

Brief

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

Summary: During the session of March 22, 2018, the COR addressed the redistribution mechanisms of the French pension system related to the methods of calculation of the pension, as well as those operated by the solidarity mechanisms. This dossier completes the discussion by examining more precisely the solidarity mechanisms induced by the minimum pension, the minimum old-age allowance and the ceiling on the contribution and benefit bases. In addition to presenting the measures implemented in France and abroad, the dossier questions the future of minimum pensions and ceilings in a universal pension system where "one euro contributed give the same pension credit".

I. Minimum pensions and old-age minimum allowance

- **Minimum pension and minimum old age allowance have different objectives.** In the first case, the aim is to ensure a minimum pension to members retiring at the full pension rate, but who have had a career paid at low wage levels, while in the second case the aim is to ensure that people aged 65 and over have a minimum income when they have made few -or no- contributions for their retirement. The minimum contributory pension is an individual entitlement, whereas the minimum old-age allowance is means-tested according to marital status, after taking into account pension entitlements. The former reduces inequalities in individual pensions, while the latter reduces inequalities in living standards among the elderly. The minimum old age allowance is demandable and recoverable from bequest: it falls under social assistance and not social security. ([document n° 2](#)).
- **Who are the beneficiaries of minimum pensions and minimum old age allowances?** After a sharp decrease between 1960 and the mid-2000s, the number of beneficiaries of the minimum old-age pension stabilizes to reach 552,600 people at the end of 2016. The minimum contributory pension (MICO) represents about 4.9 million pensioners from the general scheme at the same date, i.e. nearly 37% of the direct contributory right contributors. The guaranteed minimum benefit was also paid to 6% of civil service pensioners. Seventy percent of the MICO beneficiaries are women. In 2015, about a quarter of the pensions paid out under the general scheme were raised to the minimum contributory pension. Before the capping measure was introduced, the proportions of pensions brought to the minimum was close to 45%. Among recipients of an entitlement under the general scheme and recipients of the minimum old-age allowance, more than 8 out of 10 are also recipients of the MICO. Male recipients of the minimum old-age allowance differ from MICO recipients in that they enter the labor market later and have lower employment rates at all ages ([documents n° 3, 4 et 5](#)).
- **What is the difference between the pension received at the end of a low-paid career and the minimum old age allowance?** A career at the minimum wage, for a single person, results in pension levels close to the minimum old-age allowance (ASPA). For the generations born before 1946, the planned increase in the ASPA is such that, even in the case of a full career, these people will benefit from it. For the 1955 generation, if the career is not complete (less than 163 quarters), a career at the minimum wage will lead to benefit from the minimum old-age allowance ([document n° 6](#)).

II. Possible developments in minimum pensions: framework elements and international comparisons

- **What are the minimum pension arrangements abroad?** Among the countries monitored by the COR, only the United States and Germany do not have any minimum pension arrangements. In the other countries, there are one or more minimum pension arrangements, possibly supplemented by social assistance benefits. These arrangements take various forms: either a pension specific to the pension system, open only to contributors and proportional to the contribution period, like the MICO in France (Belgium, Spain, Italy); either a lump-sum pension, universal and proportional to the length of residence in the country (Canada, Netherlands, Sweden) or prorated to an insurance record (Japan and United Kingdom). The flat rate or minimum pension -depending on the countries studied- relative to average earnings varies between 33.3% in Spain and 13.5% in Canada, France being in a median position with 21.7% (it has to be noted here that the MICO only concerns the basic general scheme and not the mandatory supplementary schemes). In addition to these minimum pensions, there are arrangements to guarantee a minimum income for the elderly ([document n° 7](#)).
- **Should the minimum old-age allowance be maintained in addition to the minimum pension as part of the reform?** The two mechanisms could be kept, since the objective of the minimum old age allowance (to combat poverty among the elderly) is different from that of the minimum pension (to reduce pension inequalities linked in particular to pay differences). Yet many pensioners have small pensions without being poor, especially women in couples. In addition, a minimum pension values work unlike the minimum old-age allowance. If both arrangements were to be maintained, the minimum pension could be translated into a points-based or notional accounts system through a scheme that would guarantee a minimum pension linked to career duration. Several options can be proposed for operating this new mechanism. Nevertheless, so to simplify, a single minimum scheme could be considered, which could take the form of a degressive allowance, guaranteeing a minimum income and partially cumulated with the pension ([document n° 8](#)).

III. Contribution rates, base and ceiling

- **How are contribution rates, bases and ceilings structured in French pension schemes?** Contribution rates and bases differ depending on the status of the insured. The contribution base generally excludes all bonuses for employees in special schemes; it consists of net income (plus non-deductible CSG) for the self-employed and is based on gross wage for employees. For a number of schemes, there is a ceiling on contributions and / or benefits. The contribution ceiling can be dissociated from the ceiling for calculating entitlements by setting up an over-the-ceiling contribution; or the contribution rate actually paid by the employer and the employee may be increased in relation to rate for calculating entitlements through a call rate ([document n° 9](#)).
- **And abroad?** Three categories of countries can be distinguished, depending on the existence and relative level of the ceiling of the rights-generating base in relation to the average earnings in the economy: countries without a ceiling, in which the pension is flat-rate (the Netherlands and the UK); countries with high ceilings, above the average for all OECD countries (Italy, Japan and the United States); countries with low ceilings, close to average earnings (Germany, Spain, Belgium, Canada and Sweden) ([document n° 11](#)).
- **How to define the level of the ceiling (s) in a universal system?** The implementation of a universal system will necessarily lead to the question of the level at which the new ceiling(s) should be set. If the new system is based on a strict separation between contributory and solidarity mechanisms, the ceiling level related to the contributory core does not *a priori* influence on intragenerational redistribution: the new system will then be all the more redistributive as solidarity benefits will be financed with no ceiling, or even with progressive contribution rates ([document n° 10](#)).