CONSEIL D'ORIENTATION DES RETRAITES
Plenary session November 23, 2023 at 10:00
"Age and generation transfers"

Brief

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

Rationale Equity between generations is one of the founding objectives of the pay-as-you-go pension system. The COR's analyses are designed to ensure that this objective is respected. The aim of this report is to place pension-related contributions and transfers (contributions or tax funding on the one hand, and pensions on the other) in the overall context of all compulsory contributions, public spending and private transfers in France.

I. Young and older people are net beneficiaries of public and private transfers

- ***How are public transfers distributed over the life cycle?*** Total public transfers, net of contributions paid, are positive for older people (aged 60 and over), amounting to around 45% of GDP per capita, due to the fact that they are more likely to receive a pension and consume more care. This is also the case for the youngest age group (under 25), who account for around 25% of GDP per capita, as they benefit from spending on education and family benefits (documents no. 3 and 4). On the other hand, the middle age bracket, corresponding to the period of professional activity, logically contributes more than it benefits from the system, amounting to almost 50% of GDP per capita. In France, pensions in particular are the result of a transfer between the working-age population (which pays contributions) and the retired population (which receives these contributions in the form of benefits).

II. Consumption increases over the generations for older people, but decreases for people of working age

- ***How does consumption evolve over time?*** Consumption trends for the different age groups over the generations differ between those who are retired in 2019 and those of working age. Consumption by older people has continued to rise for the most recent generations (1950s generation) compared with their elders (1940s to 1900s generations), in constant euros. Conversely, in 2019, the working-age generations (born in 1970 and 1960, aged 49 and 59 respectively) are consuming less at the same age than the generations born ten years earlier. The order of magnitude of these reductions in consumption is 5% in constant euros (document no. 4).
- ***How is France positioned internationally?*** When we compare the consumption of the over 65s with that of the 25-44s in 2011, France is at a median level similar to that of its main Western partners, notably Germany and Sweden (document no. 5). The ratio of consumption by the over-65s to that of the 25-44s is 1.25 in France, 1.19 in Sweden and 1.31 in Germany. This ratio is much higher in the United States (1.57) and lower in Spain (1.08).

III. The increase in consumption by senior citizens is financed by a reduction in their savings

- ***How have public transfers and levies changed over the last 40 years?*** Net public taxes on people aged between 25 and 59 rose sharply between 1979 and 2019, from 40% to almost 50% of GDP per capita. This may have contributed to the fall in consumption by working people of the 1980 generation in recent years, as well as to the relative fall in consumption by the 1970 and 1960 generations compared with their elders. Net public benefits paid to the under-25s increased between 1979 and 2019 as a result of longer periods of study. While 18-24 year-olds were still financing around 85% of their consumption from earned income in 1979, this share has fallen to around 50% since the mid-1990s. Finally, net public transfers to people aged 60 and over have fallen, from 60% of GDP per capita in the mid-1980s to around 45% in 2019, because their employment rate has increased. But the rise in consumption by older people is not so much linked to an increase in income as to a reduction in their savings (document no. 4).

- ***Are the sources of consumer finance the same in France as in our main neighbours?*** Internationally, France stands out for the way in which consumption by young people and the elderly is financed to a very large extent by the public sector (document no. 5). In particular, consumption over the age of 65 in France is financed more by social protection than the average in 2011, mainly because of the size of the public pension system: the public contribution is around 20 percentage points higher than the average for the countries analysed (79% of consumption financing). The proportion of consumption financed by the social protection system is logically lower in countries where funded pension schemes have developed significantly, such as the UK (where only 51% of consumption financing comes from public transfers), Germany (47%) and the USA (34%).

IV. Transfers within families go from older to younger members

- ***Who makes donations?*** Family transfers represent a limited volume overall, less than 5% of total income. Households aged between 59 and 64 give the most, mainly from the oldest to the youngest (document no. 6). Around 90% of donations are made within the same family, and the proportion of donor households fluctuates around 50% at almost every age. The proportion of households receiving aid decreases with age, reaching less than 25% after the age of 65.

V. Those over 60 are the main beneficiaries of redistribution including all public services

- ***What impact do public transfers have on inequalities?*** Redistribution that includes all public services (so-called "extended" redistribution, including education, health and defence) leads to a sharp reduction in inequality. Before taxes and transfers, well-off households have an income 18 times higher than that of poor households, compared with a gap of 1 to 3 after transfers. These services and benefits benefit 57% of the population as a whole, who in 2021 will receive more than they pay for. The proportion of net beneficiaries even rises to 90% among the over-64s, most of whom have retired and consume more care than the rest of the population (documents no. 7 and 8).

VI. In some countries, the weight of public transfers to the elderly seems to limit the budgetary margins for supporting the working poor.

- ***Is there any point in distinguishing the effect of public transfers linked to pensions from the rest of redistribution?*** A study shows that there is an overall negative relationship between the size of mandatory public pension schemes and the support provided to the working poor (document no. 9). Nevertheless, France and Germany are characterised in the international landscape by both high pensions, i.e. a significant transfer to the elderly, and a high level of redistribution towards the poorest working-age population.