Retirement Security in France: Policy and current issues

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• Challenge in developed countries: How to manage public pension systems and to stimulate private pension income in context of demographic ageing?
• In this context, countries adopted Pension reforms to solve the problem by: reducing pension benefits, increasing contribution rate, increasing retirement age, increasing private and funded schemes.
• France: Introduction of funded schemes.
1.1 -The French pension system.

- The French retirement system is based on a statutory pay-as-go system.

- *The State pension* scheme is dependant on the sector of activity in which the worker participates.

- *The supplementary schemes*, **which complement the general State regime**, are financed on a pay-as-you-go basis. These compulsory supplementary pensions are financed by the ARRCO for all the employees and by the AGIRC for executives only.
1.2- The French pension system: supplementary retirement schemes.

- PAYG schemes: Farmers, self-employed, Electricity and Transportations companies.
- Not funded.
- More than 37 schemes.
1.2- The French pension system: supplementary retirement schemes

- Article 39 from fiscal code: DB scheme (annuity).
- Article 83 from fiscal code: DC schemes (annuity).
- For public sector employees: they can voluntarily contribute to PREFON, managed by insurers.
2- New retirement security contracts.

- Individual and funded supplementary funded schemes were introduced only in 2003 for all workers.
2.1- Individual retirement plan: PERP

- PERP is an individual, voluntary retirement plan run under insurance laws, introduced in 2004.
- Contributions: deductible from taxable income (up to 10% of the annual revenue),
- Benefits are paid in the form of annuities and taxed at a normal rate.
- Coverage: 2 millions.
- Total assets: 5 billion euros.
2.2- Occupational scheme: PERCO

- Introduction by collective bargaining or by employers;
- The PERCO: a corporate defined contribution scheme included in Corporate Saving Schemes (PEE);
- Funded scheme.
2.2- Occupational schemes: PERCO contributions.

- The maximum employee’s contribution is 25% of his revenue.
- Employers could participate at the PERCO (maximum amount: 5 489 euros).
2.2- Occupational schemes: PERCO funding.

- The funding of this scheme can come from the following sources:
  - personal savings, profit-sharing, voluntary contribution by employers and time related savings accounts.
2.2- Occupational schemes: PERCO investment.

- The employee is able to choose their investment portfolios consisting of 3 different portfolio products with different risk/return profiles.
2.2- Occupational schemes: PERCO governance.

- The scheme is fund-based, with asset management carried out via a special type of collective investment scheme designated for employee saving—the FCPEs (fonds communs de placement d’entreprise).

- All FCPEs are subject to supervision by the Autorité de Marchés Financiers (AMF).
2.2- Occupational schemes: PERCO governance.

- The FCPE structure in a PERCO pension scheme involves a supervisory council (conseil de surveillance).
- It has the power to change the funds underlying the scheme or replace an asset management company.
2.2- Occupational schemes: PERCO governance.

- The council constitutes the governing body of the scheme and is responsible for the investment and administration functions.
- The council consists of employees or union representatives or a combination of employees (majority) and representatives of the scheme sponsor.
- The chairman of the council must be an employee.
2.2- Occupational schemes: PERCO limitations.

- Not permitted to invest more than five per cent of the PERCO’ assets in the company that sets up the plan.
- Assets are blocked until retirement age.
- Coverage: 557,000 employees (38,000, 2004).
- Total assets: 4 billion (700 million in 2004).
3- PERCO vs other plans:

- PERCO for all employees
- PERCO is a more flexible product.
- Perco offer a choice of investments,
- Employees can choose the amount they want to contribute and they can choose an annuity or a cash lump sum at retirement.
5- Coverage:

- **Private Retirement schemes**: 10.4% of the employees are covered.

- **Life Insurance contracts**: 34% of the employees are covered.
## Retirement security contracts vs Life Insurance contracts

<table>
<thead>
<tr>
<th>Retirement security:</th>
<th>Life insurance (life):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets:</td>
<td>Total assets:</td>
</tr>
<tr>
<td>15 billion euros.</td>
<td>1.200 billion d'euros</td>
</tr>
</tbody>
</table>
Conclusion:

• Only few employees have access to individual and funded occupational pension schemes.
• How to expand the coverage?
• Individual:
  – The government could encourage retirement savings among employees (DC or DB plans) by proposing matching contributions according the number of children, the disposable income.
Conclusion:

- Collective:
  - Collectives schemes have been recently introduced. They do not receive preferential tax treatment except for their capital gains. One way to make the private retirement contract more attractive is to introduce the fiscal incentives.

- Building saving for retirement is a collective responsibility.
Thank you.
### Demographics issues:

The impact of demographics is gloomy: the number of people in working age per retiree will decrease from 4 to 2.

**Table. Increase in dependency ratios, 2000-2050**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2050</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU15</td>
<td>24.4</td>
<td>50.5</td>
<td>26.1</td>
</tr>
<tr>
<td>USA</td>
<td>18.5</td>
<td>33.7</td>
<td>15.2</td>
</tr>
<tr>
<td>Japan</td>
<td>25.2</td>
<td>66.9</td>
<td>41.8</td>
</tr>
<tr>
<td>France</td>
<td>24.7</td>
<td>51.7</td>
<td>27.0</td>
</tr>
</tbody>
</table>
PERCO plans – which were launched by the 'Fillon law' in 2003 to encourage French workers and companies to use a capitalisation system to complement the traditional system of pension distributions – receive payments based on the employee's desire to save.

Employees have the option of paying sums from profit sharing and incentive schemes and can make voluntary
• Public pension cut with pension reforms.
• Private pension system:
  – New occupational schemes (PERCO).
• Insurance life (mix, annuities) used as additional income to finance retirement.
  ➢ Life insurance assets are well developed in France.
• Aim: To analyze current policies and practices in retirement security in France in the context of pension reform.
II - The French pension reform:

- The 2003 Pension Reform Act increased the required contribution period.
- The 2010 Pension Reform Act: the statutory retirement age raises from 60 to 62 years. The age of automatic entitlement to a full pension rises to 67.
II - The French pension reform:

- The 2003 Pension reform strongly pushed for an increase in the importance of private security retirement.
- Introduction: PERP (individual scheme), PERCO (occupational scheme).
Coverage by age (source: Drees)
Annual contribution (Drees, 2006).
Pension systems:

- In France, Portugal, Italy: the pension system is public and earnings-related.
- In UK, Ireland; the public pension schemes provide flat-rate pension and private retirement schemes are well developed.
1.1- The French pension system

- The first pillar (PAYG service-related) and a supplementary tier are mandatory.
- PAYG schemes predominate.
Pension system:

- In France, Portugal and Italy, the pension system is public and earnings-related. In contrast, in UK and in Ireland, the public pension schemes provide flat-rate pension and private retirement schemes are well developed.
Public and individual retirement benefits and provisions.

<table>
<thead>
<tr>
<th>Annual, Billions, Euros</th>
<th>2006</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>contributions</td>
<td>benefits</td>
</tr>
<tr>
<td>Public pension</td>
<td>211,183</td>
<td>219,009</td>
</tr>
<tr>
<td>Pension (PAYG)</td>
<td>157,519</td>
<td>161,946</td>
</tr>
<tr>
<td>Complementary (compulsory)</td>
<td>53,664</td>
<td>57,063</td>
</tr>
<tr>
<td>Employers sponsored schemes and individual plans.</td>
<td>9,872</td>
<td>4,724</td>
</tr>
<tr>
<td>Share of Employers/individual plans</td>
<td>4,5%</td>
<td>2,1%</td>
</tr>
</tbody>
</table>
Employees coverage:

<table>
<thead>
<tr>
<th>Categories</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 à 9 employees</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>10 à 49 employees</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>50 à 99 employees</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>100 à 249 employees</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>250 à 499 employees</td>
<td>3%</td>
<td>3%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>500 à 999 employees</td>
<td>5%</td>
<td>7%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>1 000 employees and more</td>
<td>10%</td>
<td>13%</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>All</td>
<td>4%</td>
<td>5%</td>
<td>8%</td>
<td>10%</td>
</tr>
</tbody>
</table>
Holding by age:
Holding by prof. Categories:

<table>
<thead>
<tr>
<th>Category</th>
<th>Annuity holding rate</th>
<th>Retirement savings holding rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmers</td>
<td>41,4</td>
<td>7,9</td>
</tr>
<tr>
<td>Shopkeepers</td>
<td>45,9</td>
<td>7,1</td>
</tr>
<tr>
<td>Other Self Employed (lawyer, etc.)</td>
<td>63,2</td>
<td>15,7</td>
</tr>
<tr>
<td>Executives</td>
<td>60,5</td>
<td>12,5</td>
</tr>
<tr>
<td>White collars</td>
<td>45,9</td>
<td>5,5</td>
</tr>
<tr>
<td>Employees</td>
<td>34,9</td>
<td>3,16</td>
</tr>
<tr>
<td>Blue collars</td>
<td>29,2</td>
<td>2,38</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>5,24</td>
</tr>
</tbody>
</table>