CONSEIL D'ORIENTATION DES RETRAITES
Plenary session November 21, 2024 at 10:00 a.m.
"International overview and France-Germany comparison

Brief

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

Rationale: This session offers an international perspective on the French pension system. The first part takes a broad perspective, presenting financial projections from the European Union's Ageing Report and results from the OECD's Pensions at a Glance. The second part compares the French and German systems in terms of management, expenditure, living standards and opinions.

1. The diversity of pension systems between OECD countries

- ***How are pensions indexed?*** More than half of OECD countries index their pensions to prices, with some also partially indexing to real wages in the event of a rise. In an inflationary context, price indexation has proved to be more protective, but also more costly for the pension system (**document no. 2**).
- ***What are the latest developments?*** In the last two years, three OECD countries monitored by the COR have introduced reforms aimed at raising the retirement age: the Netherlands, Sweden and France.

2. What impact does ageing have on public spending in the European Union

- ***How will age-related expenditure evolve in France and the EU?*** Projections from the European Commission's *Ageing* Report point to a marked ageing in Europe over the next fifty years. The dependency ratio, i.e. the ratio of the retired-age population to the working-age population (aged 65 or over and 20-64 respectively), will rise from 36% in 2022 to 59% in 2070, and the median age in the European Union will increase from 44.4 to 48.8 (**document no. 1**). Over the same period, pension expenditure would rise by around 0.4 points as a share of GDP for the European Union, from a level equal to 11.4% of GDP in 2022. This would correspond to an increase in a majority of member countries (16 member countries including Belgium, Spain, the Netherlands and Finland, as well as Norway), for whom the rise in expenditure is directly linked to the growing imbalance between pensioners and contributors. In 11 member countries, on the other hand, including France, Italy, Greece and Portugal, expenditure would fall as a share of GDP as a result of reforms and a reduction in the average pension.
- ***What are the assumptions behind these projections?*** This report assumes that all European Union countries will converge towards the best-performing countries in terms of fertility and productivity. France is one of the countries with the most favorable fertility rate in 2021 (1.84), and this rate is assumed to stabilize at 1.80 from 2050 onwards, a figure identical to that used by the COR. Net migration would be between 80,000 and 99,000 people between 2030 and 2070, i.e. a lower proportion of the population than the European average (0.1% vs. 0.3%). This assumption is higher than the central Insee assumption used in the COR projections, which forecasts 70,000 people per year until 2070. France, which would experience one of the lowest hourly labor productivity growth rates from 2022 to 2030 (0.2% p.a. vs. 1% in the European Union), would converge towards the European average between 2060 and 2070 (1,3%). Due to the assumption of convergence between EU countries, this

target is higher than the one retained by the COR for its reference scenario, equal to 1.0% from 2040 to 2070.

3. A comparative analysis of the French and German pension systems

- ***What are the steering rules in Germany?*** In Germany's point-based pension scheme, the legislator has provided the system with an automatic steering rule. The wage-based revaluation of the service value of the point, and therefore of pensions, takes into account the demographic trends through changes in the ratio of retired people to contributors, with a safeguard clause guaranteeing that pensions cannot fall in nominal terms (**document no. 4**). In addition, the legislator has defined minimum thresholds for net replacement rates that must not be exceeded in the medium and long term (48% until 2025 and 43% until 2030), and thresholds for contribution rates that must not be exceeded in the medium and long term (20% by 2025 and 22% by 2030).
- ***What are the differences in pension spending as a share of GDP between France and Germany?*** In 2019, public pension spending as a percentage of GDP was 3 points higher in France than in Germany (13.4% of GDP vs. 10,4%). This difference can be explained by an overall employment rate that is 15 points lower in France than across the- Rhine (76.4% vs. 90.9%) (**document no. 5**). Between 1991 and 2019, public spending as a percentage of GDP rose by just over twice as much in France as in Germany (+2.8 points, vs +1.2 in Germany). This is due, on the one hand, to the slightly less marked contribution of demographic ageing in Germany and, on the other hand, to the greater downward effect of reforms in Germany. In the future, the situation would be reversed: expenditure as a share of GDP would fall in France, while it would rise in Germany (-0.8 points vs +0.5 points). This, despite a more marked ageing, due to a greater effect of reforms on the rate of retirees and relative pensions in France, as well as a greater rise in the employment rate.
- ***What are the differences in living standards and poverty rates?*** The poverty rate for people aged 65 and over in 2020, after taxes and transfers, defined as 60% of median income, was 1.6 times higher in Germany (20.9%) than in France (13,3%) (**document no. 6**). The average standard of living for seniors (over 65) in France is close to that of the population as a whole (97%), whereas it is lower in Germany (88%), and includes a lower proportion of earned income (166 euros per month per CU in France, versus 464€ in Germany).
- ***How do perceptions differ in the two countries?*** Opinions on the standard of living of retirees are less positive in France than in Germany: in 2016, 73% of French people thought that the standard of living of retirees was poor (versus 53% in Germany), even though in France the average standard of living of 65-year-olds is closer to that of working people. More French people think they will not be able to continue working beyond the age of 60: in 2015, over 40% of French people surveyed versus 20% of Germans responded in this way in the *European Working Conditions Survey*. Even so, average life satisfaction among 65- to 74-year-olds is close between the two countries: on a scale of 0 (not at all satisfied) to 10 (completely satisfied), the average satisfaction of French senior citizens is 7.1, compared with 7.0 for German senior citizens in 2023 (**document no. 7**).