

Brief

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

Rationale As every year since 2014, the April meeting of the COR is devoted to preparing the annual report. This year it will also be preparing the thematic report due in July 2024, following the completion of the new comprehensive projection exercise involving virtually all the compulsory schemes in the French pension system. Three points are submitted for discussion by the members of the COR; the other points dealt with in this dossier are points of information.

1. Points submitted for discussion by COR members

① Shift the range of productivity assumptions downwards: assumptions for annual growth in hourly labour productivity would vary between 0.4% and 1.3% in real terms (compared with 0.7% to 1.6% in the 2022 and 2023 exercises).

Following the discussion among the COR members, the hourly productivity growth assumptions used in the COR reports for 2024 will be 0.4%, 0.7%, 1.0% and 1.3% in real terms per year.

This downward shift is justified by the structural slowdown in productivity prior to the health crisis, accentuated by the latest observations, which show a lack of recovery following the health crisis and even a very marked fall in productivity, particularly in France (document no. 2).

② Present the financial results of the pension system based on a single reference scenario, as it was the case in the 2001, 2006 and 2007 COR reports.

Following the discussion between the members of the COR, the financial results and standard of living indicators of the 2024 COR reports will be detailed upon the reference scenario and supplemented by a wide range of sensitivity analyses.

This proposal responds to a concern for readability, as the presentation of several scenarios put on the same level makes the analysis of the financial situation of the pension system complex, even though the sensitivity of the results of pension projections to economic growth scenarios is a recurring subject for the COR. However, the uncertainties surrounding the demographic assumptions are also significant. For this reason, a separate chapter will be devoted to a detailed analysis of the sensitivity of financial results to economic and demographic assumptions (documents no. 3 and 4). The results concerning the standard of living and intergenerational equity would, however, continue to be presented according to the four productivity assumptions, as these results are specifically sensitive to these assumptions given the indexation of entitlements and pensions to prices (documents no.6, 7 and 8)).

③ Take as a reference assumption an annual growth in hourly labour productivity of 0.7 % in real terms.

Following the discussion between the members of the COR, the reference scenario used in the reports will be based on an assumption of an annual hourly productivity growth of 1.0% (rather than 0.7%).

This rate is equivalent to what was observed from 2005 to 2019, before the health crisis, which amounts to supposing that the structural slowdown observed over several decades before 2019 is stopped. It is clearly higher than what is observed over the period 2005-2022 (0.4 %)

2. Information points

- **Demographic trends since 2020** In 2023, the fertility rate in France reached one of its lowest levels since the Second World War (1.68), although it is still one of the countries monitored by the COR where it is the highest (document no. 5).

In terms of net migration, INSEE uses the average for 2018 to 2021 (+183,000 net entries), which is higher than the central assumption of the demographic projections (+70,000), or even than the high variant (+120,000)

As with the fertility assumption, this assumption can be questioned by the COR for the 2025 annual report, once the year 2021 is known. It is preferable to address the questioning of demographic assumptions at the same time

Finally, after the recent period of health crisis, life expectancy at age 65 seems to have returned to a trend that is in line with INSEE's central scenario, which predicts an increase in life expectancy for women of between 0.4 and 0.8 points per decade, and between 0.7 and 1.2 years per decade for men.

- **How productive are non-market activities?** The level of productivity is lower in the main non-market branches (public administration, non-market health, non-market education) than in the rest of the economy (€63.5K in 2014 compared with €80.7K in 2019). Between 2000 and 2019, productivity in the main non-market sectors grew by 0.6% per year, a rate very close to the rest of the economy (0.7% per year), and productivity trends in the main non-market sectors appear to be relatively correlated with productivity trends in the rest of the economy. This, even though in general productivity in non-market activities is less affected by the business cycle than in market activities (document no. 9).