CONSEIL D'ORIENTATION DES RETRAITES
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« Retirement behaviors »

Brief

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

Summary: This dossier seeks to better understand the motivation for retirement of the insured. Currently, 80% of pensioners retire at the full rate (excluding bonus for postponing retirement), which remains in France the main social norm. If the references to the insurance record and the full rate were to disappear in the future, one of the essential questions would be to anticipate the reaction of the insured in the context of the new unified system. It is therefore essential to know how people behave in order to assess the effects of the announced reform.. The first part of this dossier presents statistical data on retirement conditions. The second part is devoted to economic incentives and motivations for retirement. The third part focuses on the information and knowledge of the insured persons about retirement. Finally, the last part proposes some prospective elements on the role of age in a pension system operating on a defined-return basis.

I – Background

- **What changes have been observed in retirement over the recent period?** The data from the schemes show that the stability observed in the average retirement age between the 1934 and 1950 cohorts conceals an increase in the use of bonuses (for delaying retirement) and penalties (for early retirement), which varies considerably from on scheme to another (*documents no 2 and 3*).
- **How many people actually retire at the minimum legal age?** Among those insured who have the insurance record required to retire at full rate and who are not unemployed at the end of their career (setting aside long career leaves or disability leaves), i.e. about one-third of the 1952 cohort, only 40% of men and 50% of women have actually retired at this age (*document no 4*).
- **Who are the "décoteurs" and "surcoteurs" at the CNAV?** The "décoteurs" (having a penalty on their pension for early retirement) are distinguished from other retirees, who do not have the number of quarters required for the full rate, by having more complete careers and annual salaries more frequently above the Social Security ceiling (*document no 5*). They are mostly women. The total pension paid to these "décoteurs" is half that of the pension paid to those who retired with the full-rate insurance record. On the other hand, the "surcoteurs" benefiting from a pension bonus for postponing retirement (as many women as men) have a higher pension than other CNAV members do (*document no 6*). On the one hand, their careers are more often continuous and their wages higher. On the other hand, these insured people see their pension increased by the amount of the bonus.

II – Motivations for retirement

- **Do insured people retire at their desired age?** On average, pensioners who retired between 2015 and 2016 would have liked to leave 1.2 year before their actual age at pension claiming (*document no 8*). Nearly 25% of retirees worked two years longer than they would have liked (women, blue-collar workers / employees, private sector insured and the poorest pensioners) and, on the contrary, 8% of pensioners surveyed would have liked to leave more than two years later (also poorest and less healthy pensioners).
- **What are their motivations?** New retirees who were still employed after the age of 50 report that their main motivations are to enjoy retirement for as long as possible, to have

reached the minimum legal age, and that of the full rate (documents no. 8 and 9). The least well-off retirees less often mention the minimum legal age, the full rate, or the desire to enjoy retirement as long as possible as reasons for retirement. On the other hand, they more often mention redundancy and health problems. The reasons for retirement are not very different between women and men, except for conjugal or family reasons. They also differ according to the conditions of pension settlement (*document no 9*)

- **Is it possible to model retirement based on economic incentives?** Economic theory proposes a widely used model, which assumes that departures are determined by the utility felt by the insured (*document no 7*). The calculation does not only involve financial variables and is also based on parameters such as preference for the present or for leisure. The results highlight the fragility of the selected modeling whose parameter calibration is not known ex ante and which leads to infer significantly different parameter values depending on the datasets used. Ultimately, this modeling of retirement ages is probably not sufficiently mature to describe with certainty the behavior of the insured people whose retirement motivations are multiple and complex (a more or less good integration into the labour market, health, decision of a possible spouse, etc.).

III – Information and decision to retire

- **What information do the covered people have?** Since 2007, this information has been mainly provided through the right to information system. From the age of 35, covered (by social security schemes) people receive an individual statement every five years containing their pension entitlements in mandatory pension schemes. From the age of 55, this statement is supplemented by a global indicative estimate presenting the estimated pension amounts (*document no 10*). These information systems exist in the countries monitored by the COR: Belgium, Canada, Germany, the Netherlands, the United Kingdom (online only), the United States and Sweden (*document no 13*).
- **Does this information improve the knowledge of the insured?** Surveys carried out after the annual campaigns show that the insured feel rather well informed about their future retirement (*document no 11*). But they also bring out a paradoxical finding; insured persons leave at the full rate while having a relatively poor understanding of how the pension system works and little knowledge of their rights (*document no 12*).

IV – The role of age in a system operating on a defined-return basis

- **How to combine individual freedom of choice with the balance of the scheme**? In a defined-return system, the choice of a scale that ensures actuarial neutrality makes it possible to offer the insured people a certain degree of freedom as to their retirement age (*document no 14*). Any anticipation or postponement of the retirement age has no effect on the intertemporal financial situation of the scheme, since, whatever the age, the discounted sum of pension amounts is equal to the discounted sum of pension contributions. In this sense, in such a system, the choice of the retirement date is as much a question of "age" as of "amount".
- **Should a reference to legal ages be kept?** Given the current social norm of the retirement age, the setting of legal ages may still be necessary, in particular a minimum age for entitlement to avoid too early retirement (exposure to low pensions, to transitional imbalances in the pension system and, more generally, to reduced resources for the socio-fiscal system). Two options are then possible for the calculation of pensions: 1 / a legal retirement age with pension bonuses for postponing retirement or 2 / setting up a pivotal age with penalties / bonuses while maintaining the minimum age (*document no 14*). Both solutions are purely equivalent from a mathematical point of view but may have different effects during the transition period depending on how behaviors adapt.