Deutsche Sozialversicherung
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France plans comprehensive pension reform

Background information Dr. Sch.-W./24.09.2019

Later retirement, more social equity

In July, Jean-Paul Delevoye, the High Commissioner appointed by the French government, presented his ideas for a comprehensive reform of the French pension system. The work is entitled 'Système de retraite universel'. It is indeed universal when taken from the perspective that it seeks to unify the 42 systems that exist today and to bring together the various administrations – those of workers and employees, civil servants, the self-employed, freelancers and numerous special systems. This also includes the pay-as-you-go supplementary systems AGIRC (for executives) and ARCCO (for non-executives), which were previously the responsibility of the social partners.

From a purely computational point of view, the reform introduces a system of converting contributions into points, similar to that used in Germany. For example, a contribution of €10 would result in one pension point. This would currently have a value of €0.55. This value is to be indexed according to wages, not inflation; importantly, the value of a point must never drop.

At the heart of the reform is an increase in the actual retirement age. In future, the full pension, free of deductions, will only be paid at age 64 and no longer at age 62. Earlier retirement would still be possible, but would be penalised with a deduction of 5% per year brought forward; delaying retirement would be rewarded with supplementary pension benefits.

The retirement age of 64 years would first apply to those born in 1963, but would then automatically be adjusted to increasing life expectancy, apparently on a 'one to one' basis, that is, each year gained in life expectancy would be compensated by one year of additional work. However, the proposal is not entirely clear on this matter.

However, the fixed retirement age is not that strict as it first seems. Certain adjustment parameters allow for early retirement; for example, people who have had a long working life and people in particularly stressful occupations would be entitled to retire up to 2 years earlier.

There are also some gaps in the plan for assessing non-contributory periods – periods of paid unemployment, maternity leave, disability and sickness. Points will also be assigned to these periods and will be known by the attractive name 'points de solidarité'. However, there is nothing in the proposal regarding how the number of solidarity points will be calculated. It is worth noting, however, that they will be financed from a tax-financed 'retirement solidarity fund'. This would mean that 25% of total pension expenditure would be financed from the general state budget – a sharing of costs that is also well known in Germany.

As in the previous system, the new system would also provide a minimum pension, the level of which would be raised from 81% to 85% of the national minimum income (SMIC) (2020: €900).

One particular aim is the elimination of the gender pension gap, which currently stands at 42%. In order to reduce this, periods spent raising a child are to be rated significantly higher in the future than in the past. For each child, the number of points is to be increased by 5%; put simply, this means that the pension is to be increased by 5%. The rest is simple mathematics: using the example of 5 children, the report states that this would increase the pension by 25%. This means that the French ‘parental leave model’ would follow a different logic than the German one which initially assesses parental leave for 3 years (in principle) completely independently of the level of earnings. In other words: one year spent raising a child increases the pension by the same amount, no matter how high the work-related pension is.

The contribution rate is to be set at 28.12% for all employees, 60% borne by the employer and 40% by the employee. The annual income threshold is €120,000. In addition, there is a type of solidarity tax of 2.81% on total income, without an assessment threshold. This levy does not provide any entitlements but will contribute to the financing of the pension system.

Working must be worth it

The rhetoric accompanying the reform proposal is also striking because its lyricism does not always match the proposal’s prosaic intentions. One catchphrase is ‘Un systeme qui valorisa l'activité’, which can be freely translated as: ‘working must be worth it, even in retirement’. On closer inspection, this statement turns out to be an invitation to work longer. Another motto is: ‘In the new system, the value of every euro contributed is the same for everyone’ – therefore it is fairer. Or in the words of Social Affairs Minister Agnès Buzyn: ‘In the new system each contribution has the same value, whereas in the existing system it is possible to generate different levels of pensions with the same contribution’. This narrative is of course only half the truth. It is true that each point is worth the same, regardless of how and where it was earned. However, it is not true that every euro contributed generates the same level of pension. On the contrary, although a contribution of €10 initially generates one pension point, if a person has 5 children, to stay with the High Commissioner’s example, this would be 1.25 points.

Furthermore, the minimum pension that a person is entitled to at the age of 64, regardless of the number of points, is the exact opposite of a system in which contributions of the same amount result in pensions of the same amount. And finally, the aim of ‘points de solidarité’ is to reward non-contributory periods with points.

As in Germany, there may also be a very targeted upgrading of the contribution payments made by low-income workers. The High Commissioner’s report does not contain any specific indications of this. However, a sample calculation in the report suggests that there must be some sort of equalising mechanism. For example, those who enter working life as average-income earners at the age of 22 and work to the age of 66 would receive a replacement rate of 72.1% in the new system, based on their last wage. Under the same conditions, a low wage earner (SMIC) would enjoy a replacement rate of 91.2%; this would be a monthly net pension of €1,459. This deserves respect; in Germany, not even an average-income earner or 'benchmark pensioner' can earn this amount under the same working life calculated over 44 contribution years. However, the French pension system is also significantly more expensive. The comparatively high replacement rate for low-income earners could, however, also be the result of the tax system; at this point the report is not detailed enough.

Consequently, in order to understand the intention of the reform, it would be better to refer to another slogan in the report: 'A system that reduces inequalities among pensioners.' According to the text on the report's cover, this would be achieved by redistributing strong social components of the new system from longer, more stable careers to shorter and more interrupted ones. This would reduce the pension gap between the 'vulnerable' and the 'affluent'. The proposal wants to ensure that disadvantaged people do not have to work up to the age of 67 in order to achieve the required number of contribution years. It looks as though at least this objective will be achieved. Tax-financed solidarity points for periods of inactivity, parental pensions generated by redistribution, the minimum pension also generated by a redistribution in the system, as well as other elements, would give the French pension system a more 'social' face – more social in the sense that the goal of equal wage replacement rate for all would tend to be pushed aside by the goal of a welfare state that fights poverty. However, this is not directly expressed in this way.

Finally, the praiseworthy 'unification of the systems' (régimes) must not be confused with a harmonisation of the rules. This becomes evident when looking at contribution rates. In the future, self-employed persons earning up to €40,000 would pay a contribution rate of 28.12%, but only 12.94% for income exceeding this amount up to a limit of €120,000. This is the same as the contribution of an employee without employer's contribution. Even if the basis of assessment for self-employed persons were to be adjusted to that of employees, there is still a noticeable imbalance. High-earning self-employed persons must contribute significantly less to the solidarity-based, redistributive pension system than high-earning employees. This effect is further intensified by the fact that the reform proposes that self-employed persons make a lower contribution to the solidarity tax (CSG) than employees.

Looking for broad social consensus

The French President now wants to achieve broad social consensus for the current plans. According to him, the key issue is to make access to pensions more dependent on the length of contribution years than on reaching a certain age. Agnes Buzyn, Minister of Solidarity and Health, has announced a wide-ranging consultation to be launched in October, open to all French citizens. Following this, the government will then present its reform project.

The unions in particular are expected to resist the increase in actual retirement age. The plans for a comprehensive reform have already been delayed by a year. French experts see this as being closely linked to the yellow vest protests and the upcoming local elections in March 2020, which have made the President more cautious.

The report by High Commissioner Jean-Paul Delevoye can be viewed here:

https://reforme-retraite.gouv.fr/IMG/pdf/retraite_01-09_leger.pdf

It also contains valuable information on the benefits of the current pension system.