

Brief

Prepared by the General Secretariat of the Council, under the direction of the President of the COR

Summary: The French pension system jointly stems from two logics of contribution and solidarity. In particular, redistributions are made within the same generation, through solidarity mechanisms but also because of the rules for calculating pensions (brought to simplify the "core" of the system). After a reminder of the notions (contribution, redistribution and solidarity), this dossier presents the redistributions currently at work, updating the COR's past work, and raises the question of their evolution in the perspective of a universal point-based or notional account system, in which the contributory principle would prevail (each euro contributed yields the same rights to all).

I. Contribution, redistribution and solidarity

- **What is a contributory pension scheme?** A system is strictly contributory if the sums of the pensions received during retirement is proportional to the amount of the contributions paid throughout the career; in other words, if the return on contributions is the same for all the insured population ([document n° 2](#)).
- **What is a redistributive pension system?** Redistribution refers to the link between pensions and wages. A pension system operates redistributions if it deviates from the strict contributiveness or if the contribution rate varies from one affiliated to another. Redistributions can be carried out in favor of categories receiving low pensions (the system being thus redistributive) or in the opposite direction (anti-redistributive system). There is a distinction between solidarity mechanisms (credit periods, family rights, minimum pension benefits, etc.), which have an explicit redistributive objective, and the "core" of the system (rules for calculating pensions, excluding solidarity devices), which may implicitly redistribute ([document n° 2](#)).
- **Is a point-based or a notional-account system more contributory than an annuity-based system?** This question concerns the "core" of the system, as solidarity mechanisms can always be transposed in any scheme. A notional-account system is by design strictly contributory. A point-based system would be contributory with an actuarially neutral penalty/bonus related to the age at pension claiming (which is not the case in the current point-based schemes). An annuity system moves more or less away from contributivity, depending on the calculation rules used; it would be strictly contributory under some conditions that are not fulfilled in the current annuity-based schemes such as: actuarially neutral penalty/bonus with respect to pensionable age (but not insurance record), reference wage equal to average lifetime earnings as well as a constant contribution rate.
- **Is the current system redistributive?** The "core" of the system is globally anti-redistributive, because the calculation rules rather play against those with short careers. Nevertheless, the pension system is globally redistributive, because the solidarity mechanisms ultimately reduce pension inequalities ([documents n° 2 et n° 3](#)).

II. Implicit redistributions (linked to the "core" of the current system)

- **What are the redistributions induced by the 25-best-year rule for the reference wage?** Compared to a career-wide calculation, this rule generally leads to a higher reference wage, except for the 30% of employees with the lowest earnings in the middle of their career, who generally have very short insurance records ([document n° 4](#)).

- **What are the redistributions generated by the 150-hour-SMIC rule regarding the insurance record?** Compared to a calculation based on the actual length of career, this rule disadvantages insured persons with the lowest wages and those who currently validate the lowest total of quarters of contributed insurance periods, but it increases the average insurance record of the population ([document n° 5](#)).
- **Which redistributions take into account the insurance record (in addition to the retirement age) in the rate of settlement?** The current rules favor those who began their career at around the age of 20, so that they reach the full rate exactly at pensionable age, while those who started earlier are at a disadvantage by 100% pro-rating rate limit and those who started later by the penalty linked to an insufficient insurance record ([document n° 6](#)).
- **What are the redistributions generated by early retirement?** Early retirement gives an advantage in terms of insurance record to those who benefit from it, unless they live shorter lives. However, at the CNAV in 2004, beneficiaries of early retirement for lengthy career seem to have a life expectancy close to that of the insured population claiming a normal pension - contrary to disabled and ex-disabled persons whose life expectancy would be shorter ([document n° 7](#)).
- **What are the redistributions generated by the combination of the base/supplementary pensions?** Contribution ceilings, different returns and different contribution rates lead to redistributions that, overall, reduce income inequalities during retirement between former private sector employees. However, differences between managers and non-managers lead in some cases to redistributions to the detriment of the lowest pension's earners ([document n° 8](#)).

III. Explicit redistributions (linked to solidarity schemes)

- **What issues are raised by solidarity mechanisms?** These mechanisms interact with the rules for calculating pensions (best 25 years, validation of insurance credits, etc.) and their impact on the pension of their beneficiaries is highly variable, sometimes nil ([documents n° 9 et n° 10](#)). In addition, family and spouse's rights raise specific questions: the diversity of rules across schemes, the adequacy of these rights to the objectives pursued, the survivor's benefits following a divorce which depend on the marital history of the ex-spouse and pension splitting as an alternative solution, the possible extension of survivors' benefits to civil unions, etc. ([documents n° 9](#)).
- **How are the solidarity mechanisms financed?** They are financed by transfers from the FSV, CNAF or UNEDIC and by the schemes themselves. This financing has evolved according to the LFSS, without functional logics ([document n° 11](#)).
- **How to translate solidarity mechanisms into point-based or notional-accounts schemes?** The adoption of these methods of calculation would give these mechanisms at least three properties that they do not necessarily have in the current system: any entitlement granted (in points or euros) would increase the pension of their beneficiaries; the pension supplement would be the same for any insured of the same generation retiring at the same age; it would be easy to determine, at the time of the entitlement event (unemployment, birth of a child, etc.), the financial counterpart in euros or points granted on this basis, which might lead to a clearer financing. ([document n° 12](#)).

IV. Solidarity between schemes

- **What would happen to compensation transfers in a universal system?** These transfers are intended to compensate the demographical unbalances between the different pension schemes. They would no longer be justified in a system with identical rules for all schemes ([document n° 13](#)).