

Brief

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

Rationale: Each year, the COR's annual report is the subject of early discussions on the choice of some indicators and assumptions. This file is thus devoted to the preparation of the 2022 report. The first part looks at the consideration of the new INSEE demographic projections. The second part deals with indicators relating to the financial situation of the pension system; it proposes in particular to reduce the number of indicators for the presentation of balances. The third part focuses on the internal rate of return according to retirement age. Finally, the fourth part goes back to the construction of the COR's career profiles studies. **No new results are presented in this dossier. The illustrations are systematically based on data from the June 2021 annual report.**

I. Taking into account the new INSEE demographic projections

- **What do the new INSEE demographic projections say?** (document no. 2) Compared to the last exercise in 2016, INSEE has revised downwards the central assumptions for fertility and life expectancy, which are now broadly in line with the low assumptions of 2016.
- **What will be their effect on the financial situation of the pension system?** The COR had already anticipated this change in assumptions in the June 2021 report. However, small differences persist, due in particular to a distortion of the age profile of net migration: there would thus be fewer people of working age in total and more people at ages close to retirement. The effect on the financial results of the pension system will be limited in the 2022 report.

II. Indicators relating to the financial situation of the pension system

- **Why are assumptions needed to project the balance of the pension system?** (document no. 3) Part of the resources of the pension system come from State contributions intended to ensure the balance of the State civil service scheme and other special schemes. While the contributions and tax revenues allocated to pensions are relatively easy to project, the same is not true for these contributions because they are discretionary by nature. As the public debate is nevertheless structured around the balance, the COR cannot avoid proposing an estimate of future balances, even if these rely on assumptions.
- **How does the COR do it?** Three accounting conventions are usually used: the CSE convention (Constant State Effort) where the share in GDP of the State's contribution to the financing of public schemes is constant in projection; the CCR convention (Constant Contribution Rate), which consists in freezing the implicit contribution rate for these plans; and the PPB convention (Plans' Permanent Balance) which balances these plans every year.
- **Why is it planned to reduce their number?** These conventions lead to a contrasting view of the pension system's balance, which makes it difficult to draw up an unequivocal diagnosis. This uncertainty adds to the one that is existing on the economic and demographic scenarios.

- **Which convention should be adopted?** The CCR convention has the disadvantage of being very dependent on the assumptions made for the civil service. This is why it is proposed to present the balances according to the PPB convention, which reflects current legislation, and the CSE convention, which highlights the redeployment of financial flows that it would be possible to operate between the balanced regimes and the other schemes, under the assumption that the share of pension funding provided by the State remains constant in the future. It should be noted that this choice does not exhaust the debate; other conventions could also be adopted.
- **Are other indicators used to assess the sustainability of the pension system?** The share of pension expenditure in GDP summarizes the amount of the levy that it would be necessary to operate at constant legislation on the wealth produced by the active population to balance the pension schemes. Selecting this indicator would make it possible to break free from conventions.
- **Is the financial situation of the pension system homogeneous according to the schemes?** (document no. 4) By 2070, the share of pension expenditure would be lower than that observed in 2019 in all the scenarios. However, it would rise for the basic schemes for private sector and Old Age Solidarity Fund (Fonds de solidarité vieillesse, FSV) employees in the 1.0% and 1.3% scenarios, while it would fall for the other groups of schemes (basic schemes for civil servants and similar, supplementary schemes for private employees and basic and supplementary schemes for non-salaried employees).
- **How does the view of the financial situation of the pension system change from year to year?** (document no. 5) Between the projection exercise carried out in 2021 and the one of 2016, the evolution of the demographic and economic assumptions would have resulted in an increase in the share of pension expenditure in the GDP in 2030 and 2060, all else being equal. But various “steering” measures taken during the period would almost offset this effect in 2030 and would lead to a reduction in the share of pension expenditure in the GDP by 2060 (-1 point).

III. Consideration of the life cycle according to the retirement age and level of earnings

- **Why proposing an additional indicator?** (document no. 6) The internal rate of return (IRR) taking into account the life cycle of the insured (contributions over the duration of the career and benefits over the retirement period) according to the age retirement and the level of remuneration allows to complete the analysis carried out on the replacement rate alone
- **What incentives to extend one’s retirement age after the full rate?** In the general scheme as in AGIRC-ARRCO, the IRR is maximum when the full rate is reached and then decreases; individuals postponing their departure have a lower return on contributions.
- **Is the pension system redistributive?** By taking into account the amount of contributions during the working life and the duration of retirement, the review of the IRRs confirms that the pension system is globally redistributive.

IV. The COR’s career profile studies

- **Why renovating the COR’s career profile studies?** (document no. 7) The COR’s career profile studies were drawn up with reference to the careers of the 1950 generation for private sector employees and State civil servants and to the 1960 generation for regional and hospital civil servants. An update of the work is therefore necessary to ensure that these profiles remain relevant with regard to more recent generations and that the assumption of stability of the salary profile relative to each age from one generation to the next is valid.