

Country Report

FRANCE

**Current pension system:
first assessment of reform outcomes and output**

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FRANCE

The Institutional Architecture

Due to the extreme systemic fragmentation and complexity as well as sectoral labour movement entrenchment, the French pension system has been under pressure for change since the 1980s. Of the four major reform attempts so far, the Juppé Plan (1995) and Thomas Laws (1997) failed; the Balladur (1993) and Raffarin (2003) reforms succeeded. Since the elderly enjoy a relatively favourable income position in France, social adequacy is seldom mentioned during reform debates: all of them addressed the system's fiscal sustainability and all were incremental. Policymakers focussed on the calculation of benefits in the basic pension scheme, on the length of the contribution period and on the setup of capital-funded individual savings plans.

However, the bulk of the old system stayed untouched and its long-term financing problems unsolved. In addition, failure to align the different pension schemes (divided along occupational lines) means that inequality between categories of employees persist. Civil servants and employees in state-owned firms participate to so-called *régimes spéciaux*, thereby enjoying more generous conditions in terms of retirement age, qualifying period and benefit formulae.

Given their intricacy, the fact sheet will thoroughly analyze the *régime général* and provide a brief description of the privileges within the *régimes spéciaux*. Finally, supplementary occupational and individual voluntary pension schemes (the second and third pillars) are still in France in an embryonic state. Replacement rates provided by the first pillar will decline, but they did not yet trigger a migration of employees to the new savings instruments.

France had a fragmented **social assistance** scheme for the elderly on low incomes, the *minimum vieillesse*, for people aged 65 or in certain cases 60 (disability, war veterans etc). This was substituted in 2006 by the unified *Allocation de Solidarité aux Personnes Âgées*, ASPA. It is means-tested and guaranteed since April 2009 a minimum income of EUR 677.13 per month for singles and EUR 1,147.14 for couples. The income ceilings to receive the top up were in 2009, EUR 8,309.27 and EUR 13,765.73 respectively for individuals and couples. The **first pillar** has a basic (PAYG service-related) and a supplementary tier, which are mandatory. PAYG schemes predominate (98% of total). The socio-occupational division of the French pension system follows four categories.

First, employees in private sector (65% of the labour force) have a relatively homogeneous first and second tier scheme, the *régime général*. The first tier provides a basic, service-related scheme (*Caisse Nationale d'Assurance Vieillesse des Travailleurs Salariés*, CNAVTS) for salaries below a social security ceiling. The second tier operates as a defined-benefit point system and is divided into distinct complementary schemes: i) *Association des Régimes de Retraite Complémentaire*, ARRCO, for employees and consisting of 67 funds; ii) *Association Générale des Institutions de Retraite des Cadres*, AGIRC, for executives and consisting of 34 funds.

Second, employees of public and para-public sectors (20% of the labour force) are members of defined-benefit and very generous schemes within the *régimes spéciaux*. They participate to supplementary second tier arrangements, such as schemes for the *Société Nationale des Chemins de Fer français*, SNCF, or the *Transports en Île-de-France*, RATP.

Third, agricultural sector employees (3% of the labour force), who participate in a separate scheme called *régime agricole*.

Fourth, non-salaried workers and self-employed (12% of the labour force), who have again specific schemes that are less generous than the *régime général* and AGIRC-ARRCO

supplementary schemes (e.g. the *Caisse Nationale d'Assurances Vieillesse des Artisans*, CANCAVA).

Hence, the treatment of different working categories varies in terms of contribution rates, eligibility, benefit formulae. In 2003 there were 194 funds in the basic scheme and 135 funds providing supplementary earnings-related benefits. Employees are often entitled to pensions from two or three schemes.

The *régime général*'s first pillar consists of a service-related tier (basic pension) and supplementary schemes, based on pension points.

The *basic scheme* provides benefits for wages below a social security ceiling, i.e. EUR 34,308 in 2009. Eligibility for a full pension is 40 years of contributions (or other qualifying periods), which are planned to increase gradually to 41 years in 2008-2012. After 2012, eligibility for a full pension should follow increases in life expectancy.

The basic scheme is financed through a mix of contributions and state subsidies. Contribution rates vary between 6.55% and 16.35% of gross wage up to the ceiling.

There is a weekly pension minimum called the *minimum contributif* within the *régime général* (regardless of the pension received from other basic or supplementary schemes). In 2009, this was EUR 590.33 per week from 65 years on with at least one quarter registered career (or an increased amount of EUR 645.07 per week under special conditions). The minimum pension is pro-rated for shorter periods than 40 actually contributed years (41 years in 2012) and it is indexed to prices.

The *first tier*'s calculation formula is $P=(T-tn)*(D/160)*SAM$, where T is the liquidation rate equal to 50%; t is the abatement rate, equal to 1.25% per quarter of missing insurance; n is the number of missing quarters from a maximum of 160-164; D is the insurance period under the general scheme within a limit of 160 quarters; the *Salaires Annuel Moyen* (SAM) is the annual average reference salary of 25 best salary years indexed to prices.¹ Benefits in the basic scheme are also indexed to prices.

The 50% full rate is payable to individuals having a total insurance period of 160 to 164 quarters (depending on year of birth), aged over 65 or belonging to specific categories (persons unfit for work, former concentration camp or French Resistance prisoners, veterans or war victims and female workers who have raised at least three children). The total period of insurance includes periods of contributions and equivalent periods, i.e. periods of cessation of work in the case of sickness, maternity, disability, industrial injury, military service, unemployment. For women, an additional 1-8 quarters of entitlement is awarded for each child (parental childcare may be credited to the father). Up to 12 quarters spent in higher education can be bought back and the sums spent are tax deductible.

Deferred retirement. Individuals with the requisite period of insurance for their year of birth, and who continue working after 60, qualify for a pension increase. For quarters completed after January 2009, the rate of increase is 1.25% for each additional quarter. Individuals over 65 who have not completed the requisite total insurance period are awarded a 2.5% increase of the total period for each additional quarter worked.

Early retirement. There are various possibilities. Pre-retirement operates through a programme administered by the employment fund (*Fonds National de l'Emploi*, FNE). Early retirement is possible from 57 and from 56 under certain circumstances related to working conditions. At the normal pensionable age, individuals switch to public pensions.

As for the basic scheme, early retirement is granted to people who started working before 18 and who accumulated enough qualifying periods.

¹ For civil servants the basic pension is more generous: benefits are based on last 6 months and not 25 years as in private sector. One central reform objective was to change this.

With respect to the *second tier* of the 1st pillar, the ARRCO scheme covers the majority of private-sector employees (different rules apply to AGIRC). Both schemes are PAYG and contribution rates vary between 6-7.5% for ARRCO and 16-20% for AGIRC.

Despite higher contribution rates, benefits are only earned on 6% of earnings under the ceiling of the public scheme. Between one and three times the public-scheme ceiling, benefits are earned on 16% of the salary. ARRCO functions as a canonical pension point system. Hence, for early and deferred retirement, the system is rather flexible. However, reductions are dear. Indexation and valorization of pension points is agreed between the social partners and, until 2008, valorization was to prices and indexation to wages.

As for periods out of employment, these are relatively well protected in France. A mother raising a child for 9 years (before the child reaches 16) is credited with 2 years' coverage per child in the public scheme, whether she continued to work or not during that time. Caring for a child entitles to minimum wage credits to both the public and occupational pension schemes.

Periods of involuntary unemployment, when benefits are awarded, are credited towards the state pension. For each completed 50 days of unemployment, one quarter of contributions is attributed (maximum 4 quarters per year). Subsequent periods without unemployment benefits are credited to a maximum of one year only if this follows a period of unemployment with unemployment benefits. There is no credit for periods in receipt of social assistance.

The **second (voluntary and privately managed) pillar** consists of few company schemes and numerous collective insurance contracts, usually for managers in Small and Medium Enterprises. Contributions vary. For private employees there are company schemes, life insurance contracts and group insurance contracts. For self-employed there are collective insurance contracts with generous tax deductions (*Loi Madelin*). Public sector employees can voluntarily contribute to the *Caisse Nationale de Prévoyance de la Fonction Publique*, PREFON, managed by a pool of insurers led by the *Caisse Nationale de Prévoyance* (CNP). Hospital personnel has a special optional scheme, the Comité de Gestion de Ouvres Sociales (CGOS).

Finally, the **third (voluntary and privately managed) pillar** was established only in 2004 and consists of individual, supplementary subsidized pension savings plans. The *Plan d'Épargne Individuel pour la Retraite*, PEIR, and the voluntary partnership employee pension savings scheme (*Plan Parternarial d'Épargne Salariale Volontaire pour la Retraite*, PPESVR) are insurance contracts with mandatory annuitisation.

The Administrative Structure

The basic and supplementary public schemes are administered by different social insurance funds organized at national, regional and local levels. The national social security office is divided according to different types of social benefits (pensions, health etc). The *Agence Centrale des Organismes de Sécurité Sociale*, ACOSS, collects social security contributions and is a public corporation.

The basic pension scheme is by an administrative council, whose members are social partners representatives. Regional and local insurance companies have their directors appointed by the administrative council after consultation with the Ministry of Labour. The directors of national insurance companies are appointed by the government. Supplementary schemes are administered similarly to the basic one, with the difference that here individual employers and employees (not their representatives) sign the agreements and manage finances with only limited state involvement.

The public pension system is divided into different categories. At the national level, the health insurance funds aggregated in the *Caisse Nationale d'Assurance Maladie des Travailleurs Saliariés*, CNAMTS, coordinate insurance for healthcare, maternity, disability etc. At the

regional level 16 health insurance funds (*Caisses Régionales d'Assurance Maladie*, CRAM) disburse pension benefits for employees. At the national level, the *Caisse Nationale d'Assurance Vieillesse des Travailleurs*, CNAVTS, manages and pays benefits to salaried employees and is responsible for social assistance to elderly persons. The *Caisse Nationale d'Allocations Familiales*, CNAF, manages family-related benefits for all employees, except for farmers. At the local level, 125 national pension funds (*Caisses Nationales d'Assurance Vieillesse*, CNAF) manage and pay circa 25 pension different types of pension benefits.

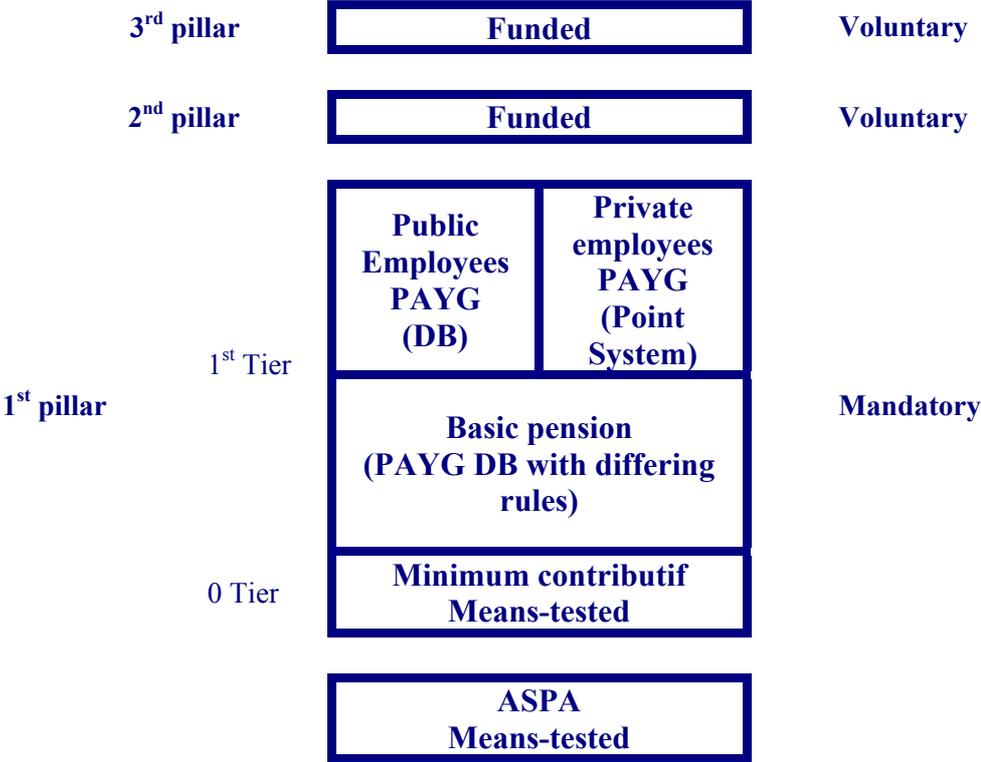
The whole system is monitored by the *Ministère du Travail, des Relations Sociales, de la Famille, de la Solidarité et de la Ville*, by the Parliament, by the *Conseil de Surveillance* and the *Commission des Comptes de la Sécurité Sociale*. Since 1996, the Parliament votes annually on social security financing.

Whereas, the government sets most guidelines for basic pensions and, hence, the managerial role for trade unions is limited; the state has no control of the mandatory supplementary tiers. Different occupationally-based organizations with employer and employee representatives manage the payment of benefits.

Assessment and Future Challenges

The assessment of the French pension system is rendered difficult by its sheer complexity. If the medium-term fiscal unsustainability has been somehow solved in the last few years, excessive fragmentation and inequality of treatment have been a constant concern for policymakers. Otherwise, the French retirement system is rather generous and covers periods outside of employment reasonably. This will change in the future as replacement rates are bound to decrease, however, social adequacy is not yet perceived to be a politically salient problem.

Figure 1 The Main Pillars in the French Pension System



1st Pillar, universal coverage;
 2nd Pillar, occupational schemes;
 3rd Pillar, individual programmes.

Annex 1

Key Data about the Pension System in France

Contribution rates – 1st pillar as % of gross wages			
1st tier (basic pension)	6.55-16.35%		
2nd tier (supplementary)	ARRCO	AGIRC	
	6-7.5%	16-20%	
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Supplementary schemes			
Contribution rates	Depending on individual scheme		
Coverage (of employees)	<10%		
Assets in EUR bln (2007)	154.0		
Taxation	Exempt Exempt Taxed		
Investment principles	Quantitative Restrictions/Prudent Person Principle		
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Theoretical replacement rates	Gross	Net	
	1st pillar total	1st pillar total	
2005	66.2	79.7	
2050	49.3	61.7	
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SILC income 2004	Total	Male	Female
Relative income of 65+	0.899	0.930	0.881
Aggregate rep. ratio	0.663	0.723	0.601
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Eligibility retirement age of the basic scheme			
Old age	65		
Seniority	60 with 40 years of qualifying period		
Early retirement	Under special conditions at 58		
Deferred retirement	Unrestricted		
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Indexation of basic scheme	Prices		
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Public pension spending (as % of GDP)	2004	2020	2050
	12.8	13.7	14.8

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