

FRANCE

France: pension system in 2008

In the private sector, the pension system has two tiers: an earnings-related public pension and mandatory 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 earnings	EUR	32 700	27 800
	USD	47 800	40 600
Public pension spending	% of GDP	12.5	7.0
Life expectancy	at birth	81.1	78.9
	at age 65	84.9	83.1
Population over age 65	% of working-age population	28.2	23.6

Qualifying conditions

A full first-stage public pension requires 40 years’ contributions since 2003, compared with 37.5 years previously. Between 2008 and 2012, this is planned to increase gradually to 41 years. After 2012, the minimum contribution period to reach a full pension is planned to increase in line with increases in life expectancy, so that the ratio of period of pension payment to the working period remains constant.

Normal pension age for the earnings-related public pension is from 60. The minimum contributory pension (“*minimum contributif*”) is paid when the retiree reaches the full contribution condition or is aged 65 and over. In the modelling, entry in the labour market occurs at 20 and a full contribution period (41 years) is assumed. These assumptions correspond to a pension age of 61.

Benefit calculation

Earnings-related

The public pension targets a replacement rate of 50% after a full career (which is 40 years’ contributions and then increased further 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 after 1952;
- in addition, the pension amount is reduced *pro rata* (0.61% - 1/164 – for one missing quarter).

The earnings measure is based on a number of best years of earnings, valorised in line with price inflation. From 2008 onwards, pay will be averaged over 25 years, whereas it is over 24 years in 2007, and was over 23 years in 2006.

Because of the limited 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 very 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 concentrated primarily in the first half of the career. The 2003 reform introduced an objective from 2008 for people with a full career on the minimum wage to receive a pension equivalent of at least 85% of the net minimum wage.

There is a ceiling on eligible earnings, which in 2008 was EUR 33 276. 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” regardless of the amount of pension received from other basic or supplementary schemes. From January to August, the annual amount was EUR 6 958.21 for those aged 65 years with at least a one-quarter registered career or EUR 7 603.41 if the recipient has at least 40 actually contributed years. From September to December 2008, the amounts were EUR 7 013.87 and EUR 7 664.23 respectively. This is worth 23.3% of average earnings on the OECD measure. To be eligible for the full benefit, 40 years (planned to be extended to 41 years in 2012) of contributions, or being aged 65 and over are needed (the minimum pension is pro-rated for shorter periods). The value of the minimum pension is indexed to prices.

Mandatory occupational

The ARRCO scheme covers the majority of private-sector employees. 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 99 828. (Note that there is no ceiling for the AGIRC scheme for cadres.)

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 1.1480 from April 2007 to April 2008 and EUR 1.1648 from April 2008, giving an annual figure for calendar 2008 of EUR 1.1606. The pension-point cost was EUR 13.9684 for calendar year 2008.

Uprating of the cost and value of pension points is agreed between the social partners. The current agreement, valid until 2008, is to increase the cost of pension points in line with earnings and the value of pension points in line with 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. At the baseline assumptions, the reduction is to 69% of the pension entitlement under earnings valorisation.

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 (“minimum vieillesse”)

There is a means tested minimum income benefit for people aged 65 worth EUR 7 537.30 a year for a single person (EUR 13 521.27 for a couple) in 2008. This benefit, equivalent to 23% 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 (“minimum vieillesse”), since the mandatory occupational pension supplements the public pension benefit.

Variant careers

Early retirement

Pre-retirement operates through a separate programme administered by the employment fund (FNE). Early retirement is possible from 57 and from 56 under certain circumstances related to working conditions. The replacement rate is around 80%. At the normal pension age (or at the age when workers become eligible for a full regular old age pension up to 65), individuals switch to the public pension. The period on FNE benefits is fully credited for the public pension.

Early retirement, namely before 60, is allowed in the public pension scheme, in the following conditions:

- at 56 for people who have entered the labour force before 16 and have validated at least 42 years, among them at least 42 years with effective contribution;
- at 58 for people who have entered the labour force before 16 and have validated at least 42 years, among them at least 41 years with effective contribution;
- at 59 for people who have entered the labour force before 17 and have validated at least 42 years, among them at least 40 years with effective contribution.

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 40 years’ coverage without a reduction. With fewer than 40 years’ coverage, 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 at age 61, for example, the pension is reduced to 83% of the full value. However, if the individual retires at 61 with 39 years’ contributions, the reduction is only to 96%, because there is only one missing year.

Retirement age	55	56	57	58	59	60	61	62	63	64
Missing years						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 60 and have reached the qualifying conditions for a full pension (which will be 41 years’ coverage), 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 subject to some limits, provided people leave their usual job.

Childcare

A mother raising a child for at least nine years (before the child reaches 16) is credited with two years’ coverage per child in the public scheme, whether she continued to work or not during that time. 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 under three 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. To qualify, parents must be entitled to family benefits and have earnings below thresholds (EUR 21 991 for the first child and EUR 5 075 more for subsequent children). This credit is cumulated with the two years credited per child in the public scheme.

Unemployment

Periods of involuntary unemployment are fully credited towards the state pension when unemployment benefits are received, including the following programmes: *allocation unique dégressive*, *allocation chômeurs âgées*, *allocation formation reclassement*, *allocation de solidarité spécifique*, *allocation spécifique d'attente* and *allocation d'insertion*. For each completed 50 days of unemployment per year, one quarter of contributions is attributed (with a maximum of 4 quarters per year). Nevertheless, these periods don't enter in the calculation of the average reference wage (*salaire annuel moyen*) based on the 25 best years of earnings and therefore in the pension calculation.

There is also a credit for the first period of unemployment without unemployment payments to a maximum of one year for the people under 55. 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” (“*salaires journalier de référence*”) which is the last wage (on a year basis) divided by 365.

Personal income tax and social security contributions

Taxation of pensioners

There are no specific deductions for older people.

Taxation of pension income

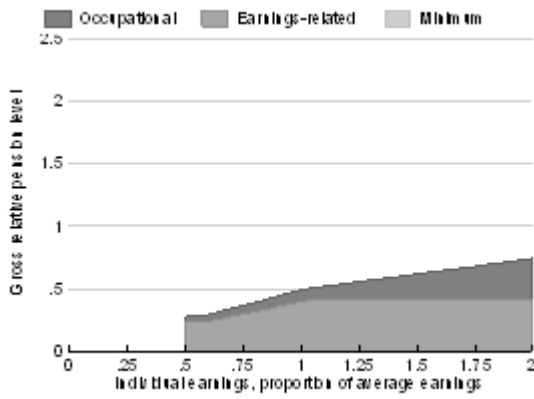
There are no special reliefs.

Social security contributions paid by pensioners

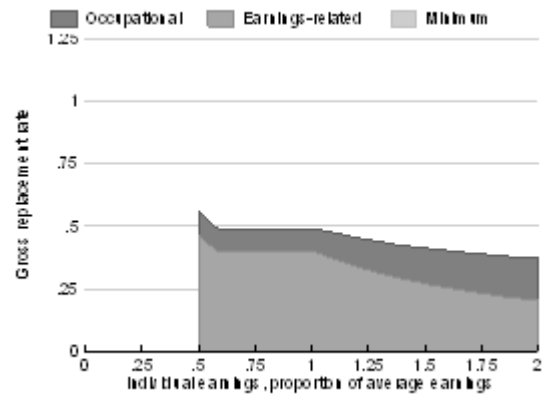
Older people are not liable for standard social security contributions. However, they pay the general social tax (CSG, *contribution sociale généralisée*) of 6.6% (4.2% is deductible and 2.4% is non-deductible). There is an exemption for the lowest-income pensioners (whose taxable income is below EUR 9 437 in 2008 – for a single person). The tax rate is 3.8% for the pensioners who pay less than EUR 61 of income tax – for a single person.

Pension modelling results: France

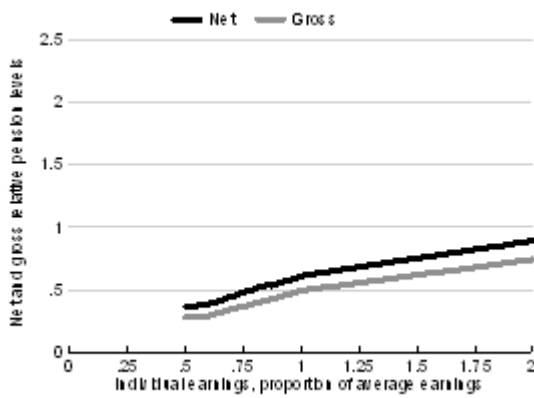
Gross relative pension level



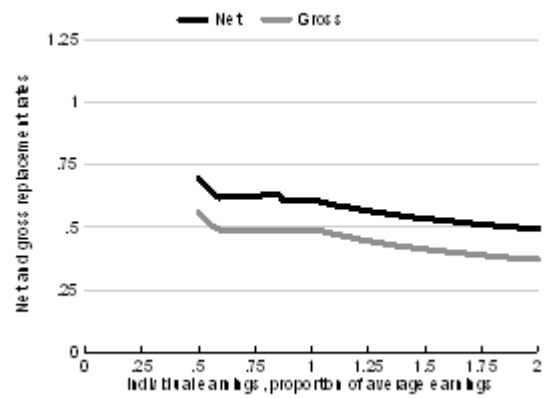
Gross replacement rate



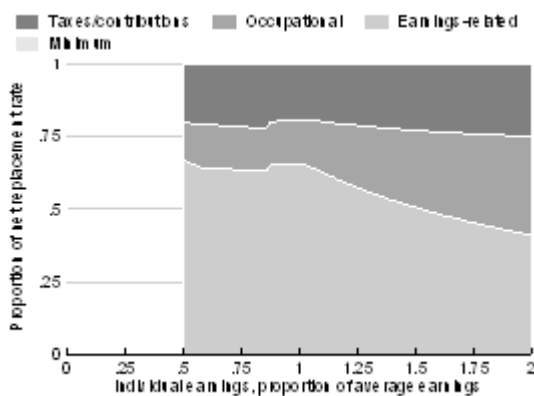
Net and gross relative pension levels



Net and gross replacement rates



Sources of net replacement rate



Taxes paid by pensioners and workers



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)	39.8	28.0	36.8	49.1	61.9	74.2
Net relative pension level (% net average earnings)	49.9	36.6	46.3	60.4	74.7	88.5
Gross replacement rate (% individual gross earnings)	49.1	55.9	49.1	49.1	41.3	37.1
Net replacement rate (% individual net earnings)	60.8	69.4	60.6	60.4	53.1	49.0
Gross pension wealth (multiple of average gross earnings)	9.3 10.6	10.6 12.1	9.3 10.6	9.3 10.6	7.9 8.9	7.1 8.0
Net pension wealth (multiple of average net earnings)	8.5 9.6	10.0 11.4	8.5 9.6	8.3 9.4	6.8 7.8	6.1 6.9