

Brief

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

Summary. In application of the law of January 20, 2014, the COR must publish, in June of each year, a report on the pension system based on some monitoring indicators defined by decree with regard to the objectives assigned to the pension system. This dossier proposes some further work on these indicators for the June 2018 annual report. The first part focuses on case studies of typical civil servants. These case studies are used to assess intergenerational equity. The second part looks at indicators of low pensions and accumulated balances in the pension system.

I. The COR's case studies of civil servants

- **What are the civil servants' case studies?** Four typical cases of State civil servants, single-career pensioners, are here presented by the COR. The first three cases fit to sedentary agents: case study No. 5, to a category-B agent (administrative secretaries or court clerks, excluding teachers and police officers), case study No. 6, to category-A civil servant with a low rate of bonuses ('agrégés' or 'certifiés' secondary school professors) and case No. 7, to a category-A+ civil servant with a high rate of bonuses (magistrates, civil administrators, etc.). Finally, case study No. 8 corresponds to an active category employee (national police force, assimilated to category C and B from 2006) and presents several specific features, including the possibility to retire at 52, five years of a so-called "fifth" bonus (additional annuity for every five years of service up to a limit of five) and the taking into account of a specific bonus (special hardship allowance) in the calculation of the pension (*document n° 4*).
- **How are they used?** In the COR annual reports, these case studies are used to estimate the replacement rate as a function of the age at pension claiming, for a generation close to retirement age. Case study No. 5 is also used to project changes in replacement rates over generations.
- **Why renovate them?** On one hand, the assumption of stability for the share of bonuses used so far leads to project almost stable replacement rates over the generations, which would not be true should this share tend to increase as was the case between 1988 and 2015 (*document n° 3*), except for case study No. 6 (professors). On the other hand, career-start ages are set by convention to obtain the full rate from the eligibility age, so that they decrease in the case studies over the generations, with the increase of the insurance record required for the full rate, whereas they actually increase.
- **What does this renovation consist of?** It consists, on one hand, of re-estimating the age profile of earnings and bonus shares, for the four case studies, based on past observations (*document n° 2*). On the other hand, it consists of redefining their age of entry into working life (*document n° 5*), based on the average number of quarters contributed before the age of 30 (*document n° 6*). The age of entry is thus raised by about two years between the generations born before 1950 and the generations born after the beginning of the 1970s.
- **How to build cases studies of territorial and hospital civil servants?** In addition to the case studies for State civil servants, cases for the other two layers of civil service (hospital and territorial) are described. In 2014, the Caisse des Dépôts identified five typical careers for territorial civil servants and three typical careers for hospital officials (*document n° 7*). Three case studies out of these eight careers could be selected (*document n° 7 bis*): case study No. 9 corresponding to a full-career active-category-C hospital worker (care-giver), case study No. 10

corresponding to category-C territorial sedentary employee with pensions from others schemes (territorial technical assistant) and case study No. 11, to a category-A territorial employee with a single pension (territorial attaché).

2. Deepening and improving indicators

- **What is the current indicator for tracking the purchasing power of low pensions?** The current indicator measures the ratio, by generation, between the pension below which 10% of pensioners with the lowest pensions fall and the average pension of all pensioners. This indicator is quite unusual as it mixes two indicators with different statistical properties, the average and the decile (*document n° 8*). Moreover, this indicator is calculated at an individual level and for the only pensions received, whereas standard of living indicators are more often calculated on the household level and take into account all the income received. Besides, its trends are difficult to interpret. Finally, the indicator has two important limitations in relation to the objective of monitoring and steering the pension system, which is normally the purpose of the COR's annual report. On the one hand, it does not explicitly link the objective to be steered (attention brought to the standard of living for the poorest pensioners) to the steering parameters allowing this objective to be achieved (minimum pension or minimum old age allowance). On the other hand, this indicator is difficult to calculate in the case of a simulation of new measurement and in projections. Three complementary indicators could be substituted for it: the replacement rate for the typical case of an employee having completed a full career at the minimum wage, the ratio between the amount of the ASPA and the pension entitlement of this case study, and the evolution of the inter-decile ratio D9/D1 of pensioners' standard of living.
- **What is the purpose of calculating the ratio between the pension at claiming for the SMIC case study and the ASPA amount?** This indicator gives a overran indication of the relative standard of living provided to the poorest pensioners by the pension system (contributory logic) compared to the amount of the minimum old age allowance (ASPA) which is which is based on a logic of solidarity (*document n° 9*).
- **How does it evolve?** In the ASPA is indexed to prices, the pension at claiming would be between 1.5 times (1% scenario) and 1.8 times (1.8% scenario) higher than the ASPA for the 2000 generation. In the ASPA is indexed to the average wage per capita, the pension would be higher than the ASPA until the generations born in the 1960s whose pension level is raised to the minimum contributory level, then it would become lower from of the 1969 generation (1.8% scenario) or 1980 (1.0% scenario).
- **And from the schemes point of view?** The financial sustainability of the pension system is usually assessed in a static way through the projected annual changes -assuming an unchanged legislation- in the share of expenditure, resources and the annual balance in GDP. From a long-term management perspective, it may be interesting to assess this situation dynamically by evaluating the cumulative balances up to 2070 (*document n° 10*). These balances may or may not take into account the debt accumulated by some schemes and the reserves held by others or the FRR. On an exploratory exercise, and while the reserves or debts belong to each of the schemes, the SG-COR has estimated their total amount at +4.8% of GDP at the end of 2015. The cumulative financing needs of the pension system would then be between 49% (including reserves) and 54% (excluding reserves) of GDP (scenario 1%) or surpluses between 21% and 26% of GDP (scenario 1.8 %) in 2070. Another way of assessing the financial situation of the pension system in the long term is to calculate the average financial balance over the projection period and relate it to GDP, labor income and benefits over the same period. These indicators can be used to assess the adjustments to resources or expenditure that need to be made to meet cumulative financing needs or to limit the accumulation of surpluses over a given time horizon. This approach is already presented in the annual reports of the COR on the 25-year horizon, defined as what must be retained by the Comité de suivi des retraites. *Document n° 10* proposes to extend the period to 2070.