CONSEIL D'ORIENTATION DES RETRAITES
Plenary session February 6, 2025 at 10:00 a.m.
Career paths, differences in life expectancy and retirement

Brief

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

Rationale: While the vocation of a pension system is to mutualize the risk of longevity, the French pension system must also guarantee, according to the law, "equitable treatment of insured persons with regard to the duration of retirement". In this context, this session aims to characterize the differences in life expectancy among policyholders. It also aims to examine the ways in which they can be taken into account, in particular through the derogatory arrangements for early retirement linked to disability, to the exercise of certain professions, to the deferred effects of exposure to occupational risks, or to the fact of having had a full career that began early.

1. Differences in life expectancy and pension duration by social category

- ***How big are the differences in life expectancy by socio-professional category?*** Male managers aged 35 live on average 5.3 years longer than blue-collar workers under 2020-2022 mortality conditions, according to Insee figures (**document no. 2**). For women, this gap is less pronounced (3.4 years), and due to a large gap in favor of women, working-class women live longer than executive men. There is also a 7.2-year gap life expectancy between the extreme percentiles of the permanent labor income distribution for men at age 55 (**document no. 6**). These differences in life expectancy, which are linked not only to working conditions but also to differences in lifestyle, are accompanied by inequalities in disability-free life expectancy, which has made it possible to document a "double penalty" for blue-collar workers, who, in addition to their shorter life expectancy, spend more years than managers in poor health (**document no. 4)**

- ***What are the consequences for the length of retirement?*** These inequalities in life expectancy translate into inequalities in the length of time spent in retirement (**document no. 3**). Despite retiring at a younger age than executives, blue-collar workers spend 2 years less in retirement. For a similar social category, women also spend 3 to 4 years longer in retirement than men, due to higher life expectancy.

2. Measures taking into account the differences in life expectancy in the French and international pension systems

- ***How should the pension system take into account disparities in life expectancy?*** A contributory, pay-as-you-go pension system mutualizes the risk of longevity, and so should not take differential mortality into account. However, the law assigns to the pension system equity goals between insured members of the same generation, which may legitimize derogatory early retirement schemes to directly compensate for differences in life expectancy (**document no. 14**). Not all countries provide for early retirement on the grounds of hardship, and when they do, the list of occupations concerned, the hardship criteria and the early retirement age vary widely (**documents no. 9 and no. 11**).

- ***Do early retirement schemes in France limit inequalities in life expectancy?*** Early retirement on the grounds of disability and unfitness seems legitimate in view of the lower life expectancy of disabled and unfit people, but not sufficient to compensate for the lower retirement duration of the latter. The life expectancy of men retiring in the active category is slightly lower than that of sedentary workers in the civil service, but this is not the case for women, nor is it the case in the territorial and hospital civil services. On the other hand, the long-career early retirement scheme appears to be poorly targeted, as the full-career requirement favors insured people who do not have a lower life expectancy (**documents no. 6 and no. 13**). Lastly, the professional prevention account (C2P, **document no. 10**) is still in the ramp-up phase, which means that it is not possible to assess whether it is effectively targeting insured people with a lower life expectancy, despite the impact of occupational risks on the health of senior citizens, as established by research (**document no. 5**).

3. Monetary redistribution in the pension system linked to differences in life expectancy

- ***How do you measure the return on contributions in terms of accumulated pension?*** The indicators used to measure the return on retirement over the life cycle are the internal rate of return (IRR), which is the interest rate used to equalize the sum of contributions paid and pensions received for an insured person, or the return on contributions (ROC), which compares contributions paid to pensions received over the life cycle.

- ***What are the redistributive effects of inequalities in life expectancy according to earned income?*** **Document 7** assesses these effects in the private sector using micro-simulation analysis. The significant differences in life expectancy between the sexes at age 55 reduce the inequalities in pensions received by men and women over the duration of their retirement, giving the latter a greater return on their contributions. While redistribution can be observed across the income spectrum for women, it is not as clear-cut for men. For men, inequalities in life expectancy according to permanent income from work mean that higher incomes benefit from a greater return on contributions.

- ***What can we learn about the mechanisms involved from an analysis of typical cases?*** These various mechanisms are illustrated in **document no. 8**, based on three typical COR cases with a complete career: an executive, a non-executive and an employee still earning the minimum wage. While the net IRR is higher for the Smic employee than for the executive, this redistribution is almost entirely due to the reduction in contributions on low salaries, which implies a lower cost of acquiring rights for the employees concerned. Conversely, the longer life expectancy of managerial staff and the higher mortality rate among employees earning the minimum wage increase the relative return for managerial staff, but to an extent which, while not insignificant, is more limited than the effect of the reductions.

4. How can we take better account of different life expectancies in the pension system?

- ***How to improve the way differences in life expectancy are taken into account?*** There are two possible approaches. Firstly, the system could be made more redistributive in favor of those with lower life expectancy, by increasing the progressivity of contributions and the tapering of benefits. Consideration could also be given to increasing the length of retirement for the less well-off, notably by allowing branches to enrich the criteria taken into account by the C2P, and by revising the financing of the C2P to take greater account of individual risk (**document no. 14)**.

- ***How can fairness in terms of length of contributions and length of retirement be better articulated?*** All beneficiaries of the long-career scheme have no lower life expectancy than others. However, this is the case for people who started working before the age of 19. So, to improve the targeting of the long-career scheme, a parametric adjustment could consist in refocusing it on the latter, while removing the ceiling on the proratization coefficient for the others (**document no. 14)**. The role of the contribution period could also evolve in a more systemic way: if an insured person retires later and therefore benefits from a shorter retirement period, the period required to consider his or her career as "complete", and in relation to which his or her pension will be prorated, could also be shorter (**document no. 13).** This reform would go hand in hand with a complete overhaul of the age of entitlement to pension benefits, the system of discounts and premiums, and long-service careers.