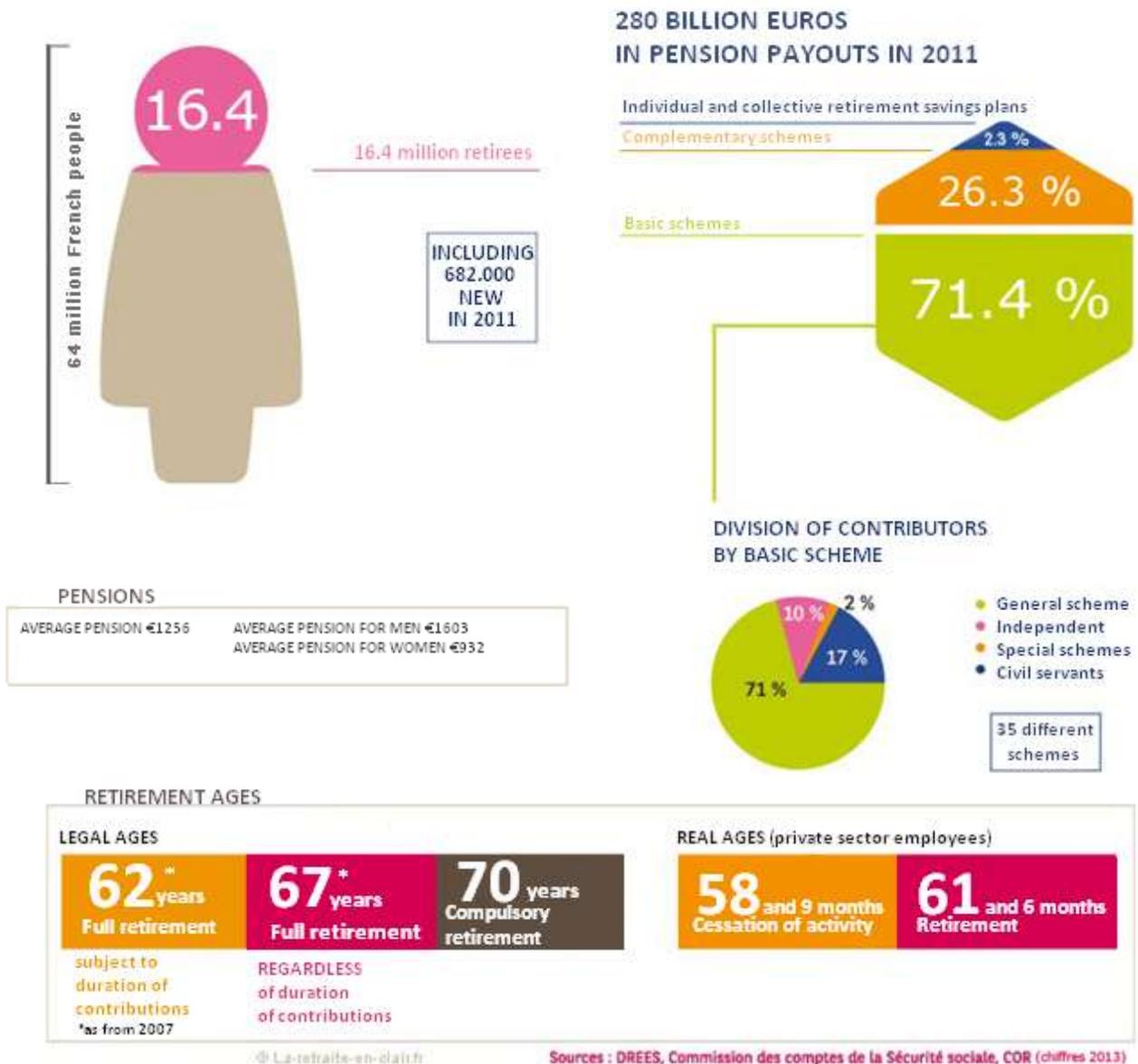


# The pension system in France and the 2014 reform

## Key figures on pensions in France (before the 2014 reform):

With some 16.4 million pensioners in France, pensions account for the highest proportion of welfare expenditure: €280 billion in 2011.



## Presentation of the major principles of the French pension system

### A solidarity-based system

Because it is compulsory and gives everyone the right to a pension, the French pension system is solidarity-based.

- **A universal system:** the first factor in our old-age insurance system's solidarity is its compulsory nature. Everybody contributes continuously and according to their means; nobody is forgotten;
- **Pay-as-you-go:** the second factor is its "pay-as-you-go" aspect. Every year, a percentage of the collective wealth is deducted from the incomes of economically active people to finance retirement pensions. Everyone becomes a contributor to and then a beneficiary of the system during their lifetimes;
- **Compensation of inequalities:** contributions to pension schemes are deducted from salaries. Each person therefore acquires pension rights in line with their income;
- **Solidarity mechanisms:** mechanisms exist to partially compensate for such inequalities: for low incomes (solidarity allowance to the elderly [ASPA] – the "minimum pension"), for women (supplementary quarters for motherhood), for those exposed to arduous working conditions (possible early retirement, etc.), and for career breaks.

### Methods of calculating pensions: three factors

- **Schemes relied on:** the French old-age insurance system includes a wide variety of schemes. Most contributors are compulsorily affiliated with at least two schemes at the same time: a basic scheme (which usually operates on the basis of years of pensionable service) and a complementary scheme (which operates on a points basis). A person's professional status dictates the (basic and complementary) schemes to which he/she is affiliated;
- **Duration of insurance:** in order to obtain the best possible pension, you must have contributed for a minimum period (since the 2014 reform, the minimum contribution period has been set for all generations and is between 160 and 172 quarters, depending on year of birth);
- **Total of salaries received over the course of a career:** retirement pension sums are linked to earned income, but methods of calculation differ from one scheme to another.

### The pension system's three pillars

Our pension system rests on three pillars corresponding to three different types of scheme:

- **Compulsory basic schemes:** such schemes benefit the entire working population (employees in public and private sectors alike and the self-employed). They operate on a pay-as-you-go basis and give contributors the right to a basic retirement pension, calculated by years of pensionable service.
- **Compulsory additional schemes:** additional schemes are managed by separate bodies. Contributions to them are compulsory and enable employees to obtain a pension over and above the basic pension. They also operate on the pay-as-you-go principle, but calculate pension sums using a points system.



- **Collective or individual optional savings schemes:** fiscal and social security legislation increasingly encourages development of such forms of saving enabling retirees to supplement their incomes, which always fall considerably upon retirement (collective savings plans offered to employees by various companies, and other individual retirement savings products).

### How old do you need to be to retire?

Minimum retirement age is currently the same in most schemes: between 60 and 62 depending on year of birth. The age is set at 62 as from the generation born in 1955.

#### The reform of 20 January 2014

The reform brought in by **the act of 20 January 2014 guaranteeing the future and fairness of the pension system** adapts the pension system to the diversity of career paths and recognises arduous working conditions, takes account of young people's expectations, and corrects the unfair treatment to which women were subjected.

#### Key factors in responsible reform of the pension system

- *A system out of balance: its sustainability had to be ensured*

The reform that came into force in 2014 ensured the pay-as-you-go pension system's endurance by guaranteeing the financial balance of basic pension schemes by 2020 and maintaining this balance up to 2040.

- *Without reform, a system out of balance:*

Almost 800,000 French people retire every year and their numbers continue to rise for two demographic reasons: the "baby boom" generation's arrival at retirement age, since 2000-2005 and until 2035, and the increase in life expectancy (men gained four more years between 1994 and 2010, bringing it to 77.5 years, and women gained 2.6 years, up to 84.4).

Nonetheless, our dynamic birth-rate is a major advantage when it comes to the long-term balancing of the pay-as-you-go system (an average of two children per woman in France as against 1.6 in the 27 other EU countries).

- *Reform guaranteeing the future of pensions:*

The reform that came into force in 2014 ensured the pay-as-you-go pension system's endurance by guaranteeing the financial balance of basic pension schemes by 2020 and maintaining this balance up to 2040.

In order to guarantee long-term balance (given the steady increase in life expectancy at 65), the duration of insurance is also being steadily increased. The reform sets the increase in insurance duration at one quarter every three years up to a maximum of 43 years (172 quarters) for the generation born in 1973. No increase will be required beyond that year.

The reform set up a system for management of scheme trajectories over the medium and long term:

- the Pension Advisory Council (COR, set up in 2000) now draws up an annual public report on the pension system, based on specific indicators;
- a Pension Monitoring Committee (CSR), created by the reform, issues an annual assessment based on the COR report. It issues alerts on any major discrepancies from projections and proposes corrective measures;
- the Government consults the social partners and then adopts the measures selected or submits them to Parliament.



- ***Making the system fairer***

- *Towards equal pensions for men and women:*

In 2011, retired women received an average pension of €932 as against €1,603 for men; the main reason for this was the labour market (lower salaries, jobs requiring fewer qualifications, part-time work, and more frequent career breaks).

- *Better account taken of arduous working conditions:*

The reform of 20 January 2014 reinforced work hardship prevention by encouraging companies to reduce periods of exposure as far as possible and offering alternatives to exposed employees. Such measures could affect around 20% of all employees.

- ***Governance requiring improvement***

The reform of 20 January 2014 set up conditions providing greater clarity and increased convergence of schemes without undermining commitments already made. It improved their governance in order to guarantee the system's coherence and sustainability.

- *Greater clarity:*

- a single retirement account for each insured party: any working person may consult online their retirement rights in all schemes, along with the pensions to which they are entitled. For retirees, the single retirement account centralises pension payments, procedures and documents;
- a single pension application for insured parties taking their retirement: before the reform, it was often necessary to make separate applications to each pension fund.

- *Better governance:*

- a single pension for insured parties contributing to several schemes;
- creation of an inter-scheme entity: the Union of Pension Institutions and Services (UISR), tasked with management of the main inter-scheme projects (single retirement account, single online application, etc.);
- setup of a Pension Monitoring Committee (see above) to ensure the system's endurance.

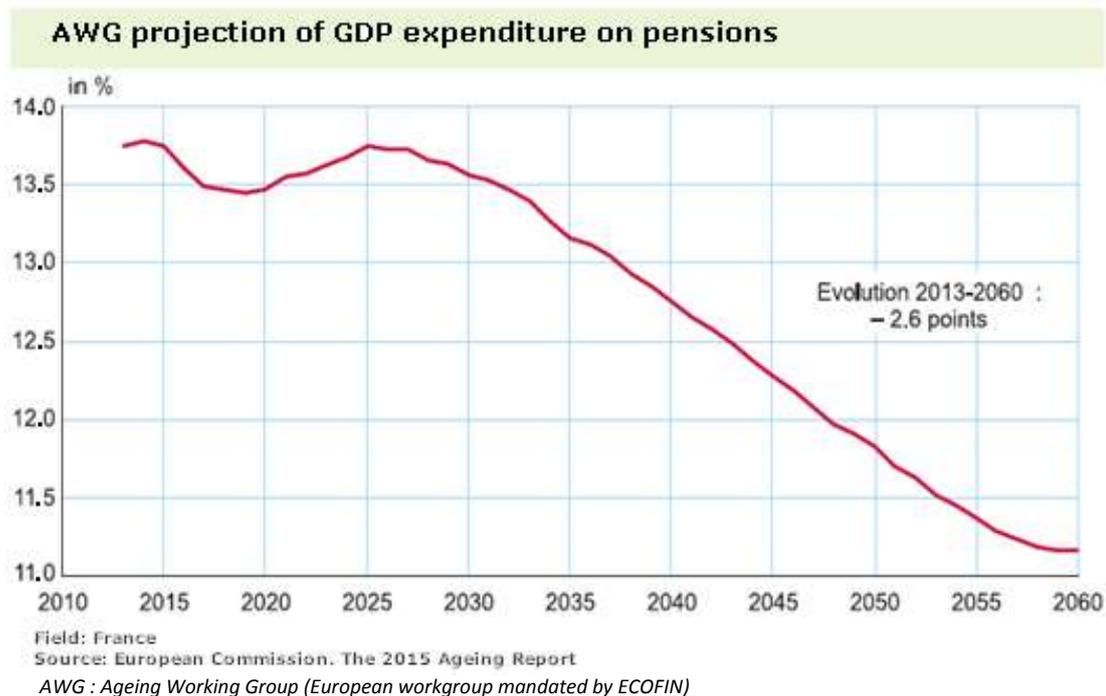
### **Checklist: what the pension system reform of 20 January 2014 has changed**

The reform is synonymous with fairness, responsibility, progress and new rights for French citizens.

- ***What changes for everyone: system sustainability and simplification***

- ***Revised duration of insurance:*** the reform of the pension system sets an extension to the insurance period required for receiving a full pension as from 2020. The duration will increase progressively by one quarter every three years, to reach 172 quarters in 2035 – i.e. for the generation born in 1973.
- ***Contributions and financial measures:*** the reform ensures the system's future by increasing the number of years of contributions and strengthening its management.
- ***The individual retirement account:*** the reform takes a decisive step towards simplification by creating a single retirement account for each insured party and retiree.

The reform allows for a significant decrease in GDP expenditure on pensions.



- **Sectorial measures providing greater fairness**

- **For those who started work early:** long-career-based early retirement will benefit more insured parties by increasing the assimilated number of quarters regarded as “contributed”;
- **For women:** special measures benefiting women (better account taken of motherhood, in particular as regards maternity leaves lasting six months or more) and measures applying to everyone but of particular benefit to women (e.g. implementation of a preferential rate for the purchase of quarters by nursery assistants, the great majority of whom are women);
- **For young people:** the pension system reform takes account of the many different options open to young people on the job market (apprentices, young workers, trainees, etc.);
- **For those working in arduous conditions:** the pension system reform has set up a personal work hardship prevention account (C3P);
- **For retirees:** the reform includes several measures designed to raise the pensions of retirees with the lowest incomes (improvement of the minimum basic pension);
- **For those approaching retirement age:** although those closest to retirement are not really affected (relaxation of conditions for access to phased retirement), for younger working people, contributions are being phased and differentiated as from 2020;
- **For farmers and their spouses:** self-employed farmers’ retirement pensions, which are among the lowest, are increased (guarantee of a pension equalling 75% of the minimum wage);
- **For those who have experienced periods of unemployment:** professional training periods for the unemployed now count in calculation of the pension;
- **For disabled workers and family caregivers:** the reform contains a number of measures intended to benefit disabled workers (early retirement) and those people – most of them women – who take care of a seriously disabled relative at home (possibility of validating all their quarters when they stop work or become part-time workers in order to care for their relative).

## **The compulsory additional pension system and reform of social partners (agreement of 30 October 2015)**

Following several months of negotiations seeking to ensure the future of additional pension schemes (private sector employees contribute to an ARRCO member body and private sector managerial staff to an AGIRC member body), the social partners reached **an agreement on 30 October 2015**.

**Measures taken are divided up among all stakeholders:** retirees, the working population, and businesses. Commitment has once again been made to a major savings plan on management costs. The measures enable additional pension schemes to be consolidated and reforms designed to improve levels of quality and service provided to employees, retirees and employers to be implemented.

**A unified scheme will therefore be coming into operation in 2019.** It will include all AGIRC and ARRCO's rights and obligations with regard to their members. Apart from the savings generated by setting up a single scheme, it will help employees and businesses be clearer about how additional pensions work.

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All things considered, the French people and their government, while adhering to the founding principles of the pension system, have shown a sense of realism, introducing the reforms required for the system to remain both fair and sustainable.