple of individual net earnings)	8.5	10.2	9.7	8.6	8.3	6.6
Net pension wealth (multiple of individual gross earnings)	10.2	11.6	10.3	9.9	7.9	6.9

StatLink  <http://dx.doi.org/10.1787/888932908763>