

Tripartite round table on pension trends and reforms

Overall assessment of the pension system

France (Employers)

Contribution of the Mouvement des entreprises de France (Movement of Enterprises of France) (MEDEF)

1. Observance of the core principles embodied in ILO social security standards

(a) With which core principles is the French pension system in full compliance?

Progressive realization of universal coverage

- The entire French working population is covered by one of 42 pension schemes. Nevertheless, **coverage varies greatly**. The plethora of schemes leads to a **lack of transparency, complexity and issues of equity**.

- A government plan to create a universal pay-as-you-go points system was put on hold due to the health crisis.

Social solidarity and collective financing

- The retirement pension pool amounts to €321 billion, **of which €44 billion is for solidarity purposes** (that is, without direct contributions in exchange), representing 14 per cent of the total.¹ **A multitude of schemes helps offset the impact of the “vicissitudes of life”** on pensions: family enhancements, rights accorded to insured persons affected by career breaks (sickness, disability, unemployment), consideration given for arduous work, minimum old-age pension, and so on.

- **Contributions based on earned income account for the vast majority (80 per cent)** of the resources of the pension system. Funds also come from earmarked taxes and duties (almost 12 per cent) and from other third-party resources (unemployment insurance, national family insurance fund, and the State, among others).

Right to adequate and predictable benefits

- The **average standard of living for retirees has been higher than that of the overall population** since the mid-1990s and should remain that way until the end of the 2020s before starting to decrease. In 2018, the average retirement pension represented around 51.4 per cent of average earnings, that is €1,544 a month. Statutory minimum welfare allowances and the establishment of a minimum pension of €1,000 a month are in the pipeline.

- Cost-of-living trends are taken into account in pension revaluations (with variations according to scheme used).

(b) Which core principles are not sufficiently observed in the French pension system?

¹ Directorate for Research, Studies, Evaluation and Statistics (DREES) study No. 1116, June 2019

Financial, fiscal and economic sustainability

All things considered, the financial sustainability of the French pension system raises questions:

- **Pension expenditure is a significant burden** (around 14 per cent of GDP)
- The coronavirus disease (COVID-19) crisis and the **decline in revenue owing to contribution holidays and exemptions** aimed at supporting companies will have a major impact on the financial balance in 2020 (-€25.4 billion compared to the -€4.2 billion initially forecast).
- Even beyond the economic shocks, the pension system appears to be **structurally and permanently in deficit**

2. What is your overall assessment of the French pension system?

The French pension system is an objectively good system. It **ensures a good standard of living** for older persons and acts as a **“safety net” for the most vulnerable**.

But all this comes at a cost. **Pension expenditure regularly increases** and now represents around 14 per cent of GDP, well above Germany (10 per cent) and almost double the Organization for Economic Co-operation and Development (OECD) average (7.5 per cent).²

Population ageing has compounded these problems and demonstrated that the situation is not financially sustainable:

- **Life expectancy in retirement is increasing** (more than 25 years, the highest level among OECD countries), and **the ratio of contributors to pensioners** is decreasing (from 6/1 in 1945 to 1.7 in 2020 and 1.3 in 2060)
- At the same time, **the minimum retirement age is set at 62 years (the average age of retirement is 62.1 years)**, one of the lowest in Europe and three years lower than in Germany, for example.

The financial balance of the pension system is not assured, nor was it before the health crisis. To safeguard and ensure intergenerational solidarity, measures should be taken to adjust the functional parameters of pensions.

3. What measures could be taken to improve the system?

In any case, it should be recalled that **the current priority is economic recovery and the return to growth**. A global crisis of this scale is unheard of.

In the medium term, various approaches may ultimately be taken:

- (a) Increase contributions, but this is out of the question given the economic context and the high social security costs
- (b) Freeze or lower pensions, but this would be very difficult socially speaking
- (c) Extend working life, the most obvious and effective approach in the long term

² OECD, Report on pension systems 2019

Given the high societal stakes concerning the issue of pensions, an age-related measure would enable us to maintain the living standards of retirees, continue financing a high level of solidarity and reassure the French population of the sustainability of the system.

The issue of developing a fully funded pension scheme to supplement the mandatory pay-as-you-go scheme should not be left out of the public debate. This type of scheme currently accounts for around 10 per cent of French GDP (some €220 billion), compared to the OECD average of 126 per cent.³

³ ERES Observatoire des retraites (observatory for pensions), 2019 edition