



PENSION REFORM IN FRANCE

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Summary

- ❑ **Introduction and History**
- ❑ **Pension graphic table in France**
- ❑ **The 3 main reforms**
- ❑ **Diagnostic**
- ❑ **Benchmarking**
- ❑ **Possible solutions**
- ❑ **Conclusion**

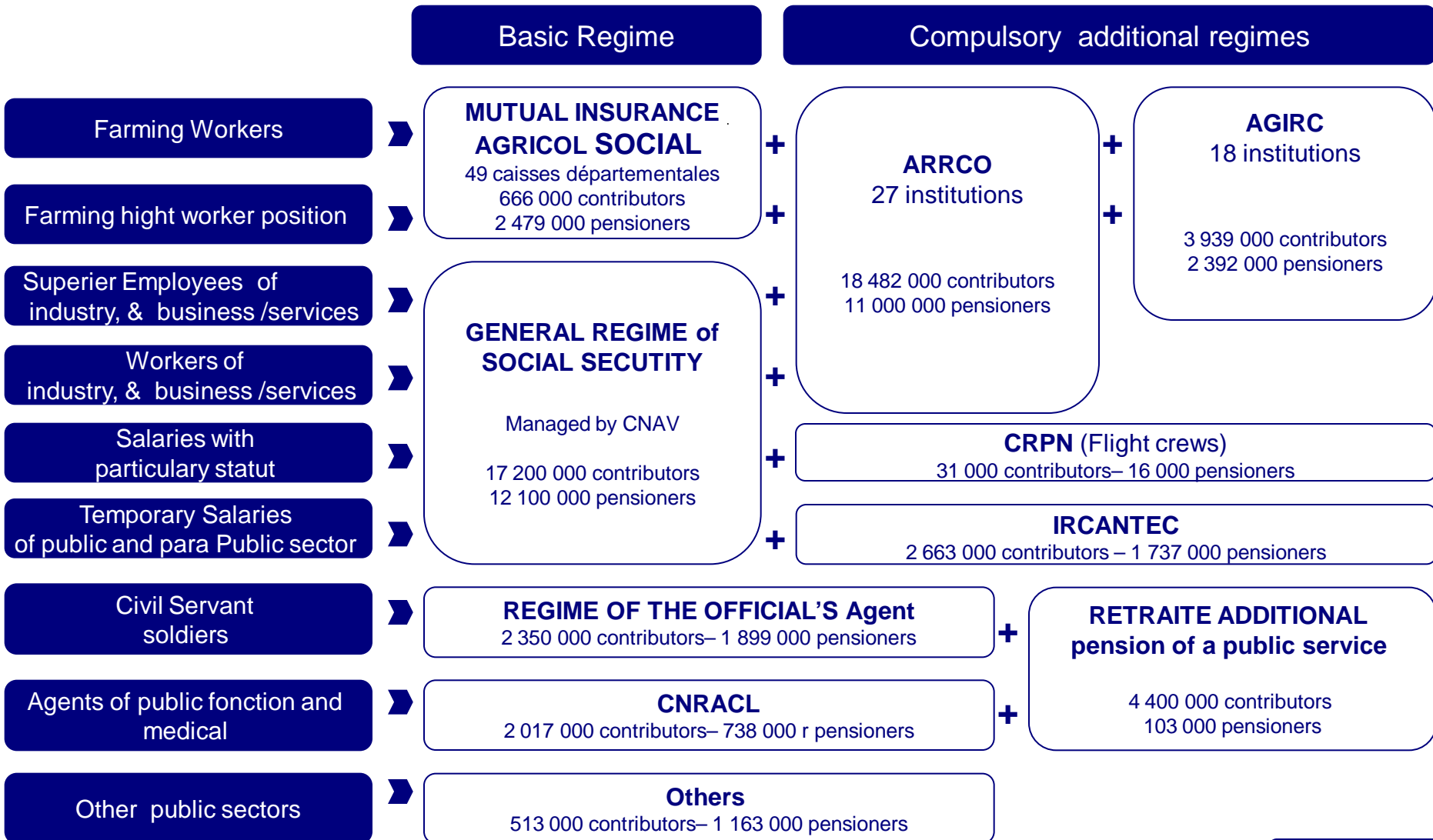
The French pension system

- ❑ France has a « pay-as-you-go » pension system for generation's solidarity.
- ❑ The contributions serve immediately to pay the pensions for retirees
- ❑ Today, the statutory retirement's age is 60 with an application of « underevaluation » or « overevaluation » based on date of birth and the quarter's number of working time.
- ❑ Two systems are existing : the public system and the private one

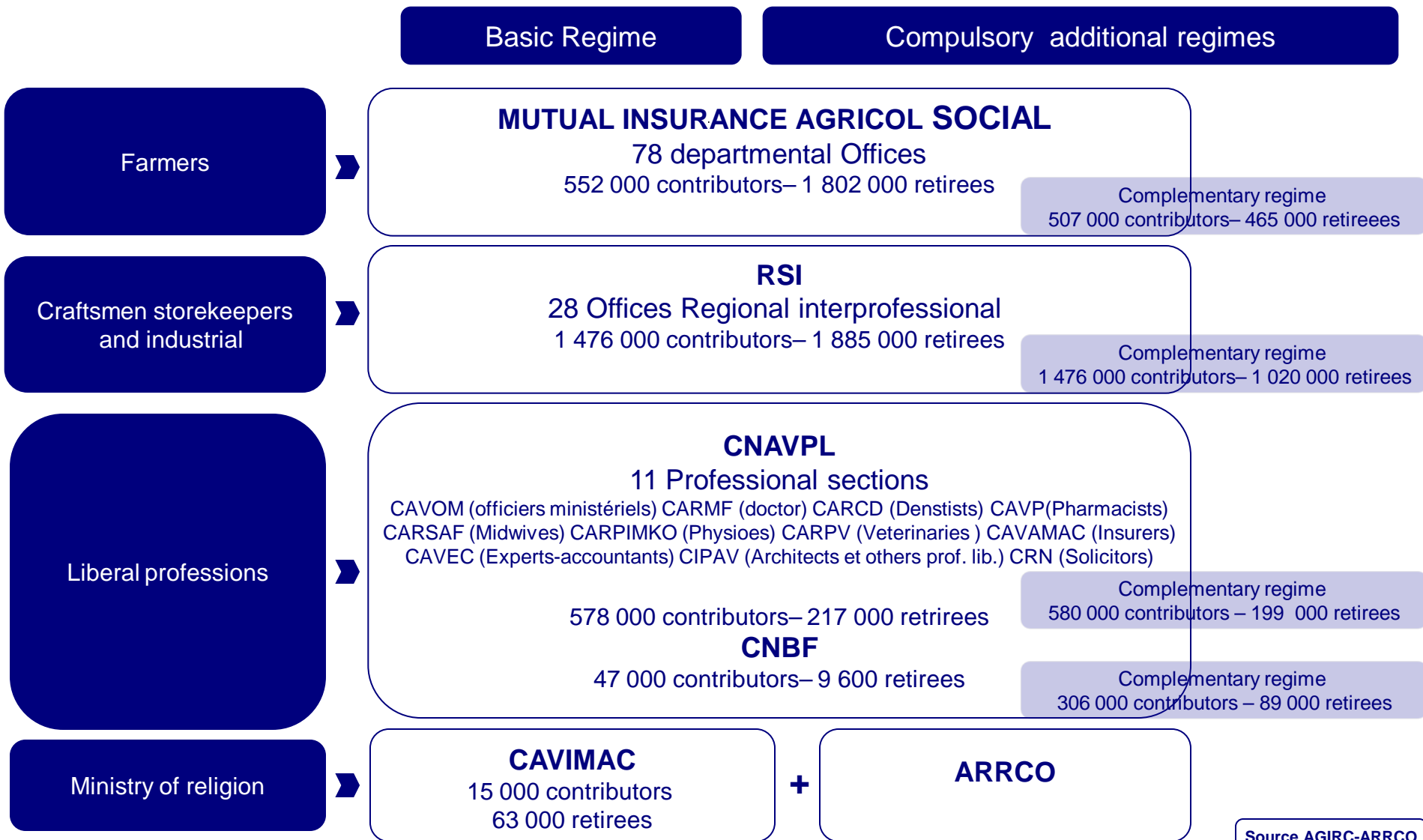
History

- ❑ Before the 30's, the precursors of the pension plan are constituted by special regimes established for particular professional categories. Some of these special regimes survived all the reforms of the pensions in France like: *sailors (since 1673), soldiers (since 1831), Civil servants employees (1853)and miners (1894) ...*
- ❑ 1928 and 1930 : creation of social insurances for the industry's and the business's employees based on capitalization system for life. At 60 years, the employee benefited of a pension for life.
- ❑ 1946 : the law generalizes the principle of the Social Security to all the citizens. This law is followed by the one of 1947 which generalizes the old-age insurance.
- ❑ 1956 : the national fund of solidarity was created for all the persons older than 65 years.
- ❑ 1971 : the law "Bolin" makes cross the duration of contribution opening straight ahead to a pension at a full rate from 30 years to 37, 5 years.
- ❑ 1982 the age of the full pension is returned to 60 years in the general regime and the aligned regimes, on the condition of a duration of insurance of 150 quarters (37, 5 years).

The pension in France – Employees



The pension in France – Other categories



The 3 main reforms in 1993, 2003 and 2008

- The Balladur's reform 1993 (due to CNAV's deficit of 40 billions Frs and the economic recession which reduced the incomes of Social Security) :
 - The pension is re-evaluated based on price inflation
 - The effective contribution increases one quarter a year :
 - People born in 1933 needs 37,5 years of contribution
 - People born in 1943 needs 40 years of contribution
 - The pension is based on the top 25 best year's of salary
 - According to CNAV, the Balladur's reform reduced of 6% the pension for 60% of retirees.
 - Agirc and Arrco conducted a restriction in 1990. To 100 Frs of paiement, people received 7 Frs of pension.
 - A manager born in 1938 who retired in 2003 after 40 years of work , received a pension equal to 64 % of his last net salary.

Reform in 2003

□ (Fillon) « Papy-Boom » impact on CNAV losses

- The statutory retirement age does not change but the effective contribution increases.
- A new « underevaluation » or « overevaluation » system applies. An employee who will retire in 2012 will need a 41 years contribution.

Reform in 2008

- ❑ The effective contribution increases:
 - Full retirement pension after 40 years
 - An extension very progressive

- ❑ The value of pension is indexed to prices

- ❑ A minimum pension is guaranteed

- ❑ Work and pension receipt can be combined (accumulation of the points)

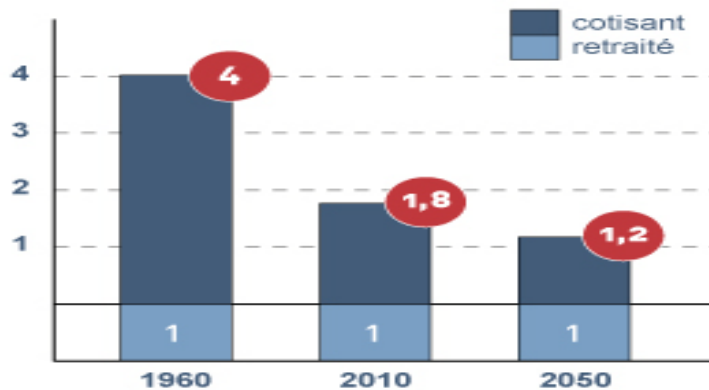
- ❑ The public system is conformed with the private system

Why a new reform is necessary?

➤ Demographic problem

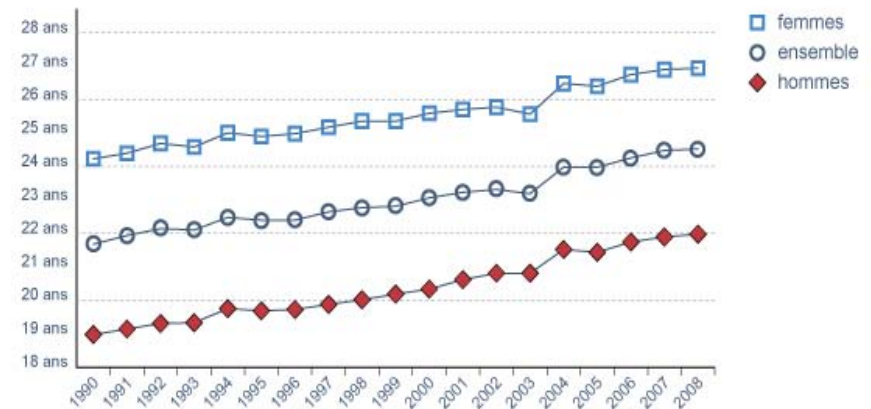
- ✓ Population Ageing
- ✓ Decrease of birth rate

EVOLUTION DU RATIO
ACTIFS COTISANTS / RETRAITÉS



Source : Conseil d'orientation des retraites

ESPÉRANCE DE VIE À 60 ANS PAR GENRE

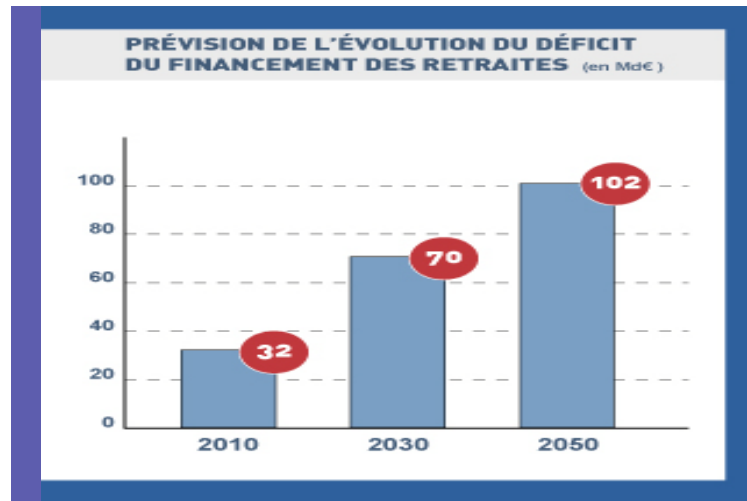


Source : INSEE, bilan démographique

Why a new reform is necessary?

➤ Economic problem

- ✓ High unemployment rate
- ✓ Decline the number of contribution



➤ Social problem



- ✓ No equity btw women and men concerning pension level
- ✓ No equity btw rich and poor concerning life expectancy
- ✓ No equity btw the different generations concerning pension level
- ✓ Work of senior population due to poverty

Benchmarking (example of other EU countries)

Germany

Pay-as-you-go system

State retirement age :


  65 in 2010 → 67 by 2029


- Early retirement is possible from 63 with 35 years contribution with reductions
- Early retirement without reductions is possible with 45 years contribution
- Voluntary private pensions - 64% of workers have their coverage
- Part-time retirement system

UK

Pay-as-you-go system

State retirement age :

 65 in 2010 → 68 by 2046

 60 in 2010 → 65 by 2020

68 by 2046

- No early retirement
- Voluntary private pension – 59% of workers have their coverage
- Creation of « Personal Account » by 2012 for poorest pensioners

Benchmarking (example of other EU countries)

Sweden

Mixed with a pay-as-you-go and private retirement account system

State retirement age :

Between 61 and 67.



No maximum retirement age

- Partial privatization system gives a higher visibility
- The amount of the pension is proportional to the expected life duration
- Model of future changes for French pension system

Denmark

Pay-as-you-go system

State retirement age :



65 in 2010 (67 for complement part)

→ 67 by 2027

- Early retirement benefit from the age of 60 under conditions
- 95% of Danish workers are accumulating a private pension
- Partial early retirement system



gradually disappear

Impact of the possible solutions

	Ins	Outs
Increase the number of contribution years	Increase of incomes	Encourages senior to work more against a younger generation
Increase the social contribution for employee and employer	Increase of incomes	More fees for company
Prolong the statutory age	Growing up Contributors/ retirees ratio	Increases senior unemployment
Reduce the replacement rate	Decreases the global amount of pensions	Insecure a part of legal successor (assignee)
Capital levy	Influx of additional income	Risk of capital leak
Establish a mark system line up the complimentary regime	Harmonization of the calculations with ARRCO and AGIRC regims	Estimation of the pension based on the entire carrier
Set up individual account s for each regime (mix between capitalization and p-a-y-g system)	Each situation will be peculiar for each contributor (empowerment)	Renunciation of the integration solidarity

Other solutions

□ Capitalization (tax break) :

- PERP (Plan épargne pour la retraite populaire)
- PERCO (Plan d'épargne retraite collectif)
- Madelin law : tax relief on contributions in order to build a capital for retirement or to improve contingency guarantees
- « Articles 83 » is a group retirement insurance contract for capitalization. This contract should be signed by the company.

Orientation for the pension reform on May 2010

Road map established by French government:

- Act on the causes of the deficit in order to resolve some financial problems
- Maintain the French system based on the intergenerational solidarity

4 targets to succeed :

- Regain confidence in the French pension system
- Increase the demography ratio
- Make equity and the solidarity among different pension systems
- The solutions of this reform must be efficient and lasting long

Orientation for the pension reform on May 2010

14 commitments taken by French government :

among the most significant axes :

- Preserve pay-as-you-go system
- Reach the balance of the regime
- Maintain the same pension level
- Exclude all ideas about increasing pension contributions (wages)
- Increase a number of contribution year
- Encourage senior to work longer
- Encourage wealthy people to contribute more for solidarity system

Conclusion

- ❑ **It does not exist any ideal system worldwide**

- ❑ **However :**
 - It is necessary to solve the problems of deficit
 - French government makes his roadmap which will lead to success
 - Opposite parties agree with the idea of making a reform, but disagree with the government solutions

God save France !

Annex : the right to information

- ❑ Established in 2003, applied in 2007
- ❑ Content of information :
 - « Le relevé de situation individuel » (RIS) summarizes the granted interests from the different retirement systems.
 - « L'estimation indicative globale » (EIG), which indicates, after 55 years old minimum, the pension amount at the ages of 60, 65 or at full pension age.
- ❑ The informations are collected by the 36 main pension systems (basic or complementary)
- ❑ Pension simulation is possible online at M@rel website (WWW.marel.fr)