

Brief

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

Rationale

In the past, the average pension of retired people has risen steadily over the years and across generations. In recent years, however, its growth has slowed down, largely due to reforms implemented over the past 20 years, which have moderated the trend in pension expenditure. Changes in the average annual pension of retirees are the result of a combination of two factors: changes in the pension amounts of retirees already present the previous year, and the renewal of the population of retirees, known as the "Noria" effect. This session analyzes changes in the average pension of direct pensioners since 2004, by generation, breaking down the various factors involved. The evolution of pensions relative to projected earned income is also examined.

I. From the Noria effect to average pensions per generation

- **What is the evolution of the average gross direct pension since 2004 and how is it explained?** The average pension of all retirees from French pension schemes has been rising over the years, despite a slowdown in recent years (*document no. 2*). Pensions are rising as a result of the annual revaluations of pensions already received in previous years: the real value of current pensions generally held steady until 2016 but has since declined. Pensions also evolve as a result of the renewal of the retired population, known as the "Noria" effect. The pensions of new retirees are higher than those of retirees already in the stock, and the pensions of those who die during the year are lower than those of new retirees. This phenomenon is clearly observed among women, the impact of deceased retirees being in this respect greater than that of the flow of new retirees. For men, over the entire period, the pensions of new retirees are systematically lower than the pensions of retirees already present in the stock. However, the impact of deceased retirees offsets this negative impact. Overall, the effect of the renewal of male retirees therefore remains positive on the evolution of the average pension.
- **How do pensions change over generations?** After a long and steady rise over the generations, the average retirement pension is now declining, starting with the first baby-boom generations (*document no. 3*). This decline mainly affects men, with women's average pension continuing to increase, although at a slower pace than for previous generations, while remaining lower than that of men. The recent fall in the average pension is primarily due to the fall in pensions paid by the supplementary schemes for private sector employees and contract workers in the public sector - representing 40% of the total effect - and, to a lesser extent, the reduction in pensions paid by civil servants' schemes. The fall in the average pension is also due, for around a third of the overall effect, to a gradual shortening of men's careers, that shows both by a lower frequency of long careers and by a lower proportion of complete male careers.
- **How is the projection of the pension relative to earned income changing?** The relative pension of retirees rose steadily until 2015, as the population of retirees was renewed ("Noria" effect). Since 2015, the average pension relative to average earned income has been falling and this decline is expected to continue over the horizon of the COR projections (*document no. 4*). The relative pension would stand in 2070 at 32.6% in the 1.6% scenario, and 39.4% in the 0.7% scenario, against 48.9% in 2021. This decrease is largely linked to the pension reforms implemented over the past 20 years, which have moderated the evolution of pensions. This is particularly true of the inflation indexation of rights

acquired during a career and of pensions, which also has the effect of making relative pensions very sensitive to the rate of growth of real earned income (or real labor productivity). However, this effect should diminish as the measure is implemented, and from the mid-2050s onwards, once all pensioners are covered by the indexation measures, the relative pension should increase in line with earned income. This is what was actually observed until the projections made in 2018. However, since the COR projections of 2019, the relative pension continues to fall until 2070. Assumptions relating to Agirc-Arrco returns, and those relating to the careers of civil servants, explain the prolonged decline in the relative pension.

II. Average pension trends vary from one scheme to another

- **Do average pension trends differ from one scheme to another?** The breakdown of the evolution of the average pension, annual and by generation, makes it possible to show different structural effects (*documents no. 5 to 10*). The "Noria" effect remains positive for all the schemes studied, but the impact of new retirees ("entrants") and deceased retirees ("leavers") varies by scheme and, within each scheme, by gender.
- **What are the main differences?** The change in the average pension is mainly explained by the revaluation of pensions for retirees from the private sector (Cnav and Agirc-Arrco), the State civil service (SRE) and the territorial and hospital civil service (CNRACL). It is essentially driven upwards, for contract retirees from the civil service (Ircantec) and by the effect of renewal of the retiree population. While the "Noria" effect remains positive for all the schemes studied, the impact of "entrants" and "leavers" varies by scheme and, within each scheme, by gender. At Cnav, Ircantec and CNRACL, "entrants" and "leavers" have a positive impact on the evolution of the average pension. The impact of "entrants" is greater than that of "leavers" with a downward trend linked to: the increase in the length of time required to obtain the full rate, the tightening of the conditions for early retirement, the reduction from 15 to 2 years of the service condition for entitlement to a civil servant's pension, and the reduction in very long careers. For Agirc-Arrco, the impact of "new entrants" is negative, as new retirees have, on average, lower pensions due to the decline in the scheme's performance. The impact of "leavers" is positive, offsetting the negative impact of "entrants" until 2016. For the SRE, the impact of "leavers" and "entrants" is positive, with the latter having a slightly lower impact, which tends to increase over the years.