

# Tripartite round table on pension trends and reforms

## Overall assessment of the pension system

### France (Workers)

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#### 1. Achievement of the ILO principles

**1. Progressive realization of universal coverage:** Yes, although there is still the problem of the penalization of incomplete careers (particularly for women), specific forms of employment, and workers who are affiliated to different mandatory schemes because they have had various jobs (the so-called *polypensionnés*).

**2. Social solidarity and collective financing:** Solidarity and collective financing are assured but remain poorly regulated (regular deficits, difficulty in managing the respective living standards of workers and retirees) and the equity of redistribution is not guaranteed (different replacement rates).

**3. Right to adequate and predictable benefits:** Pension predictability is fairly well ensured as long as one is not in a particular form of employment or have an incomplete careers or an overly atypical career path. Pensions never go down. That being said, the pension revaluation rate is unpredictable because it is used to manage the financial balance of the system, a balance that is very sensitive to fluctuations in growth.

**4. Overall and primary responsibility of the State:** There is real commitment on the part of the State, which is responsible for regulating the system and ensuring the financial sustainability of multiple schemes. However, management oversight is extremely opaque for individuals, the media and even for professionals within the pension system. The system is overly complex owing to the diversity and heterogeneity of the schemes and mechanisms implemented.

**5. Non-discrimination, gender equality and responsiveness to special needs:** Discrimination is not built into the system. However, the different rates of return effectively penalize certain population groups that are already disadvantaged in the labour market. Moreover, women are less well-served than men when it comes to matters of retirement, which goes to show that the system has not corrected all work-based gender inequalities and that some schemes are even anti-redistributive (paradoxically, child bonuses benefit men).

**6. Financial, fiscal and economic sustainability:** Prior to the COVID-19 crisis, the system was essentially sustainable over the long term; deficits, when they occurred, were very limited in scope. The long-term population dynamics were healthy and the measures already taken make it possible to weather the baby boomers while maintaining a structural balance in the long term. However, the COVID-19 crisis has led to a drastic reduction in contributions and created an enormous deficit that will have to be financed in an exceptional manner (it cannot and must not be entirely offset by future cuts to the system). The crisis is also going to leave a long-lasting scar on the financial situation of the system because the path of growth has been severely affected. It will therefore be necessary to reconsider the parameters of the system as a whole (it should be noted a priori that this new structural deficit is of a reasonable size in the order of 0.2 points of GDP). Lastly, the French system is very sensitive to recruitment and wage policy choices in the public sphere: when these become distorted, the overall balance of the system is affected. This intrinsic fragility must be taken into account.

**7. Transparent management and administration:** The main problem stems from the multiplicity of schemes and the way they interact, which renders the system incomprehensible for all concerned and makes it very difficult to manage, even for the experts!

**8. Involvement of social partners and consultations with other stakeholders:** The extent to which social partners are involved varies greatly from one scheme to the next. The largest in terms of financial volume, the National Old-age Insurance Fund, is supposedly jointly managed but is in fact very directly managed by the State. The second largest, known as AGIRC-ARRCO, is managed entirely by social partners, although it relies on the State to make its decisions binding. The State has a tendency to want to manage everything on its own, whereas it has a

great need for social partners to enhance management legitimacy and quality and even to make it fairer and more widely accepted by the French people.

**9. Periodic review of pensions to match the evolution of the cost of living and level of earnings:** In practice, French pensions never go down in nominal terms. Pensions are revalued annually, in principle on the basis of inflation (maintenance of purchasing power). However, this revaluation is often slower than inflation, largely to maintain the balance of a system that is highly sensitive to growth fluctuations (highly procyclical balance). As a consequence, the ability to guarantee a revaluation rate or even to enable retirees to partake of the rewards of growth is limited. It is also difficult to adjust pension revaluations to take social justice into account.

## **2. Overall assessment of the French pension system**

The French pension system, which has played an important role in shaping our social model, is **no longer entirely fit for purpose for today's world**. It was built on the basis of trades and sectors compensating for working conditions and the recognized arduous nature of work. These days, the notion of arduous work has evolved, trades have changed and wage earners can switch from one activity to another with ease. All this leads to difficulties upon retirement, with **a multiplicity of rules according to the statutes and several pensions being paid** (the *polypensionnés*). Indeed, the **diverse rules and insufficient knowledge of them** creates a feeling of injustice. Unemployment has become an increasingly frequent "career hazard", which has an impact on pension rights: **careers are seldom linear and progressive; career interruptions are no longer a rarity**. Thus, it is – and will continue to be – increasingly difficult to accumulate the rights necessary to retire at the minimum legal age. In addition, **young people are entering the labour market at a much later stage and are facing worsening employment conditions that are poorly compensated for by the pension system**.

## **3. How can the pension system be strengthened?**

**Four objectives to be achieved:**

- 1. Opt primarily for pay-as-you-go pension systems**, which are more stable and solidarity-based than individual capitalization schemes. These latter should be limited to playing a secondary role in pension financing.
- 2. Build a universal and collective system**, that is, a system that covers all active persons and is based on a sense of solidarity when it comes to developing their pension rights. The loss of pension entitlements due to a change in economic sector or form of employment must be avoided.
- 3. Combat discrimination and, in particular, gender inequality**. Although the pension system is not designed to rectify retroactively all the inequalities that have been created in the working world, it cannot be indifferent to the inequalities which women have been, and often still are, subjected to in the labour market and in the workplace.
- 4. Involve workers and their representatives in the management of the pension system**. Retirement is a right built by workers, with the contributions of workers, and which ensures solidarity between different generations of workers; the pension system cannot be managed without the input of workers.

**Three areas of social progress to be addressed:**

- 1. Strengthen the right to a decent pension**. Non-contributory schemes must protect older persons from poverty, but contributory plans also have to ensure a decent minimum pension. A full working life must provide the right to a pension that is equal to the minimum wage.
- 2. Improve the fairness of pension rights**. The pension system redistributes wealth among generations and also among categories of workers. The fairness of this redistribution needs to be improved, particularly for workers facing the most difficult working and employment conditions.
- 3. In view of population ageing, give workers the opportunity to remain in employment**. Pension systems are faced with an ageing population and there is therefore a need to raise the age of retirement. Not all workers have the same opportunities to remain in employment, let alone in a decent form of employment. It is also the responsibility of employers and governments to ensure that all workers have access to decent jobs, even in older age. More broadly, pension systems must expand the range of options so that workers can manage the transition to their retirement (especially by developing the options for a progressive transition to retirement).