The 2023 France Pension Reform

Pension reform is never easy but in some countries it seems to be particularly difficult. Over the past months, France saw widespread protests against planned reforms, in particular against the increase of the retirement age from 62 to 64 years. To many outside observers this does not seem like a particularly radical reform, given that many OECD countries are on the way to reaching a pension age beyond 65.

The pension reform attempt in France in 2019 tried to create a single universal system unifying the many parallel pension schemes and rules applying to different sectors and occupational groups, but it was abandoned following widespread protests and the emergence of the pandemic.

The objective of the 2023 pension reform is more modest: it mainly aims to eliminate the projected deficit in the pension system by 2030; it has four main components:

- The minimum legal retirement age will increase from 62 years to 64 years in 2030; special rules will allow those who started to work at young ages to still retire earlier.
- The already decided increase in the necessary contribution period for a full pension to 43 years will be become effective in 2027 instead of 2035.
- The minimum contributory pension level will be boosted.
- Most special regimes – those covering workers in network industries (electricity, gas, metro), the central bank, notary clerks, etc. – will be closed for new hires from September 2023.

At about 14% of GDP, total pension spending in France is currently the third highest among OECD countries after Greece and Italy, with an OECD average of just over 9%. Based on projections by the French Pensions Advisory Council, pension spending will increase over the next decade by 0.5% to 1% of GDP, depending on productivity growth. Much of the justification for reform was around the pension system’s deficit. As France does not have ring-fenced pension financial accounts, future pension revenues will depend on government contributions. Even when assuming that the government covers the spending of the special schemes, including for civil servants, and under realistic productivity assumptions, deficits will persist for the next 50 years at least, reaching between 0.6% and 1.3% of GDP in 2050 depending on productivity growth. Without reform, these deficits will cumulate into a large public debt.

Largely absent from the debate, however, were concerns about intergenerational solidarity. Instead, the focus was more short-term on finding resources to plug the deficit. Many different options include higher taxes on wealth, dividends or higher-income groups more generally, as well as levying higher contributions. But the mandatory contribution rate is already high at almost 28% of earnings at the average wage level, compared to an OECD average of about 18%. Also, social expenditures and the overall tax wedge in France are continuously the highest in the OECD.

It is understandable that people are attached to the current pension system. Contrary to most other OECD countries, French people aged 65+ have an average disposable income that is similar to that of the whole population. Moreover, relative old-age poverty rates are among the lowest in Europe. But based on past pension reforms, the relative income of older people is projected to fall to a level about 10% below the population average in 2050, bringing it more in line with the current OECD average, which means that there is not much margin for reducing pension benefits.

---

1 Figure 2.19 in the 2022 Annual Report by the Conseil d’orientation des retraites.

© The Author(s) 2023. Open Access: This article is distributed under the terms of the Creative Commons Attribution 4.0 International License (https://creativecommons.org/licenses/by/4.0/).

Open Access funding provided by ZBW – Leibniz Information Centre for Economics.
The government has therefore focused on increasing the effective retirement age rather than raising contributions and taxes or reducing pension benefits. The average age of labour market exit in France is among the lowest across OECD countries, about 2.5 years below the OECD average and 1.6 years below the EU average. The employment rate of those aged 55-59 is now 75%, above the OECD average of 70%, but then drops sharply. Between 60 and 64 years, only 32% are in employment, compared to 52% in the OECD (in 2021). For many older workers, the employment experience is negative, with frequent discrimination and high rates of long-term unemployment.

In addition, increasing the retirement age is seen as unfair by many. The reason lies in the design of the French pension system, which has a double condition of age and contribution period for access to an unreduced pension benefit. Only people with a full contribution career of currently about 42 years can retire at 62 years; others have to wait until age 67 when the pension is no longer actuarially reduced for people with incomplete contribution careers.

For people who started working later, for example because of higher education, the reform has little effect, as they already have to retire later. But those who started work young and who have completed the required contribution period, will need to work longer. In the debate, this group is often also seen as having hardest working conditions and thus is the most vulnerable and affected by ill health; however, recent studies in Germany (Börsch-Supan et al., 2015) and France (Aubert, 2023) have shown that this is not the case. Those who are most at risk of vulnerability and poverty in old age are people with frequent career breaks who do not reach the necessary contribution years. The reform contains exceptions for people who started at ages up to 20 so that they can retire early, but increasing the pension age is still extremely unpopular.

Another important aspect relates to whether the reform benefits or penalises women. The reform will increase the minimum contributory pension (which is pro-rated depending on the length of the contribution period); the majority of recipients are indeed women. And the increase of the pension age also means that some women, who receive child-related credits added to their contribution periods, will have to wait until age 64, even though they already have the required years of contributions thanks to the credits; this means that on average the impact of the reform on the effective retirement age will be more penalising for women than for men.

This discussion shows the difficulty of applying “fairness” criteria to changes in a complex pension system. Some proposals have been made to apply only a contribution period condition and allow for retirement regardless of age once the condition has been met. But as discussed above, there is no evidence that those who started their careers early and fully contributed have higher mortality rates; thus, they can expect to live long in retirement, even when accounting for socio-economic differences in life expectancy. Moreover, taking two individuals with full careers, one from 20 to 63 years, and the other from 22 to 65 years, it is not clear why they should have the same pension levels as the former will benefit from the pension benefit for two more years than the latter. Actuaries would argue that there should be an actuarial adjustment lowering the relative pension of the former by about 8%. Another aspect of fairness relates to people who enter the labour market later due to participation in higher education. Can we assume that they are all better off than early starters and it is thus fair that they should work longer? The advantage of basing the pension formula and eligibility conditions on the contribution period only, irrespective of the retirement age, is therefore not obvious, but having both criteria, as France does, introduces greater complexity.

References
Aubert, P. (2023, 6 March), Les départs anticipés pour carrière longue permettent-ils de compenser une plus grande pénibilité des métiers ?, Blog IPP.