CONSEIL D’ORIENTATION DES RETRAITES
Plenary session February 17, 2022 at 10:00
« International perspective on pensions »

Brief

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

Rationale: In December 2020, the COR published its 15th thematic report *Panorama on pensions in France and abroad*. This session aims to update a certain amount of data relating to international pension systems, in the light of two reports prepared in the frame of the European institutions and the OECD’s *Pensions at a glance* published in 2021.

I. Pension systems in Europe: what are the financial perspectives?

- **What is in the European Commission's 2021 Ageing Report?** Based on a common methodology and assumptions, the European Commission's 2021 Ageing Report – Ageing Working Group – provides projections for age-related expenditure up to 2070, including pension expenditure for the 27 countries of the European Union (document no. 2).
- **What demographic assumptions is the AWG based on?** According to Eurostat, the total population of the EU27 is expected to fall by 5% between 2019 and 2070. Without taking into account the impact of mortality linked to the current health crisis, the share of people aged 65 and over compared to people aged 20 to 64 should increase from 34.4% to 59.2% over the same period. Employment rates for seniors are projected to rise, but the labor supply would contract overall under the effect of the projected reduction in the working-age population.
- **And on which kind of economic assumptions?** The baseline scenario forecasts an average annual growth in potential GDP of 1.3% over the period 2019-2070 for the whole of the EU27, based solely on labor productivity gains which are expected to increase from less than 1% to 1.5% by the 2040s and remain relatively stable at around 1.6% over the rest of the projection period.
- **What are the consequences for ageing expenditure?** In the reference scenario, the total cost of age-related expenditure, which represented 24% of GDP in 2019, should increase by 1.9 points of GDP in the EU by 2070 with a large disparity between the European countries. France (along with Spain and Italy) is one of the countries in which this expenditure should fall, unlike Germany, Belgium and the Netherlands for which the growth in expenditure would be greater than 3 points of GDP (document no. 2).
- **What are the differences between the AWG projections and the COR projections for France?** (document no. 3) For a scenario based on 1.5% labor productivity growth by 2070 -a scenario now within the range of scenarios used by the COR since the November 2021 session- the AWG and COR pension expenditure projections have an overall similar development profile over the entire projection period. A period that should be marked by a decrease of around 2 points of GDP between 2019 and 2070. The AWG projections are 0.5 to 1 point higher than those of the COR until 2060 due in particular to a slower projected ageing of the population.

II. Pension systems in Europe: what is the adequacy of pensions?

- **How does the Pension Adequacy Report (PAR) define an adequate pension?** (document no 4) PAR 2021 distinguishes three main dimensions of adequacy: (i) protection against poverty, (ii) maintenance of income and (iii) pension, in terms of amount and duration of perception.

- **What does the PAR contain?** It provides an overview of recent reforms of Member States' pension systems and their impact on pension adequacy. It analyzes the evolution of the sharing of risks (longevity and poverty) and resources in pension systems, focusing on income inequalities among seniors and replacement incomes for insured persons with different income levels.
- **What are its main conclusions?** The PAR notes that after a decade of improvement, no further progress has been made in reducing the risk of poverty or social exclusion for older people in the EU. Maintaining an adequate standard of living in retirement remains a challenge for EU countries, especially for women. Income inequalities among older people persist, although pension and tax policies can help reduce them. The PAR stresses that future careers will need to be longer to maintain adequate pensions. Finally, pension systems evolve in changing economies and labor markets, characterized by an erosion of resources based on social contributions, so that maintaining their adequacy may require reconsidering their sources of funding.

III. Pension systems in the OECD: recent developments and automatic adjustment mechanisms

- **Which countries have recently reformed their pension system?** (document no. 5) Among the countries monitored by the COR, the main pension reforms concerned: the introduction of a minimum pension scheme in Germany, the raising of the age of pension entitlement rights in Sweden (and its scheduled increase to age 64 until 2026), expanding early retirement opportunities in Italy.
- **Which countries have adopted automatic adjustment mechanisms (AAMs)? (document no. 5)** AAMs are predefined rules that automatically modify the parameters of pensions or the level of pensions according to the evolution of an indicator. They are increasingly used to preserve the financial sustainability of pension systems, protecting them against uncertain demographic, economic and financial developments. Germany, Canada, the United States, the Netherlands, Sweden use at least one balancing mechanism. Italy and Sweden have notional defined contribution account schemes that include by construction an AAM (adjusting the pension paid at retirement age and life expectancy). Italy and the Netherlands index the conditions of access to pensions on life expectancy and six OECD countries (including Japan) index the benefits on changes in life expectancy, demographics or payroll.

IV. The positioning of France compared to other OECD countries

- **How does France compare to other countries? (documents no. 4 and no. 6)** In France, the relative standard of living of the elderly people appears to be high, compared to other OECD countries. The demographic dependency ratio is in line with the average for OECD countries, but the employment rate for 60-64 year olds appears to be much lower. The level of pension expenditure is higher and replacement rates are close to the OECD average.
- **And more specifically on the issue of retirement ages?** (document no. 7) France (and Belgium) are characterized by lower legal and effective ages than in the other countries monitored by the COR. The expected duration of retirement is also higher there, while the average duration worked throughout the career is about 10% lower than the average of the countries monitored by the COR.