



Vieillesse et politiques de l'emploi

France

Ageing and Employment Policies



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EXECUTIVE SUMMARY AND RECOMMENDATIONS

The challenges of the future

France, like other OECD countries, faces the challenge of an ageing population. By 2050, the population aged over 65 could rise to 58% of the population aged 20 to 64, double the current percentage. Consequently, a massive transfer of income from the working population to retired people will be needed to meet the additional cost of pensions. Furthermore, if labour market behaviour remains unchanged, France's labour force will begin to shrink and age significantly from 2010. One person of working age in four will be over 50 in 2010, compared with one in five at the present time.

In response to this demographic challenge, France's 2003 pension reform gave priority to extending people's working lives in order to finance pensions in the long term. However, the gamble on raising employment levels among older people is not certain to pay off. At present, fewer than half of all wage-earners go straight from employment into retirement; for the rest, pathways include various early retirement schemes, unemployment or, to a lesser extent, invalidity. The average age at which workers exit the labour force is low in France in relation to other countries: 59.3 for men and 59.4 for women in the early 2000s, compared with 65.3 for men and 62.1 for women in Denmark, for example. The effective retirement age has plummeted in France over the last 40 years: at the end of the 1960s it was still around 67 for both sexes.

Employment rates for the over-50s are also low in France compared to other OECD countries, especially among less-skilled workers. In 2002, only 51% of unskilled men aged 50 to 64 in France had jobs, compared with 88% in Iceland, 80% in Switzerland and 78% in Japan.

In trying to raise employment rates among older people, the fact that overall unemployment is running at around 10% does not make the French government's task any easier. And yet past policies of squeezing older workers out of the labour

market have not created more job opportunities for other age groups. Youth unemployment, for example, has remained obstinately stuck at around 20%.

International experience shows that employment trends are similar for all age groups: countries that have managed to raise employment rates among older people have done so in a context of higher overall employment and falling unemployment. In Finland, the unemployment rate fell from 15% to 9% between 1995 and 2003, while employment in the 50-64 age bracket rose from 34% to 61%. Any policy that seeks to increase employment among older people will be more likely to succeed in a favourable economic environment conducive to a more vigorous labour market.

Recent reforms in response to these challenges

Since the mid-1990s, the French government has greatly restricted access to public-funded early retirement. In the past, these schemes were mainly targeted on manual workers in industry. Many schemes have been tightened up, causing a spectacular drop in the number of new beneficiaries from early retirement. At the same time, in the early 2000s the social partners ended the job replacement allowance, an early retirement scheme introduced in 1995, and revised aspects of the unemployment benefit system. The age of access to unemployment benefit until entitlement to a full pension was raised from 55 to 57 for jobless people with 25 years in employment.

The government has also taken action in other areas to promote employment and employability while seeking to reduce labour market “selectivity”. Measures for the over-50s have been stepped up in schemes that help jobseekers in difficulty to find employment. A law on discrimination in employment was passed in 2001, covering all stages of wage-earners’ careers, including the upper end of the age range. Mid-career training has been encouraged, while assistance in developing career and skills management has targeted small and medium-sized enterprises in particular. In 2003, the social partners concluded a multi-sector agreement on lifelong learning designed to encourage access to training. The agreement also sets priorities for workers over 45 and after 20 years in employment.

A decisive step was taken with the 2003 pension reform, which directly encourages workers to work longer by raising the contribution threshold for entitlement to a full pension and introducing a bonus system. However, the

proclaimed mobilisation in favour of a longer working life has not materialised as yet. In 2005, the government is seeking to give fresh impetus to policies promoting employment for the over-50s, through the Social Cohesion Plan, the Health-at-Work Plan and the *Contrat France 2005*. In February 2005, the social partners have also started negotiations on employment for older workers and strenuous work.

An overall strategy is needed

Alongside these initiatives, which in some cases will not start to take effect until the medium term, much still remains to be done to increase employment of older people in France. First, it is essential to change perceptions and practices with regard to age and to prepare wage-earners for the prospect of working longer. This implies a complete break with the culture of early retirement. The recommendations that follow are put forward as possible elements of an overall strategy for employment of the over-50s, with four mutually supportive main thrusts: better mobilising the players on the ground; promoting employment for older people and offering them greater choice when they take retirement; removing obstacles to continuing employment and recruitment after the age of 50; and promoting employability of workers.

Better mobilising the players on the ground

France has produced a substantial amount of high-quality research giving a detailed understanding of the ageing phenomenon and the challenge of managing a greying population. Work from the Pension Advisory Council, the Economic and Social Council and the Social Affairs Inspectorate has helped to reach a consensus with the social partners in organisations at national level that keeping older people in employment is beneficial for the community. Good practices are emerging but are still patchy. On the ground, employers are generally averse to the idea of a workforce of older people who themselves too often remain focused on the possibilities of early retirement, regarded in many cases as a right.

A national campaign is needed without delay to change the mindsets of all those involved. The campaign on age cohesion and the benefits of experience that the Labour Relations Directorate is planning to carry out in 2005 should be broad enough to reach not only employers and workers but also the general public.

Promoting employment for older people and offering them greater choice when they take retirement

The 2003 pension reform removed many barriers to continuing in employment, especially on the supply side, while preserving a strong commitment to solidarity. However, there are still many areas where work is in progress.

Older workers form a very disparate group, so a single retirement formula would not suit the wide variety of situations. The ideal solution is to offer greater individual choice as to the conditions of retirement while respecting the general principles of redistribution and actuarial neutrality and taking account of greater life expectancy.

In France, the combination of an entitlement age and a minimum contribution period for access to a full pension is an interesting way of taking account of different situations. The decision in 2003 to increase the minimum contribution period according to increased life expectancy is likely to result in a gradual rise in the effective retirement ages. The minimum entitlement age – one of the lowest in international comparisons – will probably have to be adjusted at some point in the future so as to reflect the demographic trends.

Emphasising the contribution period, as with retirement before the minimum age following a long career, is a way of reconciling the solidarity objective with that of sustainable funding. The accumulation of pension points in compulsory supplementary pension schemes satisfies similar objectives. Ensuring a high degree of solidarity with people who have had career accidents during their working life is also important. However, steps should be taken to harmonise the calculation of contribution periods (periods of non-work due to illness, invalidity, work-related accidents, maternity, unemployment, military service and war) in order to determine access to a full pension.

With the *bonus/malus* scheme, actuarial neutrality was strengthened in the 2003 pension reform. The same applies to the tightening of conditions for early retirement, which sends all the players involved a clear message of a break with the culture of early retirement. However, too many workers in public services and “special regimes” still benefit from attractive terms for taking retirement at a very early age.

Care must also be taken to ensure that other measures, like in-house early retirement programmes or exemption from looking for work, are not used or

diverted to replace public-funded early retirement. A survey in 2001 found that in firms with more than 500 employees, in-house early retirement programmes accounted for over one-third of all early exits. A specific tax on in-house early retirement was introduced in 2004 so as to make the option less attractive. Statistics on this new tax should be compiled so as to provide information about the number and characteristics of in-house early retirements and assess the measure's impact.

The exemption from looking for work is granted from the age of 57 and a half (55 under certain conditions) to unemployment benefit recipients. In November 2004, 406 000 unemployed people in France were exempt from looking for work, significantly more than the total number of public-funded early retirees. The very rapid rise in the number of jobless exempt from looking for work is a cause for concern and runs counter to the objective of raising employment rates for older people. There are also considerable differences in the financial situation of unemployed people. Some have very high unemployment benefits that they can keep between the ages of 60 and 65, at which point they become entitled to a full pension. Others have only a small, means-tested allowance. Those in precarious situations should benefit as a priority from back-to-work contracts and the help of employment services.

There are few choices for workers other than to take full retirement as soon as they reach entitlement age in the general scheme, at 56 or 60, or acquire full pension rights at 65. For workers who can retire at 56 after a long career, there is no financially attractive option for continuing to work. As they retire before the age of 60, they are not entitled to the bonus. The only possibility is to combine pension and earned income, which is subject to considerable restrictions. Attractive phased retirement programmes could also have been offered to workers in that situation. The phased early retirement scheme was abolished in January 2005 without any apparent alternative; indeed the gradual retirement system has not been revised as yet.

There are incentives for continuing to work between the ages of 60 and 65, especially before reaching the full pension entitlement. However, once that entitlement has been acquired, the possibilities for continuing to work and benefit from the bonus, especially after the age of 65, appear very limited. The compulsory retirement age was raised from 60 to 65 in 2003 but many exceptions have been granted in collective agreements, which also limit access to the bonus and run counter to the social partners' stated intentions at national level.

The following options for action are therefore recommended:

- *Continue to reduce the possibilities for early retirement.* The possibilities for public-funded early retirement have been significantly tightened. In-house early retirement schemes are also less financially attractive. Steps should be taken to monitor and assess the impact of the special tax levied on in-house early retirement programmes since 2004 to see if making them more expensive has caused a decline in this type of early exit. If it has not, steps should be taken to remove any remaining incentives for employers and older workers.
- *Reform the exemption from looking for work.* This option, available almost automatically to unemployed people after the age of 57 and a half and to many after the age of 55, has been taken up by over 400,000 beneficiaries and lends support to the idea that the labour market is closed to older workers. As in many other countries, the requirement for new jobseekers over the age of 55 to look for work should be gradually re-established, together with active placement measures for older workers (see below).
- *Adjust the retirement age according to demographic trends.* The average effective retirement age should rise gradually in parallel with the increase in contribution periods for a full pension, in line with increased life expectancy. At some point in the future, when the average effective retirement age is well over 60, the statutory minimum age and the compulsory retirement age should also be raised in line with life expectancy gains.
- *Make gradual retirement attractive and accessible to all.* Gradual retirement has been relatively unsuccessful hitherto because it was too restrictive. The 2003 reform sought to change this situation by enabling workers to draw a fraction of their pension while continuing to work. Gradual retirement should be encouraged because, unlike combining pension and earned income, it means that workers can acquire additional pension rights.
- *Promote possibilities for benefiting from the bonus.* Although the compulsory retirement age was raised from 60 to 65 in 2003, the possibilities for exceptions also increased. The government must ensure that the options for continuing to work after reaching the full pension entitlement and benefiting from the bonus are not limited on that account.

Removing obstacles to continuing employment and recruitment after the age of 50

Judged from the low employment rate for older people, employers consider that the specific difficulties of employing older wage-earners outweigh the benefits. Although corporate loyalty policies, especially relating to pay, are often based on length of service, other experience-related factors have become more important. But the high cost of older workers is often cited as one of the main reasons for their eviction from the labour market.

In France, as in Austria and Belgium, average wages rise sharply with age. This is partly because average wages in the upper age brackets are inflated because the least skilled and less paid older workers are excluded from employment at a particularly early age. The steep age profile of earnings may also be due to an implicit contract between the social partners, whereby young people are paid low initial wages in relation to their productivity, while wages exceed productivity as workers reach the end of their working life.

Research into the possible differential between wages and productivity of older workers does not give any clear answer to this question. Researchers face the twin difficulty of not only measuring productivity by age but also having their sample population restricted to the highly selective group of wage-earners who have remained in employment after the age of 50 and whose wages genuinely reflect their productivity.

Employers' attitudes to age seem paradoxical: they appreciate the contribution made by older workers while still wanting to get rid of them and not hire them. These practices, unfavourable to older workers, have developed in a context of high unemployment which still makes it easy for employers to reduce the average age of their workforce. The long-standing consensus with trade unions to give older workers early retirement under attractive conditions has been undermined recently by the government's decision to freeze most early retirement schemes. In order to cope with an ageing workforce, the social partners must now start to look at new policy options for human resource management; above all, they should not wait for labour shortages to bite before taking action.

Some firms have already come to realise the need to break with the early retirement culture. Innovative practices focus on keeping people in employment by adapting their competences to their occupations or by encouraging horizontal mobility at all ages. It is rare for workers over 50 to be hired and good practices for recruiting over-50s to high quality jobs should be more widely known.

Particular mention may be made of the opportunities for older workers in business groupings, which can help them reposition themselves in their original company or other firms and embark on expert assignments or a new career phase. The success of such practices is largely due to firms' stronger commitment to active age management, combining greater use of training, tasks and positions that are better suited to older workers and more attractive working and employment conditions.

The state, as an employer, seems at last to be addressing the challenge of an ageing public service workforce. It could give a better lead to the public sector by abolishing age limits on recruitment, doing more to encourage mid-career internal and external mobility without the need to take competitive examinations, and reviewing early retirement options for certain categories.

The Delalande contribution seems to have more indirect adverse than beneficial effects on employment of older workers. Despite many changes since it was introduced in 1987, not only does the contribution not prevent firms from laying off older workers, it actually could encourage them to do so on the grounds of serious misconduct or inaptitude, which means that they do not have to pay compensation. An evaluation of the impact of exemptions from the Delalande contribution should be carried out without delay so as to find out whether it should be abolished or reformed so as to make it a real bonus/malus scheme in which bonuses would be available only in proven cases of good practice.

The following measures are recommended:

- *Review pay scales based on age or length of service.* Insofar as the marked rise in wages according to age can at least partly explain why the least productive older workers are squeezed out of the labour force or not hired, the social partners should draw appropriate conclusions from the adverse effects on the employment of older workers of pay scales that link pay solely to age or length of service. Negotiations between the social partners on the employment of older workers should as a priority address the issue of pay scales based on skills.
- *Diffuse good practices more widely.* Some firms have introduced innovative practices for keeping their older workers in employment, though rather fewer have taken initiatives to recruit the over-50s. Employers' organisations should capitalise on practices that offer high quality jobs to older workers and circulate them more widely on the internet, as is the case in other countries.

- *Implement good practices with regard to older public sector workers.* The state, as an employer, should introduce adequately funded mechanisms to encourage internal and external mobility in mid-career in the public sector, abolish age restrictions on hiring and reconsider the very early retirement ages that exist for certain categories.
- *Abolish the Delalande contribution or make it a genuine bonus/malus system.* The in-depth review of the contribution that the French government has decided to conduct in 2005 should look at the impact of exemptions so as to find out whether it should be abolished or transformed into a genuinely effective bonus/malus system.

Promoting the employability of workers

Access to continuous training should be promoted throughout people's working lives. Access rates to training are too low in France in comparison with the countries of northern Europe. In 2003, 6% of French workers aged 25 to 64 said they had taken a training course in the last four weeks; in Finland the rate was almost three times as high. The French government and the social partners should take steps to promptly implement the provisions of the 2003 multi-sector agreement on access to lifelong training and ensure that mechanisms for regular monitoring are in place.

International comparisons also indicate that having a qualification is a decisive factor for remaining in employment. Under the 2003 multi-sector agreement, workers over 45 or with 20 years in employment have priority access to periods of professional training and validation of experience. Measures should be taken to ensure that workers are properly informed about their new rights. Another important step would be to set ambitious quantitative targets for securing recognition of acquired skills certificates and ensuring their transferability for workers over 45 whose qualification is unsuitable. The individual right to validation of experience introduced by the 2002 legislation does not yet seem to be sufficiently widely used in comparison with other OECD countries, particularly Australia.

It is extremely difficult for older jobseekers to find work. Recruitment subsidies in the private sector designed to favour the over-50s (such as *contrat initiative emploi* or *aide dégressive à l'embauche*) can help to overcome labour market selectivity but they must be evaluated. A part-time return to work coupled with preservation of some or all unemployment benefits could also be encouraged.

Employment services should implement an innovative back-to-work strategy for the over-50s, in particular to reintegrate jobseekers over 55 who would gradually no longer be exempted from looking for work. This implies that Public Employment Service (PES) advisers and future staff at the new *maisons de l'emploi* should introduce effective support measures to meet the different situations in which older jobseekers find themselves, taking account of local labour market conditions. The New Deal 50 plus scheme in the United Kingdom has demonstrated the importance of qualified and motivated advisers with more time to spend on personalised follow-up.

The government and the social partners should continue to promote health and safety at work for older workers, who tend to suffer the most serious workplace accidents, with a higher than average mortality rate. Preventive measures should also be taken. Rather than recognising a permanent right to early retirement for those in strenuous jobs, action to alleviate difficult working conditions should be taken upstream.

Further consideration should be given to conditions for the continuing employment of workers nearing the end of their career. Gradual retirement and part-time working schemes need to be better coordinated with the methods of corporate human resource management. It is a challenge that all OECD countries face. The aim is to make it easier to reduce the burden on older workers with two caveats: the cost to the community must not be excessive, and there should be no reduction in the overall effective labour supply of older workers.

Part-time work to allow for gradual retirement seems to correspond to the wishes of many older workers. One option worth exploring is for the employer or the state to assume partly pension contributions on a full-time basis for low-income workers who want to switch to part-time.

The following action should be taken:

- *Emphasise professional training for all workers.* Access rates for all workers to continuous professional training need to be improved as a matter of urgency. Firms should implement the provisions of the 2003 multi-sector agreement and the 2004 legislation more rapidly.
- *Establish quantitative monitoring of training objectives for workers over 45.* Ambitious targets for workers over 45 with unsuitable qualifications

have been set in terms of access to periods of re-skilling and validation of experience. Achievement of these targets should be monitored.

- *Step up PES initiatives to help jobseekers over 50 back into work.* Employment services and the future *maisons de l'emploi* should develop an innovative strategy for getting the over-50s back into employment, focusing on job-search assistance, skill assessment and recruitment subsidies in the private sector, taking account of local labour market conditions. Part-time work with the maintenance of some or all unemployment benefits should also be encouraged.
- *Improve working conditions for all.* Giving all workers better conditions throughout their working lives is a measure with lasting benefits: work is less strenuous and early retirement less frequent. Negotiations between the social partners on strenuous work should start from the position of taking remedial action to alleviate strenuous working conditions, giving no encouragement to early retirement.
- *Support financially the switch to part-time work, though only for older workers on low incomes.* A switch to part-time work to enable gradual retirement seems to correspond to the wishes of many older workers. Schemes whereby the employer or the state assumes partly pension contributions on a full-time basis should be restricted to low-income older workers.

In conclusion, the large number of reports, studies and seminars on the issue of low employment among older people means that France is well ahead of most OECD countries in its diagnosis of the problem. The remedies are often clearly identified. It is now time to act, while recognising that success on the ground will depend above all on responsibility being shared between all the players concerned.