CONSEIL D'ORIENTATION DES RETRAITES
Plenary session April 15, 2021 at 10:00
« Pension system indicators and preparation of the annual report »

Brief

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

Summary: Each year, the COR report presented in June is subject of preliminary discussions on the choice of certain indicators. This file is therefore devoted to the preparation of the June 2021 report. The first part aims at listing all the indicators of the retirement system presented in the main institutional publications. The second part questions the opportunity of modifying the demographic assumptions in the light of recent findings and, if necessary, of assessing, the impacts of this change on the various indicators of equity, standard of living and financial sustainability. Finally, it is proposed in the third part to add indicators of financial balances that allow an overall understanding of the net wealth of the pension system, by taking into account the evolution of assets and liabilities.

I. Three institutional reports (REPSS, Panorama Drees, COR Report) offer a wide range of indicators about the pension system that requires a vigilance with regard to the overall readability of the information provided.

- **What are the publications on pension indicators?** (*documents no 2 and 2a*) Three institutional publications display pension indicators. Each year, the DSS prepares the REPSS on pensions, based on administrative data and surveys, which has been annexed to the PLFSS since 2005.. The DREES produces an annual overview "Retirees and pensions" comprising 180 indicators mainly calculated from its Inter-scheme pensioners sample. Finally, the COR annual report "Trends and outlook for pensions in France" produces several indicators for monitoring the objectives assigned to the retirement system, computed using data from schemes and administrations.
- **Are these indicators consistent?** The three reports serve different purposes, but most of the indicators are consistent with each other. Differences in methodology, scope and data sources can, however, affect readability and overall consistency. The review work is intended to be extended by in-depth exchanges between administrations.

II. Recent demographic trends call for changes of the projection assumptions, with possible consequences for many indicators in the annual report.

- **Should the demographic projection assumptions be changed?** (*document no 3*) From 2017, the COR projections have been based on central demographic assumptions (fertility, life expectancy and migration) of the 2013-2070 INSEE projections carried out in 2016. However, recent observations of life and fertility - even before the health crisis - deviate from these assumptions, placing them more at the level of low assumptions. On the other hand, even if net migratory flows have undergone very uneven fluctuations, the average of the last 3 years finally observed is close to the central scenario. The Council therefore decided to retain the low assumptions of life expectancy and fertility for the next COR projections in June 2021, but to keep the central migration scenario.

- **What are the consequences for the COR indicators relating to equity and retirees' standard of living?** *(document no 4)* Two indicators referring to what the pension system brings to the insured will be impacted: the pension's amount (and, therefore, the standard of living) via family-linked advantages and the length of retirement which should evolve less rapidly for the younger generations. The synthetic indicators (internal rate of return, replacement rate over the life cycle) will also be different. Equity between men and women is also an objective assigned to the pension system. Retirement lengths should evolve for both men and women, but in similar proportions: the difference in retirement length should ultimately remain the same before and after demographic revisions for the different generations.

- **And what will be the impact on the balance of the pension system?** *(document no 4)* The demographic revisions - births revised downwards and life expectancy also revised downwards - will cause labour force, employment and ultimately GDP to evolve less dynamically, assuming stable labour force participation, unemployment and productivity. Should the share of pension system's resources in GDP be little changed, the share of national income devoted to pension expenditure should be affected by two drivers. On the one hand, the ratio of contributors to retirees would improve very slightly, the downward revision of the number of retirees outweighing that of contributors. On the other hand, the average pension of retirees would increase slightly with the decrease of life expectancy: older retirees, whose pensions are relatively lower, given the indexation to prices, will weigh less in the number of pensioners (the so-called *noria* effect). Until the mid-2050s, the first effect would prevail and the balance would improve; the opposite would occur beyond those years.

- **When will more precise results be available?** The COR projections to be presented in June will refine these estimates based on the projections made by the schemes. In particular, they will make it possible to measure the effects of changes in family-linked entitlements brought about by these revisions on retirement ages and entitlements. INSEE will update its demographic projections by the end of 2021.

III. New indicators are envisaged to understand the financial balances of the system and its net wealth

- **What are the indicators of the financial situation of the pension system?** *(document no 5)* The balances presented in the COR's annual report are extended balances that do not include financial revenues - from the reserves of the schemes that have them - and financial charges - for schemes that have accumulated debts. COR members are asked to comment on the advisability of including in the annual report new financial balance indicators integrating these revenues and expenses. It is also proposed to measure the evolution of the overall reserves of the pension system - or debts where applicable - to assess its financial situation over the long term.

- **What are the methodological caveats linked to these new indicators?** The overall aggregation of the debts and reserves of the various regimes is primarily a statistical indicator, as the debts and reserves of the funds are not legally fungible. Moreover, these indicators are sensitive to the interest rate assumption. Which rate should be chosen: a high rate - valuing relatively less future balances - or a moderate rate? Should the interest rate for debt charges be the same as the interest rate for financial return on reserves? Depending on the assumptions, the results differ significantly. These limits have led the Conseil not to use these indicators in the next annual report.