France

France: Pension system in 2020

In the private sector, the pension system has two public mandatory tiers: a defined benefit public pension and occupational schemes, based on a points system. The defined-benefit scheme also has a means-tested minimum contributory pension (minimum contributif). In addition there is a targeted minimum income for the elderly (ASPA).

Key indicators: France

		France	OECD
Average worker earnings (AW)	EUR	38 188	34 301
	USD	43 618	39 178
Public pension spending	% of GDP	13.6	7.7
Life expectancy	at birth	82.4	80.6
	at age 65	21.3	19.7
Population over age 65	% of working- age population	37.3	30.4

Qualifying conditions

A full-rate public pension requires to fulfil either both a minimum contributory record (41.75 years for people born in 1958, who can retire at the legal age of 62 in 2020) and the minimum legal pension age (62 years for people born in 1955 or later) or to be aged at least 67 (for people born in 1955 or later). The 2010 reform planned a gradual increase of the minimum pension age from 60 to 62 and of the age of the full-rate pension from 65 to 67, depending on the year of birth.

According to the 2014 reform, the minimum contributory period is set to gradually increase from 165 quarters for people born in 1954 to 172 (43 years) for people born in 1973 or later.

The minimum contributory pension (*minimum contributif*) compensates the pension's level when the retiree reaches the legal conditions of the full-rate pension.

As the model assumes labour market entry at age 22 the long-term retirement age is 65 with 172 quarters of contribution for the public pension but it is 66 for the AGIRC-ARRCO pension. To avoid any reduction in pension the latter is used as the normal retirement age.

Benefit calculation

Earnings-related

The main public pension scheme (*regime general*) has a payment rate of 50% after a full career (the duration is increasing as described above). For each missing quarter, the pension is reduced by two means:

- the pension amount is reduced *pro rata* of the missing contributory period to reach the full contributory period (0.58% (=1/N) for one missing quarter – N being the number of quarters for a full career);
- in addition, the pension amount is reduced by 1.25% per missing quarter (or by 5% for each missing year) if the individual decides to retire before the full-rate pension age; these rates ("*décote*") concern people born from 1953 up to the limit of 25%.

The earnings reference is based on the average of the 25 best years, with past earnings valorised in line with price inflation.

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 main public pension scheme is sensitive to the time profile of earnings throughout the worker's career. There is a ceiling on eligible earnings, which in 2020 is EUR 41 136. 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. To be eligible for the full benefit, 41.75 years of contributions (for people born in 1958 who can retire at the legal age of 62 in 2020), or being aged 67 years for people born in 1955 or later are needed (the minimum pension is pro-rated for shorter periods). In 2021, the annual amount is EUR 7 746.02. This amount is increased to EUR 8 464.28 when the pensioner has worked at least 120 quarters. The sum of the minimum contributif and pensions from other basic schemes cannot exceed a monthly ceiling of EUR 1 203.35. The value of the minimum pension is indexed to price inflation.

Mandatory occupational

The Agirc-Arrco scheme covers private and agricultural sector employees. Before 2019, Arrco and Agirc were not merged: all private and agriculture sector employees contributed to Arrco (up to around EUR 120 000 of annual wage), but only executives contributed to Agirc (up to an annual wage around EUR 325 000). Since 2020, all private and agriculture sector employees contribute to Agirc-Arrco up to an annual wage around EUR 329 000.

Benefits are earned with a 6.2% contribution under the ceiling of the main public scheme (regime general) and 17%, between one and eight times the ceiling (EUR 329 088 in 2020).

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 is EUR 1.2714 in 2020. The pension-point cost was EUR 17.3982 for calendar year 2020.

Uprating of the cost and value of pension points is agreed between the social partners.

The modelling assumes that in the long term the pension cost is uprated with wages growth, and the point value will increase in line with prices. Exceptionally, point value has been revaluated differently in 2020 since prices growth were higher than wages growth.

Targeted minimum benefit **(Allocation de solidarité aux personnes âgées, ASPA)**

There is a means-tested minimum income benefit for people reaching 65 years old worth EUR 10 881.75 a year for a single person (EUR 16 893.94 for a couple) in 2021. Apart from the exceptional increases decided by the lawmaker in 2018, 2019 and 2020, this benefit 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 first-tier public pension.

The elderly can benefit from housing benefits ("aides au logement"). The eligibility criteria depend on the level of income, the cost of housing, the number of dependants and the place of residence.

Variant careers

Early retirement

Early retirement, namely before the minimum legal retirement age, is allowed, at age 60, in the main public pension scheme, for people with full contributory periods and who started to work before age 20.

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. 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: that related 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%. The pensioner who fulfils the conditions for early retirement without reductions in the main public pension scheme benefits also from full occupational pension.

Distance to full pension age, in years (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 the minimum legal retirement age and have reached the qualifying contributory conditions for a full pension (41.75 years for people born in 1958 who can retire at the legal age of 62 in 2020), each additional quarter subject to contributions increases the benefit under the public scheme by 1.25% (5% per year). For the period of deferred retirement, people continue to accumulate Agirc-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 defined-benefit scheme, whether she continued to work or not during that time. Besides, a credit of four other quarters is given to one of the parents (or split between the two parents) for the education of each child.

If they have raised three or more children for at least nine years before age 16, both parents can receive a 10% increase in final pension payout in the defined-benefit plan. 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. 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 (eight quarters) credited per child in the public scheme.

Unemployment

When unemployment benefits are received each completed 50 days of involuntary unemployment 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 are also credits for periods of unemployment without unemployment payments. The first period of unemployment without payment is credited up to one and a half years. Subsequent periods of involuntary unemployment without unemployment payments are credited to a maximum of one year (five years at 55 and more) if this follows a period of unemployment with unemployment benefits.

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.

Self-employed

There are many occupational schemes for the self-employed. Around the average wage, most self-employed workers pay the pension contribution rate of 24.75% compared to 27.84% paid by employees and the occupational pension entitlements are reduced proportionally. The contribution base is the income from the self-employed activity after deducting social security contributions.

Personal income tax and social security contributions

Taxation of pensioners

- People of 65 years and older benefits a special allowance on the net global income, if their income doesn't exceed a ceiling. 2020 values aren't available yet, so ceilings and allowance are here the 2019 values. People of 65 years and older benefits a special allowance on the net global income, if their income doesn't exceed a ceiling. When the net global income doesn't exceed 15 300 €, allowance is :
    - 2 442 €, for a person alone, or in a couple when only one member is older than 65 or disabled.
    - 4 884€ for a couple when both members satisfy the condition.
- When the net global income is between 15 300 € and 24 640 €, allowance is:
    - 1 221 €, for a person alone, or in a couple when only one member is older than 65 or disabled.
    - 2 442 € for a couple when both members satisfy the condition.

Taxation of pension income

As a replacement for the 10% business expenses exemption applied to the taxable income, there is a specific allowance of 10% of 2020 taxable pensions, with a minimum of EUR 394 per pensioner and a ceiling of EUR 3 858 per household. ASPA is exempted from personal income tax.

Social security contributions paid by pensioners

Older people are not liable for standard social security contributions. However, they pay the general social contribution (CSG, *contribution sociale généralisée*), the contribution to the reimbursement of social debt (CRDS, *contribution pour le remboursement de la dette sociale*), the CASA (*contribution additionnelle de solidarité pour l'autonomie*) and a social security contribution (illness) on mandatory occupational pensions. However, people with low global income are exempted from those contributions.

The CSG on pensions is progressive. There are 4 tax rates in 2020 (0%, 3.8%, 6.6% and 8.3%):

- Pensions of pension earners whose total income is below a first threshold are exempted from CSG, CRDS and CASA. This first threshold is around EUR 11 307 for a household of one person, and EUR 17 345 for a household of two person;
- Pensions of pension earners whose total income is above the first threshold but below a second one are subject to the CSG at the 3.8% rate. This second threshold is around EUR 14 782 for a household of one person, and EUR 22 674 for a household of two person;

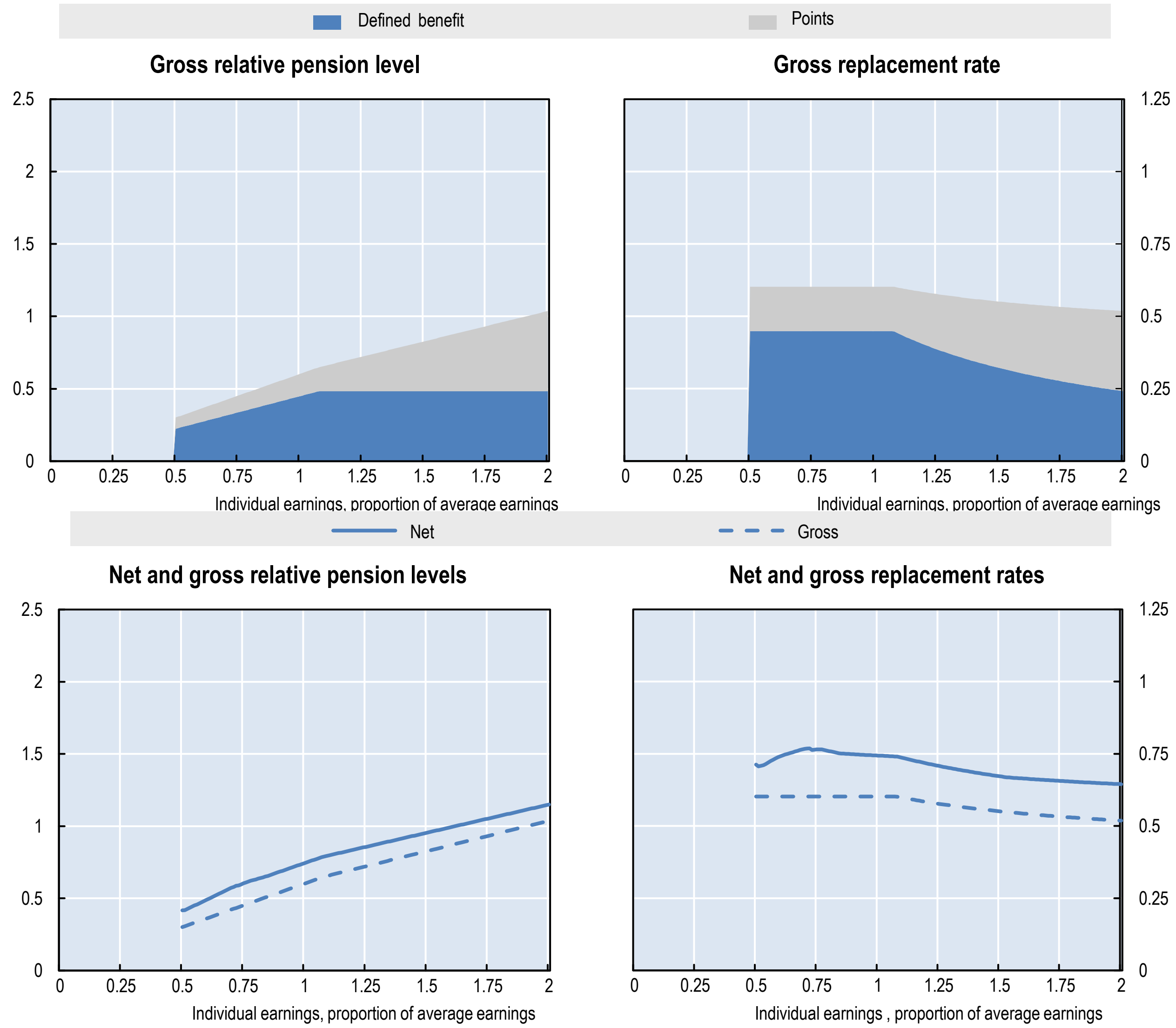
- Pensions of pension earners whose total income is above the second threshold but below a third one are subject to the CSG at the 6.6% rate. This second threshold is around EUR 22 941 for a household of one person, and EUR 35 189 for a household of two person;
- Pensions of pension earners whose total income is above the third threshold are subject to the CSG at the 8.3% rate.

Pension earners who are not exempted from the CSG are subject to the CRDS, at the 0.5% rate.

Pension earners whose CSG rate is 6.6% or 8.3% are subject to the :

- 0.3% CASA (*contribution additionnelle de solidarité pour l'autonomie*) from 1 April 2013 ;
- 1% social security contribution (illness) applies to mandatory occupational pensions.

Pension modelling results: France in 2064 retirement at age 66



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	30.1	45.2	60.2	82.7	103.7	145.8
(% average gross earnings)						
Net relative pension level	41.7	60.3	74.4	95.4	115.0	151.0
(% net average earnings)						
Gross replacement rate	60.2	60.2	60.2	55.1	51.9	48.6
(% individual gross earnings)						
Net replacement rate	71.3	76.5	74.4	67.2	64.5	61.1
(% individual net earnings)						
Gross pension wealth	11.0	11.0	11.0	10.1	9.5	8.9
(multiple of individual gross earnings)	*12.5*	*12.5*	*12.5*	*11.5*	*10.8*	*10.1*
Net pension wealth	13.0	14.0	13.6	12.3	11.8	11.2
(multiple of individual net earnings)	*14.9*	*15.9*	*15.5*	*14.0*	*13.4*	*12.7*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2020. Tax system latest available: 2020.