CONSEIL D'ORIENTATION DES RETRAITES
Plenary session May 25, 2023 at 10:00
« Age of entry into working life, acquisition and purchase of quarters »

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

Rationale The number of quarters required to retire at the full rate and without proratization increases with each generation. A late start to a career (i.e. a high number of years between the age of 16, the end of compulsory schooling, and the start of employment), as well as the number and length of career breaks, are increasingly penalizing the amount of the pension.

I. The number of quarters validated at age 30 decreases until the 1975 generation, but stabilizes at 32 quarters for the following generations.

- ***Why focus on school-leaving age?*** The age at the end of study determines the date from which an individual can enter the job market (document no. 5). The average school-leaving age increased by 2 ¾ years between the 1954 and 1975 generations. It is around 18 years for the 1954 generation (a tiny bit higher for men than for women; the difference being less than six months). It rises to 20 ¾ years for the 1975 generation (and conversely, women study on average 6 months longer than men do).
- ***How does the age of first employment vary with the age of leaving education?*** While the age at the end of study is decisive for access to employment, there can be a gap between the end of studies and actual entry into the labor market. This transition is all the longer as the duration of the studies is short (documents no.4 and no.5). The average age of entry into employment has followed the trend of increasing length of study, rising by three years between the 1954 and 1975 generations. In fact, it was around 18 ½ years for the 1954 generation, while it was around 21 ½ years for the 1975 generation. For more recent generations, from the 1980s onwards, while entry into employment used to be, on average, later than the end of studies, it now precedes it. A significant proportion of people, which increases with age, work while continuing their studies. This is particularly the case for work-study students, who represented 5 to 10% of students between the ages of 17 and 20 over the period 2014-2020 (document no.5).
- ***Are these trends reflected in the number of quarters validated for retirement before age 30?*** The increase in the age of entry into employment mechanically led to a reduction in the number of quarters validated before age 30 between the 1954 and 1975 generations. The number of quarters validated before age 30 fell by 10 quarters (2 ½ years) between the 1954 and 1975 generations. It fell from 42 quarters (or 10 ½ years) for the 1954 generation to 32 quarters for the 1975 generation (or 8 years), a level at which it has broadly stabilized since (document no.7).

II. Career breaks can be significant for a number of insured

- ***What is the extent of career interruptions?*** 52.7% of women and 30.6% of men in the 1954 generation have at least one full calendar year without validation of a quarter between the age of the 1st quarter validated for retirement and the age of the last quarter validated for retirement (career interruptions directly preceding the transition to retirement are not taken into account). The average number of calendar years without validation is 3.9 for men and 5.6 for women. This means that, even without taking into account end-of-career interruptions prior to retirement, a significant proportion of insured persons do not benefit from a continuous career (document no. 8).
- ***Where are the career breaks?*** For men, the years without validation are generally at the beginning or end of their career, even if career interruptions prior to retirement are not taken into account here. For women, the absence of validation is common around the age of 30 (in connection with periods spent at home raising children) and at the end of their career (document no. 8).

III. Many devices allow a posteriori validation of quarters for retirement but they are rarely used in practice

- ***How does the quarter buyback work?*** Buying back quarters enables insured persons to make voluntary pension contributions in order to validate periods during which they have made little or no contributions. Contribution buy-backs are open to policyholders whose insurance period, at the time of their request, is less than that required for the full rate. Contributions paid in this way are tax-deductible. The main arrangements for buying back quarters in the basic schemes, distinguishing between those aimed at completing careers and those aimed at buying back periods prior to entry into working life, are presented in document no.6.
- ***How many employees buy back quarters?*** Since the law of August 21, 2003, insured persons in the public and private sectors have been able to buy back contributions from their basic scheme for periods during which they paid little or no contribution, by making a "payment for retirement" (VPLR) for years of higher education or incomplete work. In 2022, around 6,600 people have made such payments under the general scheme, representing less than 1% of the annual flow of direct-right pensioners under the general scheme. The majority of VPLRs notified concerns men (82% on average between 2004 and 2022). In 2022, the average age at the request is 53.8. The gap is quite marked according to gender: 47.5 years for women and 55.5 years for men (document no. 9).
- ***Are buybacks detrimental to pension schemes?*** Buying back quarters always seems to be close to actuarial neutrality, even if there are slight discrepancies between the two COR's career profiles studied. For example, buying back quarters seems to lead to a slight increase in the IRR for the executive career profile, notably because it benefits from buying back the full rate for the entire pension (RG and ARRCO-AGIRC), while buying back only the part linked to the general scheme. This means that the buyback appears to be slightly subsidized by the insured community. Actuarial neutrality, on the other hand, seems to be verified for a non-executive career profile that obtains no significant gain in IRR by buying back one or more quarters to anticipate its retirement (document no. 10).
- ***Is buying back quarters "profitable" for the insureds?*** From the insured's point of view, buying back a pension can be seen as an investment aimed at improving the amount of his or her pension for retirement at a given age (limiting discount or proratization). In real terms, the return on this investment is around 0.9% for an executive, and 1.2% for a non-executive, for an average longevity. This is a special investment: alienated capital and life annuity return, no risk. Its profitability may be affected by tax considerations (tax advantage in the event of a marked difference between the marginal rate before and after retirement). For the policyholder, the relevance of such an investment can only be assessed with regard to the characteristics of the alternative investments available to him/her.

IV. Progress report on the renovation of career profiles studied by the COR

- ***Why renew the career profiles studied by the COR?*** COR's career profiles are used to compute replacement rates; the replacement rate is an important indicator among those published in the COR report. The monitoring of the replacement rate of certain career profiles studied by the COR is also prescribed by decree. The four typical cases of private-sector employees monitored by the COR are based on work carried out in 2010 by the Drees and the Cnav. An update of this work is currently underway. The first stage of this work involved updating the parameters for entry into working life and the salary profiles for each age group. These updates and their impact on replacement rates are presented in document no. 2. For the civil service, the work presented in document no. 3 aims to propose a new methodology for constructing typical civil servant cases, based on defining the indexed salary on the basis of the expected evolution of the typical civil servant in his or her grid. This method makes it possible to better integrate civil servant remuneration assumptions into the civil servant career profiles examined by the COR.