



The Employment of Seniors: A Choice to Clarify and Personalize

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The employment rate among older people has substantially increased over the past 15 years, including during the 2009 recession: for persons between 55-64 years old it grew from 37.9% at the beginning of 2008 to 48.9% at the end of 2015. Although not always clearly identified in the public debate, the reasons for this increase are clear: pension reforms on the one hand, in particular the raising of the legal retirement age, the contribution period extension and the virtual elimination of publicly-financed early pensions. On the other hand unemployment insurance reforms, and in particular the ending of the system of exemption from job-seeking obligations. Despite this increase, the employment rate among older people is still 10 percentage points lower than the OECD average.

Beyond the financial balance of social security accounts, the issue of senior employment reflects a choice between income and leisure. Admittedly, an unlimited increase in employment rates among older people is not desirable. However, the low employment rate for people over 60 years reduces wealth creation. For a long period of time, incentives aimed at seniors leaving the labour market were organised, assuming that this would lead to a reallocation of jobs between generations. However, this working time reduction over the total work period has not resulted in a decrease of unemployment and it has reduced potential output.

New reforms to ensure the long-term equilibrium of the pension system are necessary. In order to ensure that col-

lective choices are made in an open manner, it is essential that the effect of the current indexation rules and the future decline of pensioners' relative standards of living are clearly explained. In order to ensure that individual choices are well-informed, the information provision on the various "chosen" pension schemes should be improved: discounts and premiums, gradual retirement, combined work and retirement, where the latter should give rise to pension entitlements. The governance of the compulsory pension schemes also needs to be unified and the rules defining the accrual of pension rights need to be progressively harmonised, in order to move towards the eventual establishment of a unified points-based system.

The unemployment insurance system continues to fuel an implicit early retirement system, which in turn artificially inflates the number of unemployed persons receiving benefits three years before their legal retirement age. In order to deal with seniors' greater difficulty to find new employment, we recommend the set-up of a specific support and training plan for the unemployed over 50 years. At the same time, it would be desirable to limit the length of unemployment benefits for this age group to a maximum of two years and abolish the extension of the compensation period, currently ranging from the minimum legal retirement age to the age at which a full rate pension is acquired. Finally, we propose the establishment of a bonus-malus system for employers' unemployment insurance contributions applicable to all employees, including seniors.

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The employment rate among older people in France has been rising for about fifteen years. During the 2000s the termination of early retirement pensions and the abrogation of exemptions from job seeking were the main reasons why employment rates rose. In recent years, pension reforms have played a major role: the average retirement age as well as the employment rate of people over 60 have surged. However, the biggest increases in retirement age are still to come: according to the report from the French Pensions Advisory Council (*Conseil d'orientation des retraites*, COR) of June 2015, the retirement age is set to increase from its current level of 61 to 64 years by 2040.

The employment of seniors raises an arbitration issue between income and leisure. Admittedly, an unlimited increase of senior employment rates is not desirable, since nobody wishes to be worn out on the job. However, removing seniors from the labour market reduces potential output and has not proved successful in reducing unemployment. Moreover, despite the adopted reforms, the most plausible scenarios indicate that it will not be possible to ensure the financial equilibrium of pension funds without new measures.

Thus, the question of the collective trade-off between retirement age and the level of pensions arises again. Striking this balance should also be possible at the individual level, within the framework of a financially-sustainable pension system which can be understood by all, and an unemployment insurance system that does not incentivize an early and final withdrawal of seniors from labour market before retirement age.

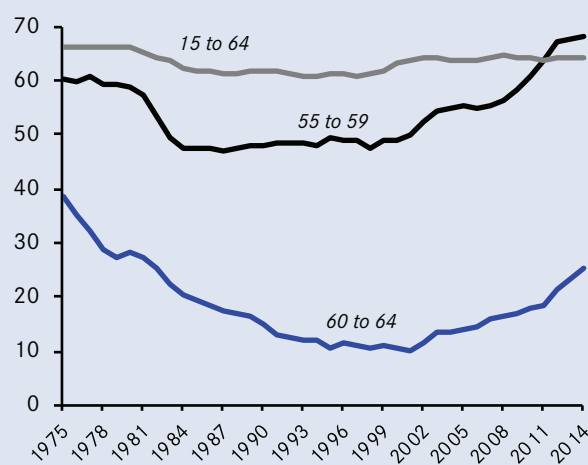
The employment of seniors in France: A development shaped by public policy

The variations in employment rate among older people over a period of almost 40 years –falling for long period before rising sharply over the last 10 years– perfectly illustrate the importance of public policy for employment. As far as seniors are concerned, employment is above all influenced by the pension, early retirement and unemployment insurance systems.

Fall in the employment of seniors in the 1970s and 80s: the result of retirement at age 60 and early retirement policies

The employment rate of persons between age 60 and 64 fell by almost 30 percentage points between 1975 and the mid-1990s (graph 1). Similarly, employment rate of persons

1. Employment Rate for age groups 55 to 59, 60 to 64 and all persons of working age, 1975-2014, in % of the population of each age group



Source: INSEE.

between age 55 and 59 fell by more than 10 percentage points at the beginning of the 1980s. This reduction was even bigger in the case of men aged between 55 and 59 (more than 20 percentage points), while employment rate of women between age 55 and 59 was supported by the general trend of an increase in female employment.

The employment rate reduction until the mid-1990s is principally explained by the specific measures adopted to incentivize a withdrawal of seniors from the labour market. In the 1970s, at a time when the legal age of retirement was 65 and in the face of increasing unemployment, early retirement systems¹ were put in place for people aged 60-64. These initial mechanisms enabled those employees that previously contributed to the unemployment insurance system for a minimum period, to receive benefits until their retirement.² When the legal retirement age was reduced to age 60 in 1983, the decline in the employment rates of the age group 60-64, which had already started some years earlier, was reinforced and extended to all economic sectors.

Lowering the age threshold for full pension eligibility to 60 years also affected persons between age 55 and 59, as they successively gained improved access to early retirement measures which, for the most part, had previously been reserved to persons of the 60-64 age group. The employment rate of persons aged 55-59 thus fell by 10 percentage points

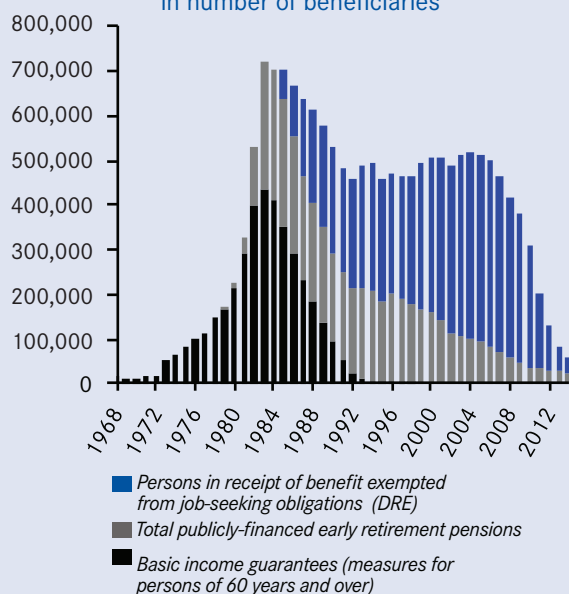
The authors would like to thank Clément Carbonnier who supervised this work within the permanent staff of the CAE, Yves Guégano for his remarks on an earlier version of the document and Pauline Carry for her research into foreign unemployment insurance systems. The authors are of course solely responsible for the final content of this Note.

¹ The basic income guarantee (*garantie de ressources*), the National Employment Fund special allowance (*allocation spéciale du Fonds national pour l'emploi*, AS-FNE), gradual retirement pensions (*préretraites progressives*, PRP) and the income replacement allowance for employment (*allocation de remplacement pour l'emploi* / ARPE). See for example Marioni P. and R. Merlier (2014): "Les cessations anticipées d'activité en 2012: rebond des retraites anticipées pour carrière longue, maintien du dispositif « amiante » et extinction des autres dispositifs publics", *DARES Analyses*, no 012.

² The financing of this benefit depends on the scheme, but is in general shared between the State, the UNÉDIC and the employer.

in the beginning of the 1980s. The unemployment insurance system then contributed to the stabilisation of a low employment rate for the 55-59 year age group. The creation of an exemption system from seeking employment (*dispense de recherche d'emploi*, DRE) enabled unemployed seniors to receive benefits without actively seeking work, which in fact corresponds to a “UNÉDIC [French national organisation managing unemployment benefit schemes] early retirement pension”. These exemptions from job-seeking obligations gradually replaced other measures, thus maintaining the number of persons in early retirement at around 500,000 in the 1990s and 2000s³ (graph 2). As a matter of fact, the principles behind the “UNÉDIC early retirement pension” became general and constituted a systematic tool to reduce workforce.

2. Early retirement mechanisms and exemption from job-seeking obligations since 1968, in number of beneficiaries



The progressive establishment of favourable conditions for an increase in senior employment

From the 1990s on, in the face of a deteriorating financial equilibrium of the early retirement systems and the pension system, the Government gradually changed its objective and sought to encourage seniors to stay in the labour market, all the more so as the disincentives to withdraw from working life had not shown their effectiveness in reducing overall unemployment. Indeed, research of Gruber and Wise (2010)

has highlighted that employment of young people was not increased by removing seniors from the labour market.⁴

Contribution period and pension eligibility age

To ease the tensions involved with pension financing, several reforms were undertaken, activating three principal levers: increasing the contribution rate, reducing the relative average pension⁵ and increasing the average retirement age. In fact, the reforms led to a tightening of retirement conditions. The years 1993, 2003, 2010 and 2014 marked the principal stages of this process.

The 1993 reform concerned the general pension scheme and the three other aligned schemes:⁶ the required length of contributions necessary to be eligible for a full pension progressively increased from 37.5 to 40 years; the average reference wage used for calculating the pension level will be gradually increased to be finally based on the highest-paid 25 years, rather than the highest-paid 10 years previously used.

The 2003 reform concerned pension schemes as a whole, with the exception of special schemes. It progressively aligned the length of state employees' contributions with those of private sector employees (from 37.5 to 40 years) and, from 2009 onwards gradually increased the compulsory contribution period, reaching a total of 41 years in 2012; a semi-automatic extending of this period was established in accordance with improvements in life-expectancy beyond 2012. A reduction mechanism (decreased pension when the person covered takes retirement before having contributed for the required length of time) was brought into general use and an increase mechanism was introduced (raised pension in case of late retirement).

The 2010 reform and the following Social Security Finance Act (*Loi de financement de la Sécurité sociale, LFSS*) of 2012 progressively raised the full pension eligibility age to 62 years. These changes affect both employees in the public and private sectors, as well as those covered by special schemes albeit with varying implementation schedules; the threshold at which a discount on pensions is annulled will be progressively raised from age 65 to 67. Ultimately, the legal retirement age and the exemption threshold for a potential discount will be respectively increased to age 62 in 2017⁷ and 67 in 2022.

Finally, the Act of 20th January 2014 increases the required contribution length necessary for the obtainment of a full pension to 43 years starting with the generation born in 1973.

³ Since the number of persons between 55 and 64 years increased at the beginning of the 2000s, due to the first baby boomers entering this age group, the number of beneficiaries began to fall in relation to the population concerned.

⁴ Cf. Gruber J. and D.A. Wise (dir.) (2010): *Social Security Programs and Retirement Around the World: The Relationship to Youth Employment*, University of Chicago Press, available on www.nber.org/books/grub08-1, and OCDE (2013): “All in it Together? The Experience of Different Labour Market Groups Following the Crisis”, Chapter 1 in *Employment Outlook*, OECD Publishing.

⁵ The relative average pension is the ratio between the average retirement pension and the average income from employment.

⁶ Agricultural, craftsmen, industrial and commercial employees.

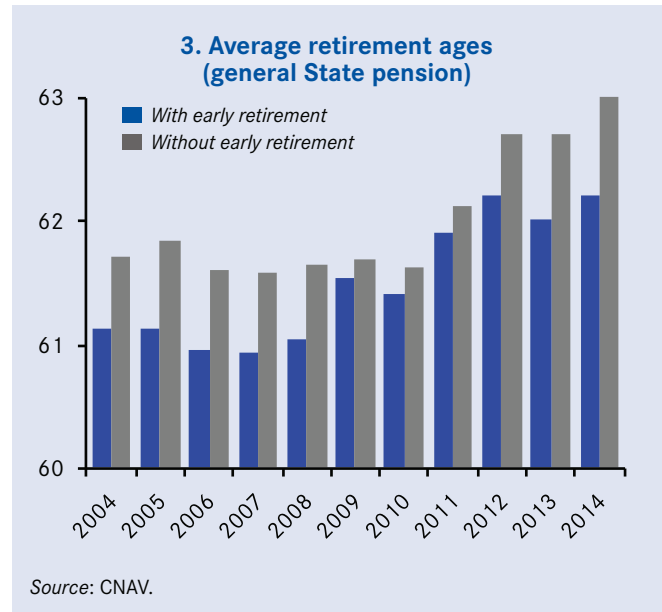
⁷ The 2010 reform initially planned this objective for 2018; the 2012 Social Security Finance Act (LFSS) accelerated the schedule in order to meet it by 2017.

Ending pension's wage-indexation

While attention has been mostly focused on measures concerning contribution length and retirement age, another major area for equilibrating pension schemes has involved the rules for revaluation of both past wages –when calculating the first pension– and pensions already in payment. From the end of the 1980s on, the indexation of pensions on prices (and no longer on overall wage evolution) has been adopted in the general scheme, whose principle has been confirmed by the 1993 reform, before being extended to state employees' pensions in 2003. Price-indexation will strongly contribute to curb pension expenditure in the upcoming years, but the exact scale of this reduction will depend on GDP growth.⁸ As pensioners age price-indexation leads to a limitation of the income replacement rate and of the pensions' relative purchasing power. In fact, the planned re-equilibration of the pensions system's finances principally relies on a relative reduction of pensioners' living standards, much more than on a progressive increase of the retirement age.

Early retirement in case of long careers

The establishment of early retirement mechanisms partly offset the extension of the contribution period induced by successive reforms, thus limiting its impact on the employment of seniors. The 2003 reform enabled those who started to work between age 14 and 16 and contributed for the required duration of their generation to retire before age 60. The average age when deciding to cash-in benefits, e.g. to retire, in the general scheme remained stable between 1993 and 1999, successively increased by 0.4 years in the beginning of the year 2000, and finally declined by 7 months in 2004 (graph 3).⁹ The average age when deciding to cash-in benefits subsequently stabilised and then progressed from 2009 onwards.¹⁰ The 2010 reform, which raised the legal retirement age and restricted access to early retirement, for long careers in particular,¹¹ contributed to a considerable increase in the actual retirement age.



Since 2012, there has been an observable increase in early retirement in the case of long careers, as a result of the greater flexibility of access conditions (decree [*décret*] of 2nd July 2012),¹² in a context in which the legal retirement age is increasing. At the end of 2014, 182,200 former employees had the benefit of early retirement on the basis of a long career, which marks a sharp increase as compared to 2012 (+ 92%).¹³ Early retirement continues to play a major role in the case of long careers: it reduced the average retirement age under the general State pension scheme by almost 9 months in 2014 (graph 3).

Early retirement and job-seeking exemptions

After a peak in the middle of the 1980s, the number of beneficiaries of publicly-funded early retirement schemes started to fall (graph 2), stabilising at around 400,000 in the 1990s and 2000s. This number progressively diminishes at the

⁸ Marino A. (2014): "Vingt ans de réformes des retraites: quelle contribution des règles d'indexation ? », *INSEE Analyses*, no 17.

⁹ See Benallah S. and C. Mette (2009): "Age moyen de départ en retraite: tendances récentes et évolutions attendues", *Retraite et Société*, no 58, February.

¹⁰ The average age of cash-in and starting of pensions is an imperfect indicator, since it is affected by different sizes of generations and by different dates of reforms entering into force; the prevailing age of retirement, calculated with neutralisation of the effects of demographic composition, is a more pertinent indicator. With regard to the general State pension scheme, the prevailing age of retirement also shows a reduction between 2004 and 2008 and an increase beginning in 2009, see Conseil d'orientation des retraites (COR) (2016): *Les âges de départ à la retraite: évolutions et déterminants*, Actes du 13^e colloque, La Documentation française, March.

¹¹ The 2010 Act progressively raised the age of early retirement (from 56 to 58 years) and abolished early retirement for parents with three children employed in the public service. Conversely, for employees suffering from physical incapacity superior or equal to 20%, due to situations of work-related strain, the legal retirement age remains fixed at 60 years and no reduction is applicable.

¹² The decree of 2nd July 2012 makes the mechanism for long careers more flexible and reinforces measures in favour of persons with pensions entitlements who have experienced vagaries in their careers: persons having started work before 20 (instead of 18 years) who have contributed for the required duration their generation may take early retirement (the condition of 2 additional years of contributions is removed). Two three-month periods of unemployment benefit reception and two three-month periods linked to maternity are taken into account, in addition to the four assimilated three-month periods connected with national service and the four assimilated three-month periods connected with maternity or sickness. Finally, the Act of 2014 further extends the three-month periods taken into account for early retirement in the case of long careers, by adding two three-month periods for invalidity, two three-month periods for receipt of unemployment benefit (thus bringing the number of three-month periods for receipt of unemployment benefit to a total of four) and all three-month periods for maternity.

¹³ Marioni P. and R. Merlier (2016): "Les cessations anticipées d'activité en 2014. Une hausse limitée par une progression moindre des retraites anticipées", *DARES Analyses*, no 24.

beginning of the 2010s, as from this moment on early retirements mainly refocused on health and occupational hardship issues.¹⁴ Today, early retirement with public pensions is marginal and applies only asbestos (4,200 in 2014). Exemptions from job-seeking obligations, which played a major role in the 1990s and 2000s, slumped once again in 2009, until they ceased to be granted to new applicants in 2012. Nevertheless, as we shall see, the unemployment insurance system still comprises an implicit early retirement mechanism, absent from data on early withdrawal from working life.

Rise in senior employment in the 2000s

The rise in the senior employment rate has been observable since the 2000s. It has grown since the end of the 2000s when, for the first time since the mid-1970s, pension¹⁵ and early retirement policies were mobilised in a consistent manner aiming at an increase of senior employment: early retirement provisions, exemptions from job-seeking obligations and (partial) restrictions to access to early retirement in the case of long careers were brought to an end, while the minimum age for pension entitlements and the required contribution period both increased. The employment rate for persons of age 55-59 increased sharply from 56 to 68% between 2007 and 2014, despite the great recession. The employment rate of persons of 60-64 rose considerably, by 15 to 25%.¹⁶

The rise in senior employment was accompanied by an increase of their unemployment rate, which is often highlighted to raise questions about the pertinence of increasing the retirement age. The rise in unemployment during the great crisis was the same among seniors as among the working population under 55 (+ 3.3 percentage points between 2008 and 2014).¹⁷ However, periods of unemployment are longer among seniors: 62% of unemployed persons between 55 and 64 years of age have been out of work for over a year, as compared with 42% for those between age 15-64. Indeed, the probability of finding a new job is lower for the elderly unemployed than for others. Nevertheless, the rate of return to employment of unemployed workers over 50 years showed a slight increase.¹⁸

To analyse the impact of ceasing activity mechanisms on working life, it is not enough to monitor the number of unemployed. A proportion of seniors wishes to work but, discouraged by the difficulty of finding employment, does not actively seek work. Similarly, they may only find part-time employment, when they would like to work full-time. Just over 25% of the 4 million that are at least 55 years old and working in 2014 were in part-time employment, compared to 19% for the total working age population. Nevertheless, although they more commonly work part-time, working seniors are less likely to be in a situation of unchosen part-time employment (5% under-employment as compared to 6% for the working age population in employment as a whole). Moreover, they are twice less likely to work on the basis of temporary contracts compared to the rest of the population. Finally, in France, the proportion of non-working persons wishing to work, e.g. persons in the “halo” of unemployment, is low (2% as compared with 3% among the 15-64 year age group). Overall, it is therefore not true that seniors are more likely to work in a situation of precariousness or that the prolongation of careers has created greater relative insecurity for this age group compared to the rest. The return to “normal” employment conditions has aligned seniors with the rest of the population. The increasing unemployment rate is misleading: it only mirrors the extensions of active employment to persons over 55 years of age.

A dynamic that needs to be continued

International comparisons

In France, employment rate of persons between 55 and 64 reached 47% in 2014. It is still considerably lower than the OECD country average of 57% (graph 4). Despite the considerable improvement in employment rates since the end of the 2000s, seniors still work less frequently in France than on OECD average. The difference with Northern European countries, such as Sweden or Norway, is even greater since in these countries employment rates exceed 70% for these age groups.

The relatively low employment level of the French 55 to 64 age group in comparison to the OECD country average is

¹⁴ Early retirement from work for asbestos workers (*cessation anticipée d'activité des travailleurs de l'amiante*, CAATA) and early retirement from work for certain wage earning workers (*cessation anticipée de certains travailleurs salariés*, CATS).

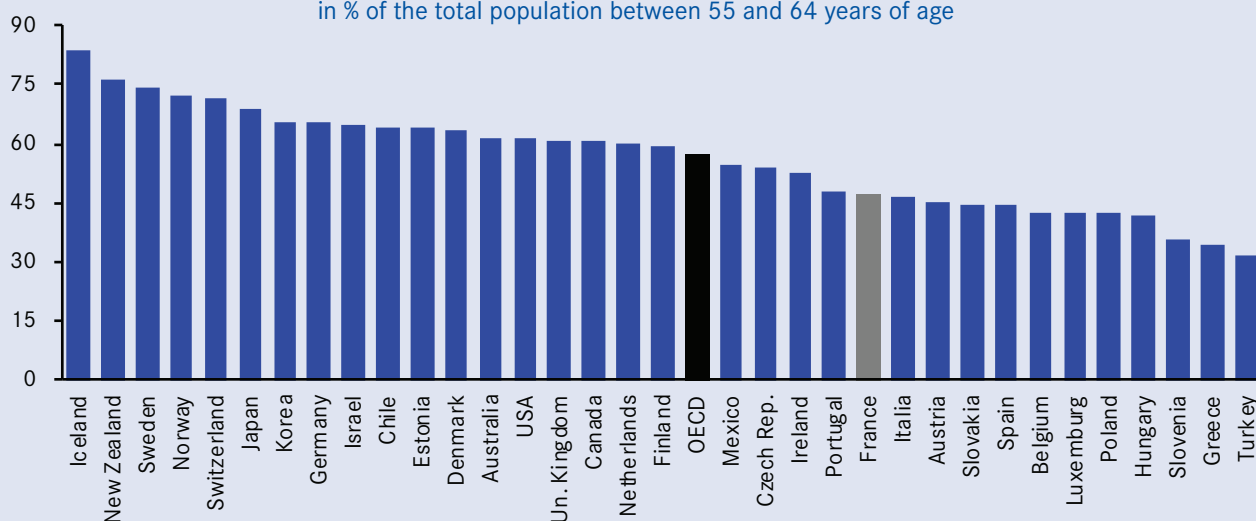
¹⁵ For empirical assessments of the effects of pension reforms on the rate of employment of seniors see, for France in particular, Aubert P. (2012): “Allongement de la durée requise pour le taux plein et âge de départ à la retraite des salariés du secteur privé : une évaluation de l'impact de la réforme des retraites de 1993”, *Retraite et Société*, no 62, pp. 127-144; Bozio A. (2011): “La réforme des retraites de 1993 : l'impact de l'augmentation de la durée d'assurance”, *Économie et Statistique*, no 441-442, pp. 39-54; Benallah S. (2011): “Comportements de départ en retraite et réforme de 2003 : les effets de la surcote”, *Économie et Statistique*, no 441-442, pp. 79-100; Baraton M., M. Befy and D. Fougère (2011): “Une évaluation de l'effet de la réforme de 2003 sur les départs en retraite : le cas des enseignants du second degré public”, *Économie et Statistique*, no 441-442, pp. 55-78; Dubois Y. and M. Koubi (2016): *La réforme des retraites de 2010 : quel impact sur l'activité des seniors?*, Mimeo; for the USA, Mastrobuoni G. (2009): “Labor Supply Effects of the Recent Social Security Benefit Cuts: Empirical Estimates Using Cohort Discontinuities”, *Journal of Public Economics*, vol. 93, no 11-12, pp. 1224-1233; for Austria Staubli S. and J. Zweimüller (2013): “Does Raising the Early Retirement Age Increase Employment of Older Workers?”, *Journal of Public Economics*, vol. 108(C), pp. 17-32; for the United Kingdom Cribb J., C. Emmerson and G. Tetlow (2014): “Labour Supply Effects of Increasing the Female State Pension Age in the UK From Age 60 to 62”, *Institute for Fiscal Studies Working Papers*, no W14/19.

¹⁶ This rise is partly explained by an increase in the combination of employment and pension. In 2014, 20% of employed persons between 60 and 64 were also receiving pensions.

¹⁷ Minni C. (2016): “Emploi et chômage des seniors en 2014. Plus d'un actif sur deux parmi les 55-64 ans”, *DARES Analyses*, no 7.

¹⁸ Govillot S. and M. Rey (2013): “Rechercher et retrouver un emploi après 55 ans”, *INSEE Références, Emploi et salaires*.

4. Employment rate of age group 55 to 64 in OECD countries in 2014
in % of the total population between 55 and 64 years of age

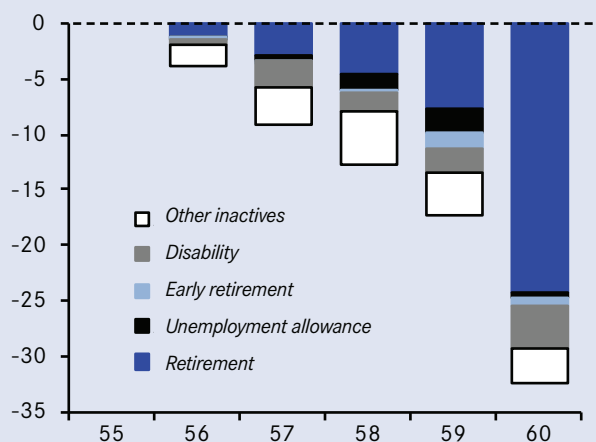


Source: OECD.

above all attributable to the low employment rate of persons between 60 and 64. Indeed, France has caught up with the OECD average of employment rates of persons between 55 and 59 years, thanks to a significant increase between 2008 and 2013. The employment rate for this age group nevertheless remains much lower than that of Sweden and Germany. However, the employment rate of persons of age 60-64 remains much lower compared to OECD countries (gap of 20 percentage points), despite an upward trend since 2000. Compared to Sweden, where the employment rate exceeded that of France in 2014 by 41 percentage points, this result is even more striking.

The various different pension reforms have progressively set up incentives to delay retirement, in particular by increasing the contribution periods necessary to obtain a full pension. If legislation is assumed to stay constant; the largest increases in retirement age are still to come: while the average age for effectively leaving the labour market and starting to cash-in benefits amounted to 61 years in 2013, it is set to increase regularly, and should reach 64 years by 2040 (without taking into account the still very uncertain effects of the occupational hardship account [*compte pénibilité*]).¹⁹ Based on the assumption that the relative parts of unemployment and inactive persons remain similar to those of 2015, with a three-year time lag from employment to retirement, the employment rate for the 60-64 age group may then exceed 50%,²⁰ on the condition that this development is not offset by any new measure. Nevertheless, this increase is still very slow and, as we shall see, the pension system's equilibrium is not ensured in all macroeconomic scenarios.

5. Breakdown of the cumulative decrease in employment rate of persons between 55 and 60 years of age, in % points



Interpretation: Between 55 and 59 years, the employment rate decreases by 17 percentage points, the proportion of pensioners increases by 7 percentage points, the proportion of persons in early retirement increases by 1.1 percentage points, and the proportion of persons receiving unemployment benefit increases by 2.2 percentage points.

Source: Enquête Emploi 2015.

At age 56 employment rates decline

Graph 5 presents the differences in the senior employment rates between age 55 and 60 in 2015. The employment rate

¹⁹ Conseil d'orientation des retraites (COR) (2015): *Évolutions et perspectives des retraites en France*, Rapport annuel du COR, June, p. 40 and Duc C. (2015): "Les réformes des retraites depuis 1993 augmentent à terme l'âge moyen de départ de deux ans et demi", *Études et Résultats, DREES*, no 915.

²⁰ The rate of employment of persons aged 57-61 amounted to around 55% in 2015.

of seniors starts to decline at age 56: it drops by 17 percentage points between age 55 and 59, falling from 77 to 60%. 7.2 percentage points of this drop between age 55 and 59 can be attributed to retirement. Public early-retirement and invalidity pensions account for 3.1 percentage points of the reduction and 2.2 percentage points of the increase in the number of recipients of unemployment insurance benefits. Finally, departures from working life other than early retirement and invalidity pensions account for 4.5 percentage points. These departures, which bear the mark of a horizon effect, cover a multitude of situations, which are difficult to identify more precisely based on Employment Survey data. A proportion of these departures from working life are chosen, while others are not. In particular, these departures include “firm” early retirements, for example in the form of voluntary departure plans,²¹ as well as voluntary departures from working life, for example retirement due to an inheritance.²²

On average seniors’ health is not an obstacle to employment increases

A major question raised by the increase of the senior employment rate is, of course, the seniors’ state of health. From this point of view, if the 1970s are taken as reference point, the changes have been doubly favourable: today, the employment rate of seniors is lower than 40 years ago, while life expectancy has regularly increased. While the latter continues its increase and the average state of health as declared by people themselves stabilizes, it may be considered that health does not constitute a constraining barrier to redressing the employment rate of seniors. Nevertheless, the diagnostic may be different when broken down by social category or level of education.²³

The Pensions Advisory Council (COR) report of June 2015 presents the proportion of persons in each age group having severe or moderate “limitations”. The rate is similar for persons of 55-59 and 60-64 years of age. Therefore, there does not seem to be a clear aggravation of the state of health when considering these two age groups. This result may nevertheless reflect a beneficial effect of retirement as the majority of persons in the 60 to 64 age group is not in employment. In this regard, the empirical research is not conclusive: being retired appears to have a positive effect on a person’s physical condition and negative outcomes on the psychological state.²⁴

Effects are probably very heterogeneous depending on the type of previous occupation, individual lifestyles, interest in work and social life, etc. This supports the idea of a personalisation of the pension system and taking into account special conditions depending on previous occupations.²⁵

“UNÉDIC early retirement pensions”

In France, unemployed seniors over 50 are subject to a specific unemployment insurance scheme, which grants an extension of benefit duration.

First, their maximum length of entitlements is one year longer than under the normal scheme (before age 50) yielding three years. This situation has continued for numerous years and has not been changed despite the extension of careers since the successive pension reforms.

Second, unemployed persons still receiving benefits at the legal retirement age²⁶ can continue to receive those until they have not reunited all contribution quarters giving right to a pension without deduction or until they have reached the age threshold cancelling the automatic deduction for their generation (which varies from 65 to 67 years according to the date of birth). Though largely absent from the public debate, this mechanism weighs heavily in end-of-career negotiations within companies, particularly for the largest companies.

By deciding to abolish exemptions from job-seeking obligations in 2008, the government brought the official character of UNÉDIC retirement pensions to an end. However, it left the extension of unemployment benefit beyond three years unchanged.²⁷ The minimum age required for the extension of unemployment benefits until reaching the legal retirement age giving rise to a full pension has nevertheless been progressively increased to 62. While the unemployed individuals concerned by this mechanism represented 40,000 people in 2011, yielding a cost of 788 million euros (that is to say 3.1% of benefits paid for 1.7% of unemployed people, the average level of benefit being relatively high for these persons), these figures have dropped sharply since the shift to age 62: 20,000 persons are concerned resulting in a cost of 260 million euros.²⁸ However, it should be noted that this unemployed population still represents the majority of unemployed persons over 62 years old.

²¹ See Marioni and Merlier (2016) *op. cit.*

²² See Garbinti B. and S. Georges-Kot (2016): “Time to Smell the Roses? Risk Aversion, the Timing of Inheritance Receipt, and Retirement », *INSEE Working Paper*, no G2016/01, for an assessment of the effect of receiving an inheritance with regard to seniors leaving work.

²³ See Blanchet D., E. Caroli, C. Prost and M. Roger (2016): “Health Capacity to Work at Older Ages in France”, *NBER Working Paper*, noW22024.

²⁴ See for example, a review of the research in Caroli E. and A. Bassanini (2015): “Is Work Bad for Health? The Role of Constraint Versus Choice”, *Annals of Economics and Statistics*, GENES, no 119-120, pp. 13-37.

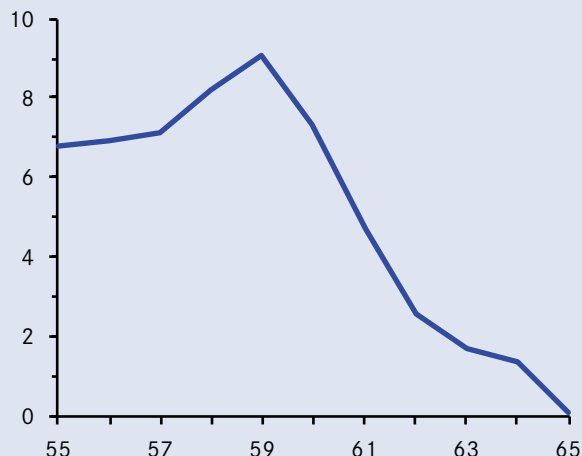
²⁵ Persons between 50 and 59, who have been exposed to physical hardship, are less often in good health, see Coutrot t. and C. Rouxel (2011): “Emploi et santé des seniors durablement exposés à des pénibilités physiques au cours de leur carrière”, *DARES Analyses*, no 20.

²⁶ The required age for continued receipt of benefits has been progressively raised. Today it is 61 years and 2 months for persons born in 1953, 61 years and 7 months for those born in 1954, and 62 years for the generations born in 1955 and later.

²⁷ In order to benefit from continuing unemployment benefit payments, it is necessary to have been a recipient for at least 12 months, to have proof of affiliation to the unemployment insurance scheme for 12 years (including 1 continuous year or 2 intermittent years, in the course of the 5 years preceding the end of the employment contract) and to have contributed for at least 100 three-month periods, validated under the basic French or European schemes.

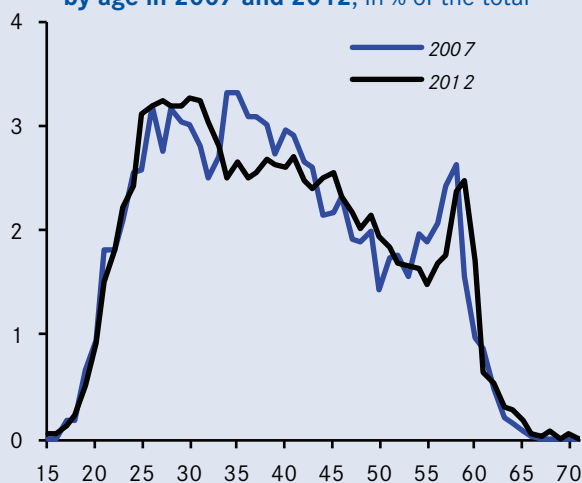
²⁸ UNÉDIC (2016): *Le dossier de référence de la négociation.*

6. Changes in the proportion of persons receiving unemployment benefit according to age in 2015 in % of the population for each age group



Source: *Enquête Emploi 2015*.

7. Breakdown of the termination of permanent employment contracts for redundancy/dismissal and employment termination agreements by age in 2007 and 2012, in % of the total



Interpretation: 2.5% of permanent employment contracts which came to end in 2012 due to redundancy/dismissal or employment termination agreements concerned employees of 59 years of age.

Scope: Establishments with one or more employees in Metropolitan France in the competitive sectors excluding agriculture.

Source: Minni C. (2013): "Les ruptures conventionnelles de 2008 à 2012", *DARES Analyses*, no 31, DARES DMMO-EMMO.

A longer than normal benefit period and the extension of entitlements until the age required for a full pension resembles an early retirement pension within the framework of the unemployment insurance system. Counting the retirement age with a full pension backwards, and taking the three years of benefit into account, the reception age of the UNÉDIC early retirement pension increased from 57 to 58 years, and has now reached 59 years (i.e. 62 minus 3 years). In fact, in the case of seniors the labour market shows a very marked discontinuity after the age which potentially determines the

conditions of a UNÉDIC early retirement pension, as shown in graph 6, the number of unemployment benefit recipients increasing considerably at ages 58-59. This increase is largely the consequence of a sharp rise in the termination of permanent employment contracts at 57 in the past, 58 years today (and most probably 59 in the future). This means termination of employment due to redundancy or termination agreements, in particular in the largest companies, which thus manage the restructuring of their workforce with the assent of their senior employees, resulting in excess costs for the taxpayer. While employment termination agreements are stable up to 55, accounting for 16% of cases of termination of permanent employment contracts, they increase between 58 and 60 years (graph 7), as does the proportion of redundancies. The introduction of employment termination agreements has not led to a greater total number of persons retiring from employment: employment termination agreements have simply been substituted for redundancies and dismissals, on personal grounds in particular, which also made it possible to circumvent, before 2008, the "Contribution Delalande" tax on termination of the employment of persons over 50 years. Indeed, the existence of a UNÉDIC conditioned early retirement pension is decisive for these age groups, much more than the existence of employment termination agreements: the peak in contractual terminations at 57-58 to 58-59 years confirms that this phenomenon is closely connected to unemployment insurance legislation.

Proposals for better end-of-career choices

The issues examined above show that we are only half-way through. Foreign countries' experience shows that France still has room for maneuver for increasing senior employment, by increasing the retirement age, while providing flexibility in order to deal with individual cases.

Previous pension reforms will, in principle, continue to fuel the increase in the retirements' starting age also defining the amount of pension entitlements paid. Nevertheless, the financial equilibrium of the pension system is not yet assured; the collective striking of a balance between retirement age and purchasing power – that of pensioners should a new reduction of pensions be decided or that of the working population in case of an increase in contribution rate – is set to become an issue once again.

It is also time to raise the question of striking a balance on an individual basis. Senior employment should be the result of each individual's choice between income and leisure. Some may prefer to work longer in order to enjoy higher incomes; others may prefer not to do so, while accepting a more modest income. It is therefore desirable to promote retirement on the basis of choice and to ensure that unemployment insurance does not exert a premature influence on choices incentivizing withdrawal from employment.

Modification of pension system parameters for a greater personalisation of choices

Senior employment affects average income over the course of a lifetime. A low level of senior employment resulting from early age retirement, either leads to high contribution levels or to small pensions, and therefore to lower overall levels of income over lifetime as a whole. In other terms, senior employment, which for the most part depends on the retirement age, determines the size of the cake; contribution rates and pension levels determine the proportions in which the latter is divided between the working population and pensioners.

According to the latest report from the COR of June 2015, pension system finances should be balanced by 2030, and should then become positive by 2040, according to determinedly optimistic macroeconomic scenarios. However, in the C scenario, assuming relatively optimistic hypotheses based on a labour productivity increase of 1.3% per year and an unemployment rate of 7%, (labour productivity increased by 1.1% per year between 2000 and 2013 and the unemployment rate has not fallen below the 7% mark for thirty years), the system remains in constant deficit. As in the majority of developed countries, gains from labour productivity in France have declined since the financial crisis of 2008. Beyond this cyclic change, French productivity may be suffering from an underlying slowdown. Productivity increases may thus henceforth amount to around 1% per year.²⁹

Trade-offs between income and leisure time resulting from pension reforms

The dependence of pension expenditure on future growth is due to the change in the indexation of reference wages and pensions.³⁰ Since the end of the 1980s this indexation has been based on prices, rather than wages as it used to be previously the case. However, the stronger growth is, the more wages increase compared to prices. When calculating pensions, the income replacement rates are lower and as pensioners age their standard of living declines in comparison to the working population. Conversely, in case of weak growth, wages are not very dynamic and pensioners' standard of living does not fall behind.

Previous pension reforms will thus mostly lead to adjustments at the expense of pensioners' purchasing power, on the basis of optimistic macroeconomic scenarios. The report of the COR of June 2015 considers that, whatever economic scenario envisaged, between 2003 and 2060 the increase in the average retirement age should cover between 34 and 36% of the financing needs linked to ageing, while the reduction of pensioners' relative average pensions, linked in particular to price-indexing of wages taken into account and the calculated pension amounts, would contribute to slightly more than

two thirds of financing requirements in the case of the high economic scenario.

This situation involves two difficulties:

- The effect of de-indexation in relation to wages is highly dependent on economic growth. This makes budgetary adjustment highly uncertain. Furthermore, de-indexation progressively reduces seniors' relative purchasing power in the course of their retirement. The expected growth of life expectancy carries the risk of creating a poverty trap for seniors.³¹
- One can ask whether this choice was properly understood by all, due to very partial provision of information, and above all the reforms' lack of clarity in this regard. De-indexation is considered to be a technical measure and it is doubtful whether its consequences on future pensions were understood by the public at large.

The latest research conducted by the COR dealing with changes in average pension levels should become a part of public debate in the clearest possible manner, in order to (once again) question collective choices concerning the arbitration between income and leisure. In this respect, it is essential to shed more light on individual choices and to provide the possibility of offsetting the reduction of future income by additional working time for those who are willing to. It is essential to undertake education and communication initiatives regarding the effect of pension indexing on prices and the soon-to-come reduction in pensioners' standard of living.

A greater personalisation of the pension system is desirable

The option of a longer working life resulting in a higher standard of living should be communicated in a clear and personalised manner so that everyone is able to make a choice. Until now, the issue of retirement age in the public debate is only addressed as a collective choice, without letting appear any possible individual trade-offs. In order to encourage individual trade-offs the rules defining the accumulation of pension entitlements have to be transparent and harmonised between the different schemes which does not prevent the possibility of higher contributions and therefore differentiated entitlements.

However, these conditions are not fulfilled in the current pension system. An improvement of the system (discount/premium, combination of employment and pension) may constitute a first step. Transition to a clearer system, such as a single point-based system, would then be needed. Pension schemes need to closely link the level of entitlements to the retirement age, and more generally to the total amount of hours worked one working lifetime. Indeed, only a more contributive scheme will create incentives at the individual level.

²⁹ Sode A. (2016): "Comprendre le ralentissement de la productivité en France", *Note d'Analyse de France Stratégie*, no 38.

³⁰ Marino (2014) *op. cit.*

³¹ See Hairault J-O. (2012): *Vivre et travailler plus longtemps*, Éditions Descartes.

Premium-discount

Since the 2003 reform, the pension system has provided a premium/discount system under the general scheme, which explicitly links the amount of the pension to the retirement age, in order to approach more closely actuarial neutrality. Individuals make choices according to their preferences without any (notable) consequences on the financial balance of the pension system, by prolonging their careers beyond the point of full pension entitlement in order to benefit from an increased pension or to take early retirement before full pension entitlement, with their pension therefore being subject to a reduction. Around 15% of French people opt for a premium, involving an increasing number of three-month periods over the years, while less than 10% choose a deduction. Thus, the discount/premium system contributes to a (net) increase in the employment of seniors over 60 years of age. This choice enables a higher income on retirement without affecting the financial balance of the general pension scheme.³² Even if the latest generation of pensioners chose more and more often a retirement age different from the one enabling full pension entitlements, it is once again not certain that the premium/discount mechanism is fully known and understood by the majority of the workforce, at least certainly not early enough to inform their career choices.³³ This system has not received the public exposure it deserves. Moreover, it could be extended to long careers: although certain employees are able to retire earlier than others, they still might wish to work a little longer in order to increase their pension.

Combination of employment and pension and gradual retirement

Another possibility for the optimisation of end-of-career choices is the combination of employment and pension. This possibility is equivalent to a premium, on the condition that contributions to the pension fund give rise to additional entitlements, which has no longer been the case since the pension reform of 2014. In order to restore neutrality at the personal level, the possibility of earning further entitlements when combining employment and pension should be re-established. Lifting the ceiling in case of this kind of combination when a reduced pension has already been accepted appears also as being favourable to senior employment, without weakening the pension funds' position in the framework of an actuarially neutral deduction.

Beyond the choice of whether or not to continue working (extensive margin), gradual retirement enables a higher flexibility of working hours at the end of the career (intensive margin). Gradual retirement makes it possible to work part-

time and receive a proportion of the retirement pension (the percentage corresponding to the part-time supplement to the rate) before starting pension. Since 2015, the age necessary for entering gradual retirement has been 60 years, below the pension eligibility age. As a result the use of this new mechanism has sharply increased, although cases of gradual retirement remain marginal compared to the total number of retirements (0.6% of new pensioners in 2015).

However, according to surveys (see Eurobarometer Survey, 2012) French people express interest in transitioning to a more gradual retirement based on part-time work. How can this discrepancy be explained? The gradual retirement mechanism is probably little-known. Moreover, it is difficult for employees to understand: at the time of definitive retirement pension levels are recalculated, according to the new entitlements earned. Therefore, it is necessary to calculate these rights, while taking a period of end-of-career part-time work into account. The complexity of the pension calculation rules does not facilitate the understanding of this mechanism.

It is not a question of subsidising gradual retirement, but rather of gauging it in order to avoid negative effects on the volume of labour supply,³⁴ and above all to ensure the mechanism's simplicity and clarity. There are very useful tools to give employees access to information about their entitlements. Personal pension entitlement statements, which sum up all entitlements earned whatever the scheme, are sent for persons of 35, 40, 45 and 50, and estimates of pension amounts at various possible ages are provided for persons of 55 and over. Moreover, since 2006, there is an online simulator called "M@REL", as well as other tools created under the aegis of *GIP Union Retraite*. These simulators should be perfected to enable the testing of end-of-career choices. They would also benefit from a better communication among the most directly-concerned population groups.

Recommendation 1. Promote a broader understanding of the various "chosen" retirement mechanisms: premiums and discounts, gradual retirement, combination of employment and pension. Enable the combination of employment and pension resulting in new pension entitlements.

Apart from this need for clarity, efforts to align different pension schemes are needed. As such, a three-month work period does not yield the same pension increase under all pension

³² In fact, the reductions and increases are not actuarially neutral, strictly-speaking. They contribute to overall improvement of the pension scheme's finances.

³³ See Barthélemy N., M. Mamache and S. Benallah (2013): "Les motivations de départ à la retraite: stabilité entre 2010 et 2012", *Études et résultats, DREES*, no 838.

³⁴ Which is not always the case, as shown by the German and Austrian experiences. See Berg P.B., M.K. Hamman, M. Piszczek and C. Ruhm (2015): "Can Policy Facilitate Partial Retirement? Evidence from Germany", *IZA Discussion Paper*, no 9266; Graf N., H. Hofer and R. Winter-Ebmer (2011): "Labor Supply Effects of a Subsidized Old-Age Part-Time Scheme in Austria", *Journal for Labour Market Research (Zeitschrift für ArbeitsmarktForschung)*, vol. 44, no 3, pp. 217-229.

schemes.³⁵ The supplementary AGIRC/ARRCO [respectively the supplementary pension scheme for managerial staff and its equivalent for non-managerial staff] scheme naturally comes to mind, as its last reform led to a very specific system of premiums/discounts that interferes with its overall logic.

Beyond possible optimisation of the existing mechanisms within our pension system, a reform aimed at a unified points-based system³⁶ would enable considerable progress towards a better understanding of the connection between work efforts and pension levels at the personal level. In a points or notional accounts-based system, all working time results in contributions and therefore in additional pension entitlements, which is not necessarily the case under the current system based on years of pension eligible service. These points could be earned and added up whatever the person's occupation. This system would be the best fit for reconciling financially balanced pension funds and the need for personalisation of retirement choices, by imposing an approach based on possible contributions throughout lifetime. It would naturally be under State responsibility as all employment sectors would be covered and its operation would have a major macroeconomic impact.

Such a reform, aimed at a unified system of optional accounts, has been undertaken in Sweden.³⁷ It was planned over several years, after a long consultation phase, in order to secure wide support and understanding of the issues involved.

Recommendation 2. Progressively harmonise the rules defining the accrual of entitlements for full pensions. Organise consultations for an eventual reform, aimed at a unified points or notional accounts-based system.

For a unemployment insurance reform for seniors

In all countries, the actual unemployment period of seniors is higher than that of persons under 50. Seniors have working experience enabling them to compete with younger workers, but once they are out of work they may suffer from a certain distance from expanding tasks and occupations, which are more suitable for new generations. International experience shows that return to work often takes place by accepting lower wages compared to previous employment,³⁸

which shows that human capital loss linked to unemployment is particularly sensitive in the case of seniors.

The follow-up of unemployed persons needs to be improved in order to support this period of searching and (re-)training. The actions undertaken by the French national employment agency (*Pôle Emploi*) need to be specific and adapted to unemployed persons over 50 years of age. When unemployed seniors are too young to take retirement before the end of their unemployment benefit entitlements, it is preferable to improve support and training, rather than extending the benefit payment period. The national employment agency does not currently provide any specific resources for seniors, as a supplement to its policy of targeting the unemployed persons most distant from employment, although one of its fifteen performance criteria is rapid return to work for persons over 50.

It is necessary to provide better support for finding employment and raise awareness regarding a potential need for wage moderation, a consequence of human capital loss and not necessarily of discrimination by companies. Targeted policies need to be stepped up, after the model of those conducted in Germany for example, by working on reintegration, in terms of training, business networks, support and raising of awareness among senior unemployed persons. Empirical assessments conducted, in particular within the "*Perspektive 50plus*" programme in Germany, suggest that specific job-seeking support programmes are effective.³⁹

Recommendation 3. Set up a specific support and training plan for unemployed people over 50 years of age.

In conjunction with this increased support, the maximum period for which unemployment benefits may be paid to seniors should be aligned with the normal period, equal to 24 months.⁴⁰ In principle, the generosity of unemployment benefits should be reduced rather than increased with age, since young people have lesser savings, which not only reduces their capacity to maintain consumption with falling income, but also provides an incentive for more active job-seeking when unemployed.⁴¹ From this point of view, more generous unemployment benefits for seniors than for other age groups is ineffec-

³⁵ Direction de la recherche, des études, de l'évaluation et des statistiques (DREES) (2015): *Les retraités et les retraites*, Rapport DREES, Ministère des Affaires sociales et de la Santé.

³⁶ See Bozio A. and T. Piketty (2008): "Pour un nouveau système de retraite. Des comptes individuels de cotisations financés par répartition", *Collection du CEPREMAP*, no 14, and Conseil d'orientation des retraites (COR) (2010): *Retraites: annuités, points ou comptes notionnels ? Options et modalités techniques*, Septième rapport du COR, 27 January.

³⁷ See Conseil d'orientation des retraites (COR) (2009): "Le système de retraite public suédois", *Lettre du COR*, no 2, February.

³⁸ See Garibaldi P., J. Oliveira Martins and J. Van Ours (2010): *Ageing, Health and Productivity: The Economics of Increased Life Expectancy*, Oxford University Press.

³⁹ See Böckmann A. and M.P. Brändle (2015): "Integration Older Employees into the Labour Market: Evidence from a German Labour Market Programme", *CESifo DICE Report*, vol. 13, no 3.

⁴⁰ The payment of benefit to claimants for periods exceeding 24 months potentially concerns 359,000 claimants over 50 years, with a cost of one billion euros. See UNÉDIC (2016): *Le dossier de référence de la négociation 2016*.

⁴¹ Michelacci C. and H. Ruffo (2015): "Optimal Life Cycle Unemployment Insurance", *American Economic Review*, vol. 105, no 2, pp. 816-859.

tive. Admittedly, the maximum period of unemployment benefit payment is determined by age in thirteen OECD countries.⁴² However, this situation is not necessarily based on effectiveness considerations and the maximum period of benefit payments for seniors is markedly less than 36 months in these countries: it is limited to a maximum of 18 months in Portugal. Furthermore, unemployment insurance is independent of age in numerous OECD⁴³ countries. As maximum duration of unemployment benefits for seniors is markedly higher in France than in other OECD countries and as there is no justification for the maximum payment length to be longer for seniors than for other age groups, we propose that the maximum benefit period for persons over 50 should be reduced to a maximum of two years.

Recommendation 4. Reduce the benefit payment length for persons over 50 to a maximum of two years.

There still remains the question of maintaining the extension of entitlements for persons of 62 years and older. In the first place, it should be emphasised that this measure is aimed at seniors who have not yet contributed to the required period in order to enjoy a full pension, or who are not covered by early retirement measures in the case of long careers. The implicit justification of this mechanism cannot be fairness as measured by periods of time for which contributions are made, since it involves “bridging the gap” until the retirement age with a full pension. Therefore, it involves a different approach than that of transitional solidarity benefit (*allocation transitoire de solidarité, ATS*), which has replaced pension-equivalent benefits (*allocation équivalent retraite, AER*) and is intended for unemployed persons on a means-tested basis, who have already made the contributions required for a full pension but have not yet reached 62 years, the minimum age for the payment of pension entitlements. Neither can occupational hardship be raised with regard to the tasks completed during a career. Mechanisms elaborated on the basis of these issues do exist. Thus, Universal UNÉDIC early retirement pensions cannot be justified by special cases.

According to our pension system’s logic, the reception of unemployment benefit at the minimum retirement age does not constitute a right as compared to other workers. It’s the

contribution period which comes in first, from the point of view of both unemployment insurance and state pensions.

There still remains the issue of the 62 year age threshold, which is held to provide an argument for exemption from active job-seeking. This presupposes health problems at this age. However, these are once again dealt with by other mechanisms.

Recommendation 5. Abolish the extension of the benefit payment period starting at the legal retirement age until the age eligible for a full pension.

This proposal, if applied, does not entirely remove the risk of companies using unemployment insurance to manage their workforce as soon as their employees are eligible for full pension at the end of their potential period of unemployment benefit. It would therefore be desirable to set up a mechanism providing incentives for companies to take the incurred cost of this kind of strategy into account. A bonus-malus system, in which companies contribute to a part of the unemployment benefits costs for their former employees, fulfills this objective. In order to avoid disadvantaging seniors, as it happened for the *contribution Delalande* (tax on the termination of employment of persons over 50 years), this system needs to be applicable to all employees, independent of age.

Recommendation 6. Establish a bonus-malus system for employers’ unemployment insurance contributions.

The considerable increase in the senior employment rate since the 2000s shows that this age group’s underemployment is not inevitable. However, the employment rates observed in 2014 remain far below those seen in the majority of other OECD countries. The mobilisation of this experienced labour force is an essential issue for the prosperity of the country and the sustainability of its social protection. Individual difficulties, as well as health problems, should be dealt with by specific mechanisms and should not call into question incentive-based policies for the continuation of careers. ●

⁴² Austria, Belgium, Czech Republic, Finland, Germany, Israel, Italy, Japan, Luxembourg, Poland, Portugal, South Korea, Switzerland and United Kingdom; see www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm

⁴³ This is the case for Australia, Canada, Denmark, Estonia, Greece, Hungary, Iceland, Ireland, Netherlands, New Zealand, Norway, Spain, Sweden, Turkey and USA, see www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm



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Publisher Agnès Bénassy-Quéré

Editor Hélène Paris

Electronic publishing Christine Carl

Contact Press Christine Carl

Ph: +33(0)1 42 75 77 47
christine.carl@cae-eco.fr