


## France

### France: Pension system in 2014

In the private sector, the pension system has two public mandatory tiers: a defined benefit pension and occupational schemes based on a points system. The defined-benefit scheme also has a means-tested minimum contributory pension (*minimum contributif*). In addition there is a targeted minimum income for the elderly (APSA).

### Key indicators: France

		France	OECD
Average worker earnings (AW)	EUR	37 427	33 036
	USD	45 325	40 007
Public pension spending	% of GDP	13.8	7.9
Life expectancy	At birth	81.7	80.0
	At age 65	21.0	19.3
Population over age 65	% of population	18.7	16.2

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### Qualifying conditions

A full-rate public pension requires to fulfil either both a minimum contributory record (41.25 years in 2014 for people born in 1953) and the minimum legal pension age (61 years and two months) or the age of 66 years and two months. According to the 2014 reform, the minimum contributory period is set to gradually increase from 165 quarters in 2014 to 172 in 2035.

The 2010 reform plans a gradual increase of the minimum pension age from age 60 to age 62 by 2017, depending on the birth year, and of the age of the full-rate pension from 65 to 67, between 2016 and 2022.

The minimum contributory pension (*minimum contributif*) compensates the pension's level when the retiree reaches the legal conditions of the full-rate pension.

As the model assumes labour market entry at age 20 the long-term retirement age is 63 with 172 quarters of contribution.

### Benefit calculation

#### Earnings-related

The main public pension scheme (*regime général*) has a payment rate of 50% after a full career (which length is increasing as described above). For each missing quarter, the pension is reduced by two means:

- The pension amount is reduced *pro rata* of the missing contributory period.
- In addition, the pension amount is reduced by 1.25% per missing quarter (or by 5% for each missing year) if the individual decides to retire before the full-rate pension age (but still after the minimum pension age); these rates (“*décote*”) concern people born from 1953 up to the limit of 25%.

The earnings reference is the average of the 25 best years, with past earnings valorised in line with price inflation.

Because of the threshold in the number of years included in the earnings measure for calculating pension benefits and the policy of valorisation in line with prices, the replacement rate in the French public system is sensitive to the time profile of earnings throughout the worker's career. There is a ceiling on eligible earnings, which/was EUR 37 548 in 2014. Benefits in payment are indexed to prices.

### **Contributory minimum pension (“minimum contributif”)**

There is an untargeted minimum pension in the “régime général” and in related schemes – regardless of the amount of pension received from other basic or supplementary schemes. To be eligible for this benefit, 41.25 years of contributions (for people born in 1953), or being aged 66 years and two months and over (planned to be extended to 67 from 2022) are needed. The minimum pension is pro-rated for shorter periods. In 2014, the annual amount was EUR 7 547.96. This amount is increased to EUR 8 247.85 when the pensioner has contributed at least 120 quarters. The value of the minimum pension is indexed to prices.

### **Mandatory occupational**

The ARRCO scheme covers private and agricultural sector employees (“non-cadres” and “cadres”). In addition, different rules apply to “cadres” (those in professional or managerial positions) under the AGIRC programme; the following regulations apply to “non-cadres”.

Benefits are earned with a 6.2% contribution under the ceiling of the main public scheme (“régime général”) and 16.2% between one and three times this ceiling. Thus, the ARRCO ceiling is three times that of the public pension scheme: EUR 112 644 (the ceiling for the AGIRC scheme for cadres is eight times that of the main public pension scheme).

Each year, the number of points earned is the value of contributions divided by the cost of a pension point. At retirement, the accumulated number of points is converted into a pension benefit by multiplying them by the value of a pension point. The pension-point value was EUR 1.2513 from April 2013 to March 2015. The pension-point cost was EUR 15.2589 for calendar year 2014.

Uprating of the cost and value of pension points is agreed between the social partners. Since 2013, the agreement is to increase the cost of pension points in line with average earnings and the value of pension points in line with prices minus 1 p.p. The modelling assumes that this differential uprating (excluding the minus 1 p.p.) between the cost and value of a point will continue.

It is important to note that the uprating policy for these two parameters affects both the path of pensions in payment (here termed “indexation”) and the change in value of pension entitlements between the time they were earned and the time they are withdrawn (akin to the process of “valorisation” in earnings-related schemes).

### **Targeted minimum pension (Allocation de solidarité aux personnes âgées, APSA)**

There is a means-tested minimum income benefit for people reaching pension age worth EUR 9 447.21 a year for a single person (EUR 14 667.32 for a couple) from 1 April 2013 to 1 April 2014 (respectively EUR 9 503.89 and EUR 14 775.32 from 1 April 2014 to 1 October 2014, EUR 9 600 and EUR 14 904 since 1 October 2014). This benefit is adjusted in line with prices. Full-career workers will rarely be eligible for the old-age assistance programme, since the mandatory occupational pension supplements the main public pension benefit.

The elderly can benefit from housing benefits (“aides au logement”). The eligibility criteria depend on the level of income, the cost of housing, the number of dependants and the place of residence.

## **Variant careers**

### **Early retirement**

Early retirement, namely before the minimum legal retirement age, is allowed, from age 60, in the main public pension scheme, for people with full contributory periods who started their career before 20.

Under the occupational pension, early retirement is also possible, often subject to reductions related either to age of retirement or years of contributions or both. With less than the full contributory record, the pension is adjusted as shown in the table with the adjustment being that which is more favourable: that related to the retirement age or to the number of missing years. For retirement five years before the full pension retirement age, for example, the pension is reduced to 78% of the full value. However, if the individual retires missing only one year of contributions, the reduction is only to 96%.

Distance to full pension age, in years (increasing from 65 to 67)	5	4	3	2	1
Missing years to full contributory record	5	4	3	2	1
Coefficient	0.78	0.83	0.88	0.92	0.96

### Late retirement

When people work after the minimum legal retirement age and have reached the qualifying contributory conditions for a full pension (which is 41 years and three months' coverage in 2014 for people born in 1953), each additional quarter increases the benefit under the public scheme by 1.25% (5% per year). For the period of deferred retirement, people continue to accumulate ARRCO points.

Work and pension receipt can be combined without limit when people have full rate pensions. If not, it is subject to some limits.

### Childcare

For children born or adopted since 2010, a credit of four quarters is given to the mother for each of her children in the defined-benefit scheme, whether she continued to work or not during that time. Besides, another credit is given to one of the biologic parents for four years (a quarter per year of education). Both parents can receive a 10% increase in final pension pay-out in the defined-benefit plan if they have raised three or more children for at least nine years before age 16.

Periods out-of-work or working part time caring for a child are also credited in the public and occupational pension schemes (Assurance vieillesse des parents au foyer – AVPF). Credits are awarded as if the parent had earned the minimum wage. The three-year maximum applies to the first two children: credited periods are longer for subsequent children (qualifying conditions include entitlement to family benefits and earnings conditions). This credit can be cumulated with the two years credited per child in the public scheme.

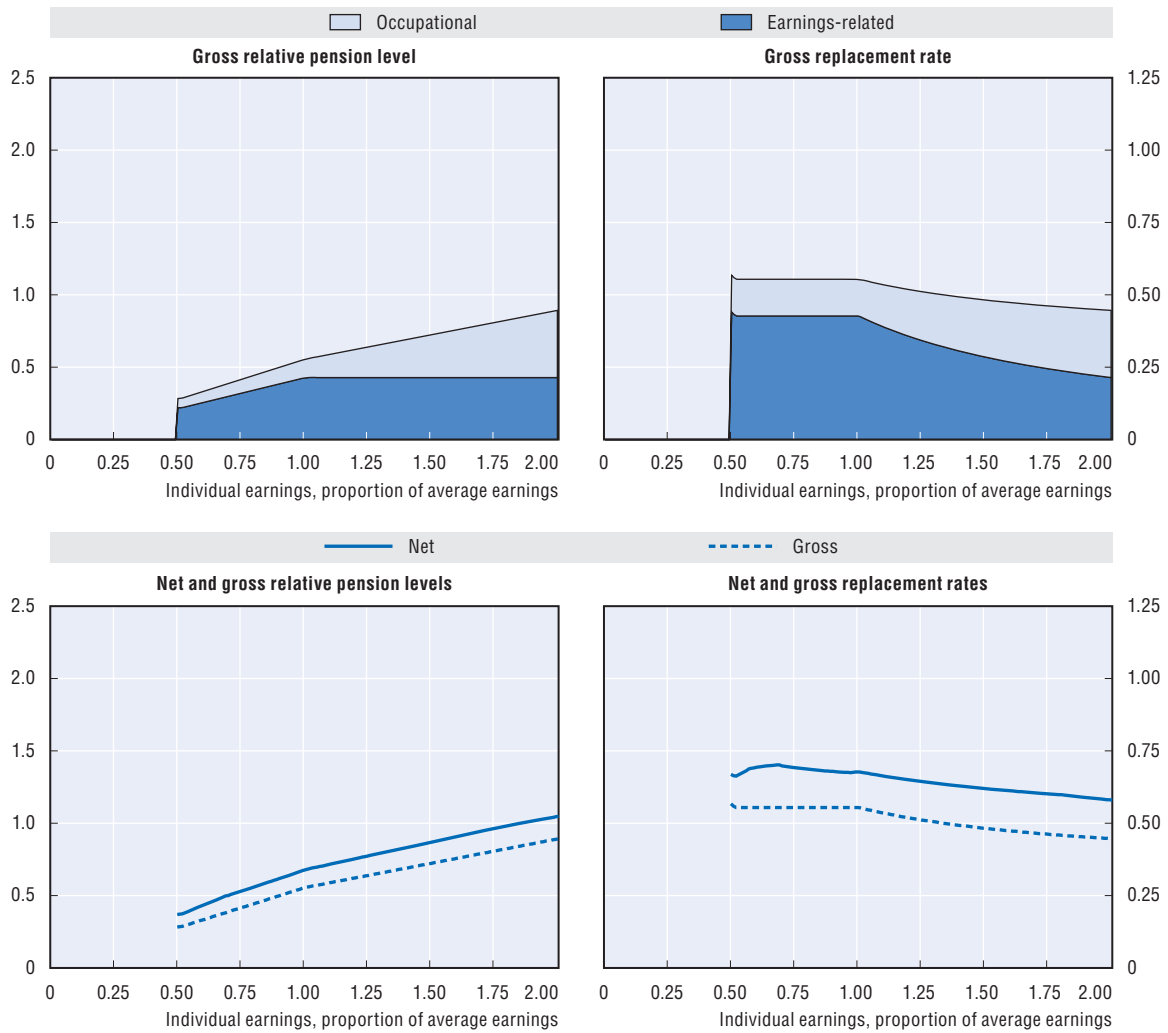
### Unemployment

Each period of involuntary unemployment is credited towards the state pension, in a limit of one year when people are under 55 years old (five years at 55 and more), when unemployment benefits are not received. When unemployment benefits are received each completed 50 days attributes one quarter of contributions, with a maximum of four quarters per year. These periods do not enter into the calculation of the average reference wage (salaire annuel moyen) based on the 25 best years of earnings and therefore not into the pension calculation.

There is also a credit for the first period of unemployment without unemployment payments to a maximum of one year (one year and a half for unemployment periods at the beginning of the working life). Subsequent periods of involuntary unemployment without unemployment payments are credited to a maximum of one year only if this follows a period of unemployment with unemployment benefits.

In the mandatory occupational plans, periods of unemployment enable accumulation of pension points if the person had contributed to one of these plans before the beginning of unemployment. These points are calculated according to a “daily reference wage” (*salaire journalier de référence*) which is the last wage (on a year basis) divided by 365.

### Pension modelling results: France in 2057, retirement at age 63



Baseline scenario: Price indexation of targeted schemes

Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	28.4	41.5	55.4	72.4	89.3	123.1
Net relative pension level (% net average earnings)	36.9	53.0	67.7	87.0	104.8	136.5
Gross replacement rate (% individual gross earnings)	56.8	55.4	55.4	48.2	44.6	41.0
Net replacement rate (% individual net earnings)	66.9	69.2	67.7	62.0	58.0	53.2
Gross pension wealth (multiple of individual gross earnings)	10.7	10.4	10.4	9.1	8.4	7.7
Net pension wealth (multiple of individual gross earnings)	9.9	9.5	9.1	7.8	7.0	6.1
	11.7	11.2	10.8	9.2	8.3	7.2

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 85%. Labour market entry occurs at age 20 in 2014. Tax system latest available: 2013.

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