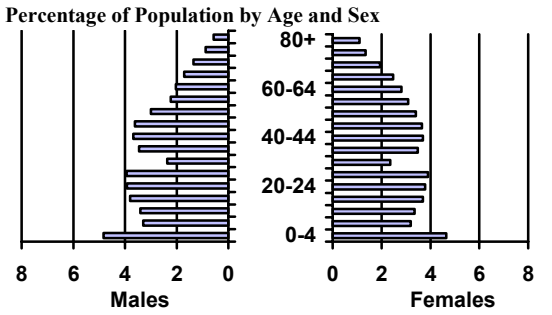
FRANCE

France's population has aged rapidly over the past 50 years. The figures at right show the percentage of France's total population by five year age groups, separately for males and females. In 1950, France's population distribution conformed relatively closely to a classic pyramid shape, where each successively younger age cohort represents a larger portion of the total population. However, the drop in fertility rates during the Depression and WWII created a slight indentation for several younger cohorts.

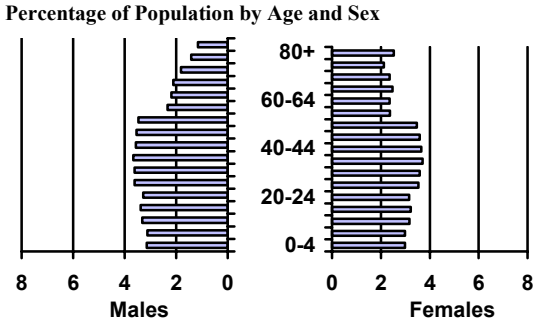
By 2000, the France's population structure diverged from the classic pyramid shape and was replaced by a formation more representing a pillar, where the percentage of the population in each age cohort is more evenly distributed. This change is due to a decrease in the country's birth rate from 2.7 in 1950 to 1.8 in 2000, and to a rise in life expectancy of 11 and 13 years for males and females, respectively.

Looking to the future, the anticipated mix of a low fertility rate with rising life expectancy will lead to a fulfillment of a pillar formation in France's population structure. By 2030, France will have an average age of nearly 44 years old compared to today's average age of 39.

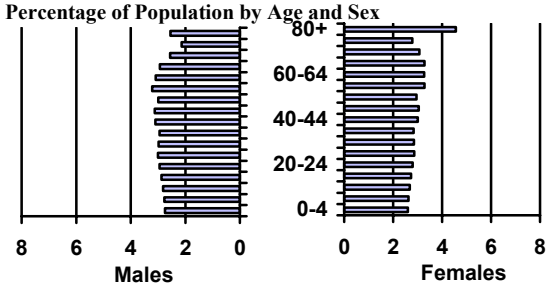
France's Population Structure in 1950



France's Population Structure in 2000



France's Population Structure in 2030



Source: UN Population Division, World Population Prospects (The 2000 Revision).

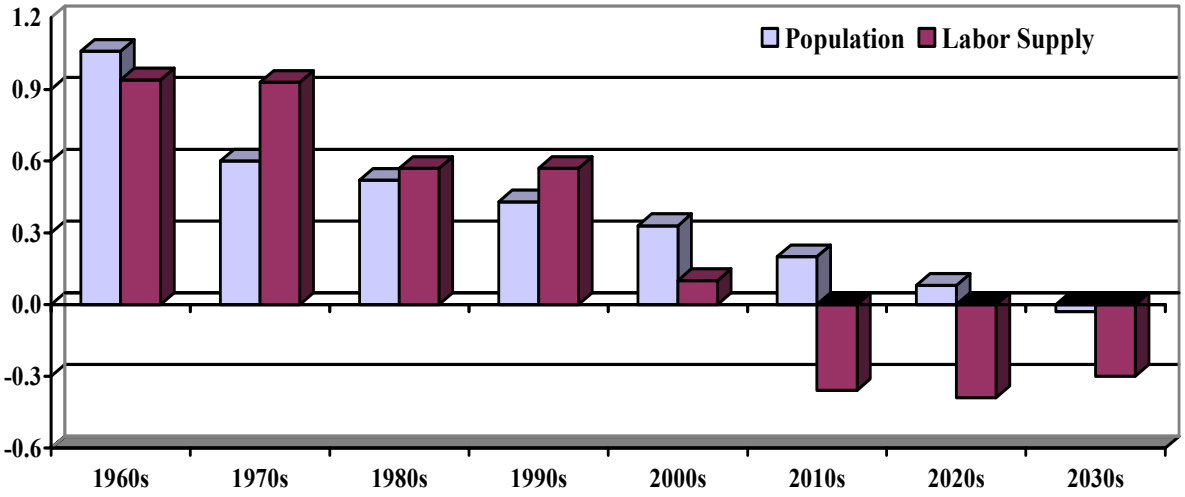
Demographic History

	1950	1960	1970	1980	1990	2000
Life Expectancy at Birth						
Males	63.70	67.60	68.60	70.75	73.31	75.22
Females	69.50	74.50	76.30	78.90	81.45	82.82
Life Expectancy at 65		77.64	78.10	79.12	80.94	81.29
Males		80.88	81.96	83.42	85.33	86.20
Females						
Fertility Rate	2.73	2.85	2.31	1.87	1.71	1.80
Net Migration Rate	0.39	3.21	0.95	0.48	0.64	0.34

A critical component of a society's ability to expand its production of goods and services is the growth of its labor force. As France's population aged over the past half-century, its labor force has undergone changes as well. Soon after the end of World War II, many industrialized societies, including France, experienced a significant spike in birth rates that produced the generation known as the baby boom. Labor supply growth increased dramatically during the 1960s and 1970s as the baby boom generation, including an unprecedented number of its female members, entered the workforce. In addition, France maintained relatively high rates of in-migration over the 1960s, which could partly explain the subsequent rise in labor supply growth. The drop in fertility rates over the last few decades caused population growth to slow considerably, while labor supply growth has maintained a relatively fervent pace. As a result, between the 1970 and 2000, total dependency rates in France fell by about 5 percent, while youth dependency fell by about 23 percent.

As the baby boom generation begins to retire, France's labor supply growth will begin to slow at a more rapid rate than population growth. This has already begun to occur. This is caused by the combination of several factors – prolonged low fertility, improving life expectancy and a greater proportion of the population in age groups that have lower propensities to work. Beginning in the 2010s, these forces will actually cause the workforce to shrink by roughly a half-percent per year. France's relatively high fertility rates have kept this reduction from being even more dramatic compared to several over developed nations; however, by 2030 a greater portion of the population will be inactive, reflected by a 30 percent increase in the total dependency ratio and nearly a 67 percent rise in old age dependency rates from 2000 levels.

Annual Percent Change: Population versus Labor Supply



Source: World Bank, World Development Indicators database

Dependency Ratios

	1970	2000	2030	% change 1970-2000	% change 2000-2030
Youth- (Inactive pop 0-19)/ LF 15+	0.72	0.56	0.54	-22.61	-1.94
Aged- (Inactive pop 55+)/ LF 15+	0.37	0.48	0.81	30.54	66.61
Total- (Inactive pop 0-19 and 55+)/ LF 15+	1.09	1.04	1.35	-4.49	29.99

Source: Sources: International Labor Office, LABORSTA database, current through 2001; UN, Population Division, World Population Prospect (The 2000 Revision); OECD, CDE database on labor statistics, current though 2002

Old Age Pension System

France's old age pension scheme has recently undergone an alteration to alleviate some of the pressures on the system caused by its aging population. France's old age pension program has two parts: a public pension and a mandatory occupational pension. The public pension is earnings based with a target replacement rate of 50 percent after 40 years of contributions – up from 37.5 years prior to 2003. Benefits are proportionally reduced for shorter contribution periods. Eligible earnings are capped at approximately 125 percent average earnings, and there is a minimum annual pension of approximately 29 percent of average earnings. Full benefits are payable at 65, but can be collected as early as age 60 if contribution requirements are met.

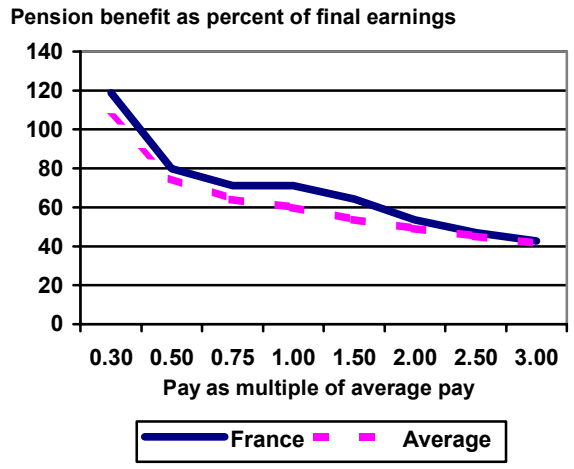
The occupational pension plan that applies to the majority of employees is a point-based ARRCO scheme. Employees can contribute up to approximately 375 percent of average earnings per year into the system. Each year, contributions are converted into a point value. Upon retirement, the total points accumulated over an employee's career are used to calculate the occupational pension benefit. The cost per point has increased 3.4 percent over the past 4 years, while the value per point has increased 1.2 percent over the same period. These increases are attempts to keep the point costs and values tied to increases in earnings and prices, respectively.

To finance France's public retirement program, employees contribute 6.55 percent of insurable earnings, while employers put in 8.2 percent of covered earnings plus 1.6 percent of total payroll.

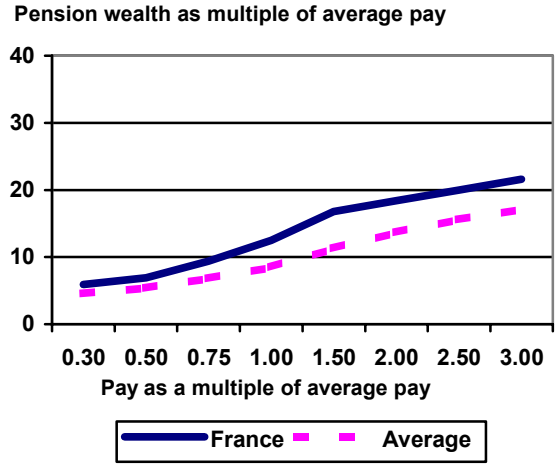
As shown in the figures below, France's pension system offers benefits as a percentage of final earnings that closely tracks those provided by the average OECD nation for all earnings groups. Pensioners, however, can accumulate slightly higher levels of pension wealth for all earnings groups compared to the OECD average.

Source: Whitehouse, Edward (2003); Social Security Administration, Social Security Programs Throughout the World (2002); OECD, "French Pension Pickle", OECD Observer, No. 238 (July 2003) and Dang et al. (2001).

Gross Replacement Rates
France v OECD Average



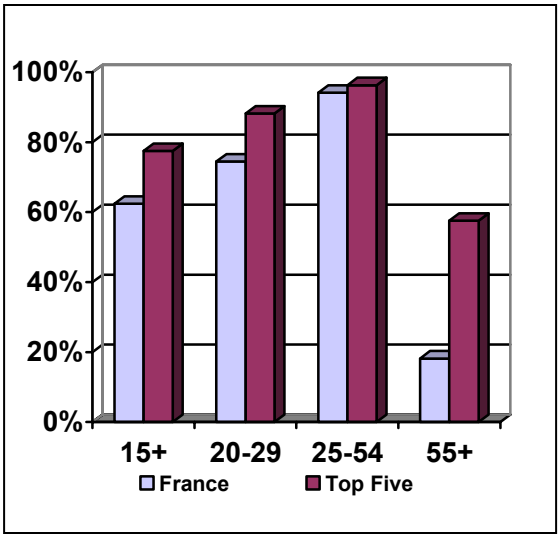
Gross Pension Wealth
France v OECD Average



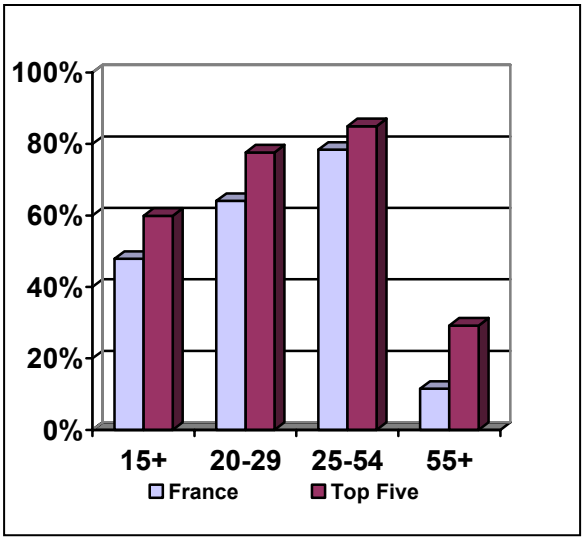
Source: Whitehouse, Edward (2003)
Notes: Pension wealth estimates are a multiple of economy-wide average.

Labor Force Participation Rates: France v Top Five OECD Country Composite

Males

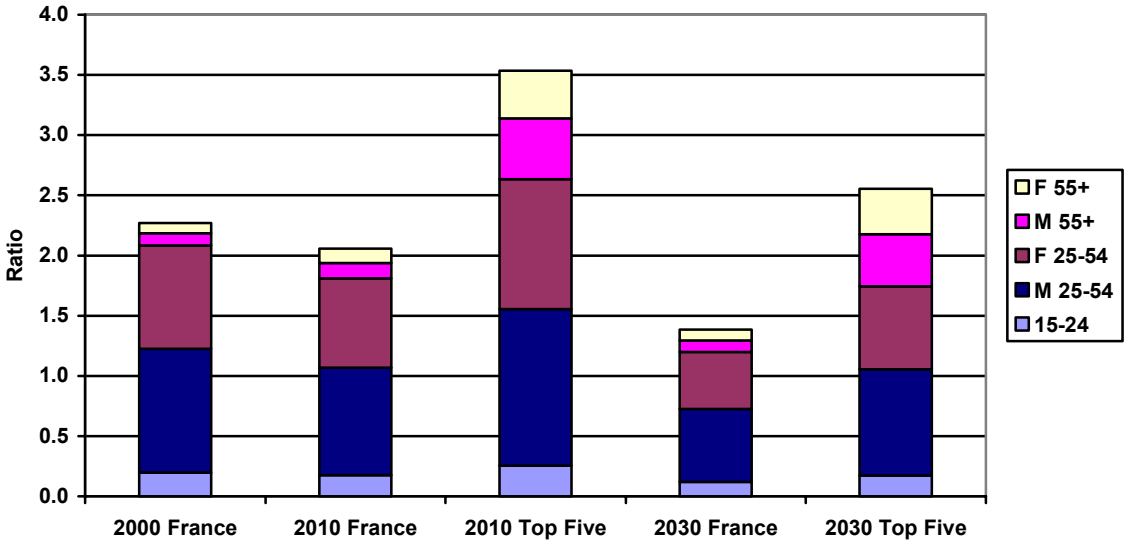


Females



Source: OECD, Corporate Data Environment database on labor statistics, current though 2002

Ratio of Workers in France 15+ to Retirees 60+ in 2000, 2010 and 2030 and Under Alternative Assumptions of Old Age Participation Rates for the Top Five OECD Countries



Source: UN Population Division, World Population Prospects (The 2000 Revision); OECD, Corporate Data Environment database current though 2002

Much of the burden caused by demographic aging is due to rising dependency rates. In the coming decades, France will need to figure out how to support a growing inactive population with fewer workers. A remedy to this problem is to adopt programs that promote greater workforce participation at all ages. Some countries excel at achieving high workforce participation across various age and gender groups. The figures above show how France's labor force participation stacks up next to the average of the Top-five OECD nations. Activity rates in France fall short of rates in the Top-five countries for every age and gender group. Most noticeably, older individuals participate in the labor force to a much lesser extent than those in the Top-five countries. If France adopts measures to increase labor force participation of older age groups (55+) to rates similar to the Top-five OECD nations, it could significantly reduce its old age dependency rates. As shown in the figure above, if France maintains its current activity rates between 2000 and 2030, the ratio of workers to retirees is expected to fall from nearly 2.3 to 1.4. However, by adopting policies to entice workers to defer their retirement at rates similar to those achieved by the Top-five OECD nations, France could reduce its dependency burden by raising its activity rate to over 2.5 workers per retiree in 2030, which is even higher than its current rate.