

Brief

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

Summary: As stated by the law of 20 January 2014, the COR produces, each year in June, a report on pensions, based on monitoring indicators defined by decree with regard to the stated purposes. In 2014, the COR introduced additional indicators. This dossier proposes to enrich them in the context of the publication of the next report in June 2019. Three additional case studies will be presented to illustrate and characterize careers in the territorial and hospital civil service (part I). An innovative exercise will also be carried out on the life cycle of a typical family, in order to compare standard of living at retirement with standard of living during working life (Part II). Finally, the monitoring of changes in life expectancy, average standard of living and pensioner poverty among retirees will be fleshed out (part III).

I. The COR's case studies of territorial and hospital civil servants

- **What are the typical careers for local government and hospital civil servants?** Last year, the COR proposed (*document no 2*) to complete its four case studies of State civil servants (sedentary category B, secondary school teacher, senior manager A + and police officer) by three case studies representing the diversity of career paths for territorial and hospital civil servants: a territorial technical assistant (category C sedentary agent) who began his career in the private sector before entering the civil service; a territorial agent ending his career as an attaché (category A executive); a nursing assistant (active category C hospital worker) benefiting from specific rules for retirement (early retirement at age 57, increased insurance record, hardship allowance enhancing the pension). The parameters of these case studies (*documents no 3 and 4*) are detailed in the file: age of entry into working life and into civil service, remuneration at each age, including the bonus part which is an essential determinant of the replacement rate.
- **How will these case studies be used?** In the next report in June, the replacement rate will be calculated according to the chosen retirement age, for the generation reaching the eligibility age in 2019. Beyond the annual report, it will be possible to simulate or project the evolution of the pension system on case studies.

II. Design of family-based case studies over the life cycle

- **Why family-based case studies?** The usual replacement rate (pension at claiming with respect to end-of-career salary) shows that income falls when one retires. Nevertheless, the standard of living in retirement is not necessarily lower than that available during most of the working life, when children were dependent. In order to assess whether the pension system maintains the standard of living, it is necessary to reconstruct the standard of living of a typical family throughout its life cycle.
- **Which typical family to choose?** We consider the typical case of a couple with two children (the number of children may vary) whose two spouses perform the same career as non-executive in the private sector (COR's basic case study). We follow its entire life cycle, from the formation of the couple (around 20-25 years) until the death of both spouses. The age of each spouse during the successive stages of the life cycle (couple, birth of children, children's autonomy, retirement, death of the man and then of the woman) are fixed for each generation (1940 to 2000) according to the average behaviors observed (*document no 5*)

- **How does the standard of living (relative to the average wage) evolve over the life cycle?** It is highest at the end of the career, once the children have become autonomous, before falling at the time of retirement, then throughout the period of retirement: with pensions indexed to prices, the standard of living is maintained in constant euros during retirement, but it falls relative to the average wage which is increasing (under the assumption of real wage growth of 1.3% per year). The longer the retirement lasts, the lower it is at the end of life.
- **For the typical family case considered, is (or will) the standard of living (relative to the average wage) at retirement lower overall the standard of living during working life?** No, for the currently retired generations (1940 and 1950 generations). Yes, for the younger generations (1980 and later), for whom it would be about 25% lower. The retirement situation worsens over generations, as the replacement rate at pension claiming declines and the length of retirement increases. This calculation is made for a couple with two children, ignoring taxation and family benefits (*document no 6*).
- **What is the impact of the socio-fiscal system?** When family benefits and the family quotient are taken into account when calculating the income tax, the standard of living decreases in the middle of working life with the number of children, whereas during retirement the parents of three children benefit from pension supplements. Regardless of the number of children, the standard of living in retirement would be lower than that of working life for the younger generations. However, our calculations do not take into income from savings or inheritance, which is likely to underestimate the standard of living at retirement (*documents no 7 and 8*).

III – Other indicators for the annual report

- **Has there been a recent decline in life expectancy in France?** No, but its progression has slowed down since 2013, especially for women. This would thus follow the low hypothesis of the last INSEE 2013-2070 demographic projections. It seems that the decline in mortality from cardiovascular diseases is coming to an end, while cancer mortality has so far not fallen only slightly (*documents no 9 and 10*).
- **How to explain the evolution of the standard of living of retirees, compared to that of the population as a whole?** This indicator, defined by the decree of the 2014 law, progressed between 2010 and 2015. In fact, if we break down this ratio, the average standard of living of retirees has slightly decreased in constant euros (0.5% between 2010 and 2015), but less than that of the whole population (2.3%).
- **Why did the average standard of living of retirees drop between 2010 and 2015?** Over this period, pensions were roughly revalued in line with prices, and the average gross pension continued to rise with the renewal of generations (the so-called *noria* effect). The slight decline in the standard of living is attributable to income from assets, which fell with the rates of return on savings, as well as taxes and social security contributions, which increased for retirees (*document no 11*).
- **Are retirees less often poor than the rest of the population?** The income poverty rate (proportion of people living in a household with a standard of living below the poverty line) is usually tracked in the annual report. It is supplemented with the poverty rate in living conditions (proportion of households reporting through a questionnaire some financial difficulties, late payments, consumption restrictions or difficult housing conditions). Both approaches to poverty confirm that retirees or the elderly are less often poor than the rest of the population, and that the poverty rate for the over-75s fell between 2008 and 2012, partly due to the revaluation of the minimum old age allowance (*document no 12*).