France

France: Pension system in 2016

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	38 049	34 803
	USD	40 038	36 622
Public pension spending	% of GDP	13.8	8.2
Life expectancy	at birth	82.8	80.9
	at age 65	21.6	19.7
Population over age 65	% of working- age population	33.3	27.9

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Qualifying conditions

A full-rate public pension requires to fulfil either both a minimum contributory record (41.25 years in 2016 for people born in 1954) and the minimum legal pension age (61 years and 7 months for people born in 1954) or to be aged at least 66 years and 7 months (for people born in 1954). The 2010 reform planned a gradual increase of the minimum pension age from age 60 to age 62 and of the age of the full-rate pension from age 65 to age 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 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 20 the long-term retirement age is 63 with 172 quarters of contribution for the public pension but as it is 64 for the 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 2016 was EUR 38 616. 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, 41.25 years of contributions (for people born in 1954), or being aged 66 years and 7 months and over for people born in 1954 (planned to be extended to 67 from 2022) are needed (the minimum pension is pro-rated for shorter periods). In 2016, the annual amount was EUR 7 555.44. This amount is increased to EUR 8 256 when the pensioner has contributed at least 120 quarters. The sum of the minimum contributif and pensions from other basic schemes cannot exceed an annual ceiling of EUR 13 751.4. The value of the minimum pension is indexed to price inflation.

Mandatory occupational

The ARRCO scheme covers private and agricultural sector employees (“non-cadres and cadres”). In addition, different rules apply to “cadres” (those in professional or managerial positions) under the AGIRC programme. As a consequence of the national collective agreement signed in October 2015, these two schemes are expected to merge in 2019, creating a unique mandatory occupational pension scheme for private sector's employees. The following regulations apply to “non-cadres”.

Benefits are earned with a 6.2% contribution under the ceiling of the main public scheme (regime general) and 16.2%, increasing to 17% from 2019, between one and three times this ceiling. Thus, the ARRCO ceiling is three times that of the public pension scheme: EUR 115 858 (the ceiling for the AGIRC scheme for cadres is eight times that of the main 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 1.2513 from April 2013 to October 2017. The pension-point cost was EUR 15.6556 for calendar year 2016.

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

The current agreement, valid until 2018, is to increase the cost of pension points in line with average earnings and the value of pension points in line with prices minus 1 percentage point (without being able to be negative). In October 2015, social partners agreed to apply, during three years, a temporary reduction (10%) to the value of pension points for employees retiring at the age at which they obtain the full rate in the general scheme. This reduction can be alleviated if the worker postpones his retirement.

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).

The modelling assumes that in the long term both the cost and value will increase in line with prices.

***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 9 609.6 a year for a single person (EUR 14 918.9 for a couple) since 1 April 2016. 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 (which is 41 years and 3 months’ coverage in 2016 for people born in 1954), 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 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. 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 (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.

Personal income tax and social security contributions

Taxation of pensioners

There are no specific deductions for older people.

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 2016 taxable pensions, with a minimum of EUR 379 per pensioner and a ceiling of EUR 3 715 per household.

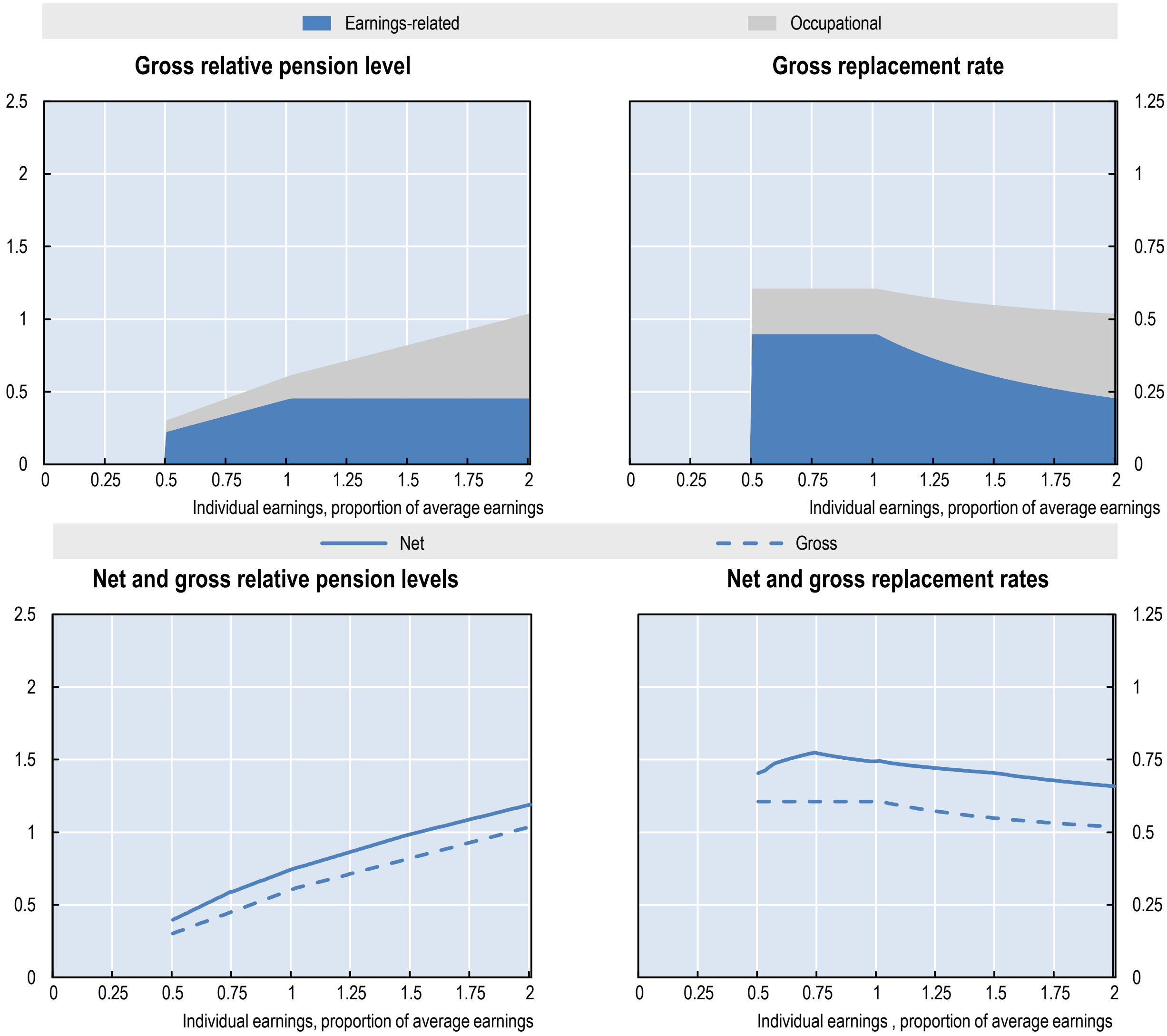
ASPA is exempted from personal income tax.

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*) at a reduced rate of 6.6% (4.2% is deductible and 2.4% is non-deductible) and the 0.5% contribution to the reimbursement of social debt (CRDS, *contribution pour le remboursement de la dette sociale*). There is an exemption from CSG and CRDS for the lowest-income pensioners (whose taxable income is below EUR 10 996 in 2017 – for a single person). The CSG rate is 3.8% (deductible) and the CRDS rate is 0.5% for the pensioners whose taxable income is above the lowest-income but below EUR 14 375 in 2017 (for a single person).

Older people are liable for the 0.3% CASA (*contribution additionnelle de solidarité pour l'autonomie*) from 1 April 2013. There is also a 1% social security contribution (illness) on mandatory occupational pensions. There is an exemption from CASA and illness contribution for pensioners whose taxable income is below EUR 14 375 in 2017 (for a single person).

Pension modelling results: France in 2060 retirement at age 64



Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	3
Gross relative pension level	30.3	45.4	60.5	82.2	103.7	146.6
(% average gross earnings)						
Net relative pension level	39.7	59.1	74.5	98.8	119.0	159.6
(% net average earnings)						
Gross replacement rate	60.5	60.5	60.5	54.8	51.8	48.9
(% individual gross earnings)						
Net replacement rate	70.4	77.1	74.5	70.3	65.8	62.2
(% individual net earnings)						
Gross pension wealth	11.8	11.8	11.8	10.7	10.1	9.5
(multiple of individual gross earnings)	*13.5*	*13.5*	*13.5*	*12.2*	*11.6*	*10.9*
Net pension wealth	13.7	15.1	14.5	13.7	12.8	12.1
(multiple of individual net earnings)	*15.7*	*17.2*	*16.6*	*15.7*	*14.7*	*13.9*

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 20 in 2016. Tax system latest available: 2015.

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