

The French Pension System

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Introduction

In France, compulsory supplementary pensions have been introduced. The allowances are almost borne entirely by the state. The French pension system is comprised of publicized finance. A statutory pension insurance scheme has been put in place in France to provide earning-related benefits to employees, especially in the private sector. Workers who make less income are expected to receive a pension of at least 85% of the French minimum wage. Dedicated public sector pensions and special schemes are also available for state and local authority employees as well as workers employed in arduous professions. The French pension plan has entailed many problems, such as resistance, which have been conquered. The pension system comprises voluntary private pensions, compulsory supplementary pensions as well as the French state pension scheme. The pension plans in France are aimed at securing the sustainability of public funds by cushioning the enormous burden placed on the pension system as predicted between 2020 -2040.

Issues

France's increasing budget deficit and concerns for future sustainability have caused the government to look into solutions to reduce the debt. One of the proposals made by the Prime Minister was to extend the amount of time public-sector employees must work to receive a full pension. Years worked to gain a full pension were inconsistent between the public and private sectors. The working requirement for the public sector to receive full benefits was 37.5 years, while private sector employees had to work a full forty years to receive those same benefits (Moss et al. 1997, p1). The pension system was designed to have the retirement pension benefits funded by the current working population under a pay-as-you-go method. The underfunded pension system has since been hampered by the increased aging population. The working population was incapable of paying a sufficient amount to balance what money was being paid out.

Although many analysts have determined this to be a critical problem with an increased need for change, suggestions for reforming the pension system have been met with mediocre public favor.

Ongoing strikes and strong union pushback from its membership were among the responses to the pension reform. By public polls, it appeared that the strikes had over half of the public's support (Moss et al. 1997, p2). Among the strikers who participated were many civil servants. The strikes left the country to struggle for nearly a six-week period. As a result, the government diminished its efforts to reform the pension system at that very time.

The foundation of the modern French pay-as-you-go (PAYG) pension system, the *regime general*,

emerged after the Second World War. Following the War, the Communist-leaning National Resistance Council “enacted a comprehensive regime of social coverage...with a far-reaching commitment to social protection,” which “was enshrined in the preamble of the Constitution of the Fourth Republic” (Moss et al., 1997, p. 3). As noted by Former Prime Minister Michael Rochard, the pay-as-you-go pension scheme, or *repartition*, established “a social contract between different generations” (Moss et al., 1997, p. 3). The pension system’s comparatively generous retiree benefits garner strong public support. However, structural economic and demographic headwinds raise concerns about the existing system’s ability to meet the income needs of retirees while maintaining intergenerational equity for the working population.

Modern state pension systems are classified into two broad categories: public and private (Lagoutte & Reimat, 2013). In public pension systems, such as the French model, participation is mandatory, and pensions are funded on a PAYG basis. As discussed by Lagoutte & Reimat (2013), in exchange for their contributions to the pensions system, “workers receive a promise from the State that they will be given a pension in the future” (p. 316). The public model, administered by the State, allows greater flexibility for the redistribution of resources that target society’s most impoverished citizens.

Conversely, the private model relies on voluntary participation and private savings to fund individual pensions. Although most pension systems have a public component, such as Social Security in the United States, in a private system, citizens are incentivized through tax-advantaged retirement accounts and employer contribution matching to save for individual retirement. Proponents of private systems contend that individual retirement accounts that are invested in equities produce a “higher return on investment” (Lagoutte & Reimat, 2013, p317) and “energize [a] nation’s economy by deepening its capital markets” (Moss et al., 1997, p. 9).

While the public pension system in France faces significant economic and demographic headwinds, little progress has been made in developing a robust private (individual) component of the pension system. Pension reform in France “is perceived as one of the most politically sensitive issues, and any proposal to reduce pensions meets strong opposition from the public” Palmer, 2007, p. 89). Radical departures from existing pension systems, such as a transition from a public to a private scheme, are difficult to implement. The literature suggests two primary obstacles to pension privatization reform in France.

First, the working population must contribute to both systems to maintain PAYG funding for current retirees while privately saving for their retirement. Citing Jacques Garelo, a professor at the University of Aix-en-Provence, Moss et al. (1997) note that the cost of transition to a private pension system “would average FF700 billion per year over a twenty-year period, or FF14 trillion” (p. 15). For pension reform to be successful while maintaining intergenerational equity, Garelo suggests that a complete reconstruction of the French financial system is necessary (Moss et al. 1997).

Second, existing interest groups influence the political system to maintain the status quo. Through negotiations over time, many distinct pension schemes have arisen in the French system. Parlier

(2007) posits that the fragmentary nature of the system “contributes to its resistant nature: some socio-occupational groups insist on preserving their particular advantages, and, if it wants to reform the system, the government must negotiate with representatives of each group” (p. 91). The myriad of established interest groups with which the government must negotiate dramatically increases the complexity of any reform initiative.

Recommendation

Before providing recommendations to address the issues with the French pension system- it is important to highlight that this case study was written in 1997, and various reforms have been implemented. This includes the 2010 Pension Reform Act, which raised the minimum retirement age for people born after July 1st, 1951, to 62, and the 2012 Social Security Financing Act, which raised the minimum retirement age for people born after January 1st, 1955, to 67 (The French Social Security System, 2017). Therefore, recommendations in this paper will be based on the current scheme.

One of the recommendations is to continue PAYG but combine it with different funds based on the employees’ industry. For instance, in the Netherlands, there are three different types of pension funds: First, industry-wide funds, which are based on whether the civil service sector, hotel or retail sector, and construction industry (The Dutch Pension System: An Overview of the Key Aspects, p. 10). Another one is corporate pension funds, which are mainly for a company or corporation. Also, pension funds contributed by independent professionals like attorneys and independent healthcare providers (p. 10). These funds are legally and financially independent from the actual company or state agency. Also, the administration cost in these funds is about 3.5% of the contribution, which means that the majority of each contribution goes directly toward the pension benefits (The Dutch Pension System: An Overview of the Key Aspects, p. 12). In contrast, the administration cost of a life insurance company as a pension fund is about 25.7%, as these companies incur marketing costs as part of their administrative cost (p. 12).

Some of the equity and fair aspects of this recommendation are that genders should not be taken into consideration when determining the contribution amount to be paid since women tend to live longer than men (The Dutch Pension System: An Overview of the Key Aspects, p. 19). Therefore, everyone pays the same contributions to the scheme. Also, this recommendation should incorporate aspects of the current French plan, like the fact that individuals who have raised three children for at least nine years before their 16th birthday are entitled to a 10% pension increase. The increase is awarded to each parent receiving a retirement pension (The French Social Security System, 2017).

One of the main constraints this recommendation poses to policymakers is that opponents of PAYG will not be willing to support it, but they may incline towards the idea of industry-wide funds, which, on the other hand, union groups may oppose. However, they may be willing to support the equity and fair aspects of this recommendation.

Another recommendation is to implement a general scheme like the one in Denmark, which comprises three main components: a state pension, semi-mandatory occupational pensions or labor market pensions, and personal pension savings (Andersen, 2016). It is important to highlight that although the Danish scheme has some social and political challenges, it was deemed the best pension system from 2012-2016 by the Melbourne Global Pension Index, which compares retirement income systems around the globe based on their sustainability, adequacy, and integrity. The Index, for example, has become an important reference for government planners and academics studying pension systems (About the Index).

Like most European countries, the Danish pension system is funded through PAYG, but in contrast with the French system, it is tax-financed from general budget revenues, where the government reimburses municipalities for their pension expenditures (Country Profiles).

One of the important characteristics of this recommendation is that it would contribute to addressing the financial integrity issue discussed in the case, such as the combination of demographic and economic factors (Dias, Stephann, & Moss, 1997). For instance, since life expectancy in developed countries continues to increase by five years due to advances in the medical field, the retirement age can be gradually raised to 68 years in 2030, 69 years in 2035, and 70 years in 2040. Consequently, the dependency ratio would be reduced from the forecasted 84 percent by 2040 (Dias, Stephann, & Moss, 1997, p. 9) to around 39.4 by 2050, which is lower than the EU average of 49.4 by 2050 (Andersen, 2016). It is important to keep in mind that in PAYG, a high dependency ratio means that active workers will need to contribute more to finance currently retired workers, benefits will need to be reduced, or both (Dias, Stephann, & Moss, 1997, p. 9).

The practical legislative constraints for implementing such a scheme may not be as challenging since it includes aspects of the basic French public and private schemes. Therefore, it may be easier to find common ground during the policy process while increasing support from unofficial actors such as union groups and the public. For instance, the case demonstrated that French workers were attracted to multipurpose saving products like life insurance, as it carries less risk and insurance companies guarantee a minimum level of return. (Also, the unofficial actors would tend to support a gradual increase of the minimum retirement age by one year every five years rather than increasing the age by five years every one or two years.

Although the Danish system is currently one of the best and most sustainable pension systems in the world, there are aspects that need to be improved. For instance, middle-class women do not earn pension points or time during maternity leave, and the fact that the marginal tax rate of the state pension is around 55%, with low-income groups that received several benefits as pensioners have a high composite marginal tax rate (Andersen, 2016). Therefore, it is important to mention that French legislators will need to ponder the pros and cons of this particular recommendation to ensure that it will be financially sustainable and fair.

If the proposed recommendations are difficult to implement either due to a lack of support or

ineffectiveness in solving the issue, then it will be imperative for legislators to develop public policy analysis initiatives on different schemes that have worked in other EU countries. The analysis should evaluate short- and long-term risks, weigh the pros and cons, and determine that the main goal will be to find a solution that contributes to reducing the public deficit while providing a sustainable and fair retirement system for older generations and the disabled.

It is important to note what the French pension system has achieved. “Over the years, the public pension system had nearly eradicated poverty among the elderly and had substantially enhanced the living standards of the retired population” (Dias, Stephann, Moss. 1997. Pg. 7). The French National Planning Agency noted in 1995 that: “the living standards of the retired population and the active population were very nearly equal” (Dias, Stephann, Moss. 1997. Pg. 7) the system works effectively to carry out its mission. However, the demographic trends of France will make it unsustainable in the future. The “Dependency Ratio” is skewed due to an excess of retired people. The “Status Quo” of the pension system could be sustainable if demographic and economic trends reversed. If France became more open to market capitalization and fertility increased, the potential for a sustainable pension system could be possible. These two variables (fertility rates and economic growth) need to work in tandem. More jobs with a younger working population would increase the money being put into the system. It is possible that France doesn’t have a pension system problem but a demographic and economic one.

Conclusion

Ultimately, the role played by the French pension scheme has significantly transformed over the past decades. The French made a great move through the right to retire on a pension, which is earned progressively. It involves a wide range of schemes linked towards an occupational basis. The government aims at reducing the poverty levels among retired personnel as well as ensuring a good and stress-free life after retiring which is a highly commendable strategy. The pension system is important as it helps to sustain retired employees by providing financial independence and security. Through the PAYG scheme, the loss of income in retirement is barred, and protection is secured in the form of pensions in the event of retirement. To encourage savings, the French government provides tax relief on the contributions made to the pension schemes. Although the system is bound to face problems due to the spiraling number of pensioners, its benefits and achievements cannot be outshined.

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