FACING PENSION CRISIS IN FRANCE

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1. Introduction

The French system of old-age insurance is a 'pay as you go' (PAYG) pension scheme; it aims to maintain workers' income and guarantee relatively generous benefits for employees and their families. However, individual professional groups have maintained their own pension schemes, making the overall system being highly fragmented. Furthermore, the French pension system, despite being compulsory, is not managed directly by the state. Instead, it is run by the social partners who represent those who benefit from and contribute to the system. Consequently, French pensions are not managed by a public bureaucracy, but by private social insurance funds that are required by law to provide a public service. Supplementary pensions can be added to compulsory pensions. These are provided by certain firms and sectors or are taken up voluntarily by individuals. Such pensions are either run within the firm (occupational) or offered by private insurers. As a result, while compulsory pensions are PAYG, some optional supplementary pensions are funded pension schemes. Debate about the structure of the French pension system is, therefore, not a question of a public system as opposed to a private system, but between compulsory and optional systems and between PAYG and funded pension schemes.

In France, the 1980s witnessed growing concern over the issue of financing the pay-as-you-go pension system. Between 1985 and 1993 a series of government reports were published.[1] All took a pessimistic view of the future of French pensions, and demanded cuts. In 1999, the Charpin Report demonstrated that French population ageing is due to accelerate after 2006, when the baby boom generation reaches the retirement age of 60. If current trends persist (low fertility, low immigration and a continuous lowering of the mortality rate) one French person in three will be over 60 by 2040. The dependency ratio of retired to active people will rise from 4 in 10 to 7 in 10. Even if falling numbers of children and unemployed release additional social security resources for pensions (in France, child allowances are substantially higher than in Britain) the financial viability of the pay-as-you-go pensions after 2010 is still suspect.[2]

An aging population is revealing gaps in the financing of the French pension system and highlights an growing need for profound reform. Many of the system's characteristics make reform difficult, such as its generous benefits, its management by the social partners not the state and its corporatist fragmentation. To date, only one significant reform has occurred, in 1993. A window of opportunity for reform was opened briefly by the economic recession in

the early 1990s during preparations for the single currency. However, the failure of Juppé's reform plan in 1995 and the subsequent change of government in 1997 quickly closed it. During the five following years (1997-2002), Jospin's governement has procrastinated over the pension issue for fear of the electoral consequences of such politically risky reform. Consequently, in recent years in France, there has only been debate about, not reform of, the future pension system.

Despite these debates failing to achieve consensus, they nonetheless demonstrate that the future of the French pension system as it stands is no longer assured. An analysis of the positions of the various French actors concerned with pension reform shows that it is widely believed that, in future, pensions will be based on a system of multiple pillars, mixing PAYG and funded schemes. The various plans that seek to reduce the generosity of PAYG pensions and policies aimed at implicitly promoting the development of pension savings together point in this direction. The French population seems to be taking heed of these changes without waiting for any explicit political decision. They are increasingly developing private savings to supplement the pension they will receive from the compulsory PAYG schemes, which - despite continuing to be financed - many believe is likely to diminish in future. As a result, the division between compulsory and optional pensions and between PAYG and funded pension schemes is in the process of being renegotiated in France, at the very least via changes in household behaviour if not because of explicit policy change.

2. A complex pension system that is difficult to reform

French pensions are based almost exclusively on compulsory social insurance, which operates on a pay-as-you-go [PAYG] basis and provides retirement benefits to those with requisite contributions. The system is primarily funded by joint social contributions made by employers and employed and is managed by administrative councils composed of their representatives. On average, collective schemes guarantee a pension with a replacement rate between 70 per cent and 75 per cent of wages. The system is very fragmented. It involves a dominant regime, *le régime général*, which covers private sector employees in industry and commerce; this accounts for approximately 60 per cent of the population. However, at the end of the second world war when the general regime was created, many occupational groups opted to maintain their own separate pension schemes. Their established pensions were either more generous than the general regime (e.g. the public sector and employees of public

enterprises such as the railways, as in SNCF, RATP, the Paris Metro) or involved lower contributions (as was the case with the liberal professions and agricultural workers).

For those covered by the general regime, the basic benefit level (a maximum 50 per cent of a reference wage, calculated over the twenty five best years) is increased by a complementary pension, which is also compulsory and also operates on a PAYG basis. The complementary pension regimes are more numerous. They are arranged by economic sector (agriculture, commerce, industry etc.), as well as by job type. For example, complementary pensions for managers are different to those for other employees (AGIRC is for managers and ARRCO for employees). While the general regime is based on defined benefits, the complementary regimes are based on defined contributions. Employees receive points in return for contributions. The social partners regularly decide the value of these points with reference to economic conditions and demography; their total over working life deteremines the value of the final pension.

Other types of pensions supplement this system; although currently marginal,these are now developing rapidly. A minimum state pension exists for those who have not paid sufficient contributions, or who have very low incomes.[3] Additional optional supplementary pensions are also available from provident societies to top up compulsory pensions. These additional pensions are also PAYG schemes, based on defined contributions and often established through collective branch agreements or at firm level. In principle, therefore, the overall system leaves little space for funded pension schemes. However, some professional groups have chosen to create voluntary supplementary pensions that are funded. These include PREFON, established in 1967 for state employees, FONPEL established in 1993 for locally elected councillors, and COREVA, which was established in 1990 for agricultural workers but blocked by European Court of Justice. Since 1994, tax deductionshave been available for savings schemes that are for pension or general provident purposes. Finally, there has also been a rapid increase since the mid-1990s in additional supplementary pensions, called ‘chapeaux’[4], created by large corporations and run as funded pension schemes (e.g. the additional supplementary pensions in insurance societies and banks) (Babeau, 1997). However, while state employees and liberal professionals are able to take advantage of funded pensions, no funded pension schemes exist for employees covered by the general regime, who constitute the majority of the French work force.

Pension reform is one of the most sensitive political issues in France. Any suggestion of reducing pensions encounters strong public opposition; the French are strongly attached to their social security schemes in general, their pension schemes in particular, because of the high replacement rate assured under compulsory regimes. Beyond their generosity, French pensions also enjoy high levels of public legitimacy. Their embodiment of social rights, their benefits, their financial structure and their representative systems of management - all reinforce their popularity. In France, social rights are ‘acquired’ by paying social contributions directly out of wages; pension benefits are calculated according to the X best years of salary earned and/or the amount contributed, on an individual (not a collective) basis. These are difficult to challenge retrospectively and have an advantage over means-tested or more redistributive pension schemes because they do not undermine personal incentives to save. Further, under this individual and relatively accurate reference system, users are considerably more sensitive to any modification than under a flat-rate scheme. Hence resistance to change is strong. Social insurance contributions are translated into a personal investment for a retirement income, payments effectively returning to those who have made them. This notion of the ‘deferred wage’ was used long before pensions became considered as a collective charge on the public purse (Friot, 1998). By comparison, tax-funded pensions suffer from all the criticisms aimed at taxation. Unlike social contributions, money taken in tax is rarely hypothecated; in France as elsewhere, tax revenues disappear into the general public coffers. As individual pensions are financed through contributions not taxes, the French would prefer to see social contributions raised rather than their pensions cut back (Gaxie, 1990; Palier, 2002).

Historical research on the French pension regimes shows how they were established through progressive negotiation. As various exceptions emerged- such as particular, autonomous or special schemes - numerous socio-professional categories have ensured that their specific interests are well-defended (Guillemard, 1980, 1986; Dumons, Pollet, 1994, Friot, 1994). This corporatist fragmentation into hundreds of distinct regimes reinforces its resistance to change. Specific socio-professional groups seek to preserve their particular advantages, requiring the government to negotiate with representatives of each group if they wish to initiate reforms. Since themid-1980s, both left and right wing governments have tried to reduce PAYG pensions. French wage earners are represented by trade unions (principally CGT, CFDT, FO, FEN, CFTC) and their positions, if not united, were relatively homogenous throughout those years. The trade unions mobilized public opinion in defence of social security and emerged as

the ‘defenders’ of the status quo against official initiatives that appeared to threaten pensions.[5] Trade unions have been veritable ‘veto players’ (Tsebelis, 1995, see also Immergut, 1992) in French social protection ever since. Their support is essential for change to take place. Analysis of the last twenty years shows that it is not possible to reform French social security in the absence of any agreement with – or at the least the tacit consenst of – the social partners (or at least some of them).

This ‘corporatist-conservative’ (Esping-Andersen, 1990) configuration of French pension institutions explains their considerable resistance to change in contrast, for example, to Britain. The institutional features of the French system, established in 1945, appear to block reform, despite arguments in its favour dating from the late 1970s and the content of such reform being Despite this, however, the French system has not remained fixed. Certain economic events and policies have contributed to opening a pathway to change.

3. Much debate, little reform

At the end of the 1980s, the future financing of pensions became an important issue in France. Numerous reports were commissioned to determine demographic projections and propose solutions (See note 2). Their projections, which were roughly similar, showed that for the pension system to remain in equilibrium in 2025, contributions had to increase by 170 per cent or benefits had to be halved (Ruellan 1993, 911-912). The reports highlighted the importance of ensuring the future long-term financial viability of the pension system, most notably by changing the way pensions were calculated. Several options were proposed, including increasing the contributory period for a full pension, changing the reference salary used to calculate the pension due and changing the method of indexation to revalue pensions. However, during the 1980s and up until 1993, no pension reforms were implemented despite the constant deficits in the general regime and pessimistic predictions about its future viability.

Faced with these difficulties, governments preferred to postpone the implementation of the proposed reforms and reverted to a standard and politically safer solution. Between 1985 and 1991, employee pension contributions rose from 4.7 per cent to 6.55 per cent of the social security ceiling. The social partners themselves adopted the classic method when they adjusted the compulsory complementary pension systems (AGRIC and ARRCO) in 1993 and

1994. They increased social contributions and reduced slightly the pension amount by indexing the pension to prices instead of gross wages. Since the mid-1980s, to counter trade union defence of established pension schemes, public policy has consisted chiefly of commissioning reports and information campaigns to focus on the effects of an ageing population, the growing imbalance between active and non-active members of society and the catastrophic consequences for French pension futures.

In March 1993, a political window of opportunity opened up the pension debate. Legislative elections returned a strong majority to the UDF-RPR (right-wing) coalition, in an atmosphere of apparent crisis for the state of social security. Subsequently, the Balladur Government sought to implement recommendations from the various reports and introduced a reform to the general pension regime for employees in private industry and commerce. This reform was made possible because of concessions made by the government to the trade unions (Bonoli, 1997). The 1993 reform modified the method of calculating pensions, as well as the method for indexation.[6] The reform severed the previous link between contributions and benefits, like all reforms of Bismarkian systems of social protection, and generated a reduction in the replacement rate of pensions under the general regime (from 50 per cent to 33 per cent of the reference salary, Babeau 1997). To promote acceptance of this reduction in benefits, the government announced a second part to the reform, which separated pensions based on social insurance from those based on 'solidarity'. 'Fonds de solidarité vieillesse' (FSV) financed benefits for retirees who had made insufficient contributions to the system during their working lives. These benefits were now no longer the financial liability of the social insurance budget.

In trying to sell these reforms to public sector employees, Alain Juppé demonstrated that he lacked the political savvy of Édouard Balladur. His inability to do so doubtless explains his loss of the 1997 election. The reform expounded by Édouard Balladur and Simone Veil only concerned the general regime (employees in private industry and commerce). It did not cover the special regimes for public servants or employees of public enterprises (SNCF, RATP, EDF-GDF, etc), where union membership rates are the highest in France and for whom the method of calculating pensions is more generous than for private sector employees. In a plan presented on 15 November 1995, Alain Juppé announced the reform of these special pension regimes. He wished to extend the rules for calculating pensions from the private systems to the public ones, notably to increase the contribution period for a full pension from 37.5 to 40

years. Alain Juppé believed his political position[7] was strong enough to develop his social security reform plans in secret, without any negotiation with the social partners: he feared that pre-negotiations would erode the overall social reform package. Responses to his proposed public pension reform were never heard. From 23 November onwards, massive strikes occurred in the public sector (particularly at SNCF and RATP) and impressive protests multiplied until 22 December 1995. Given the extent of social protest, which was also focused on the plan to restructure SNCF, the government withdrew its pension reform plan.[8] The window of opportunity had closed.

Between 1997 and 2002, the Jospin Government has not attempted any major pension reform. Lionel Jospin learnt from Alain Juppé's failure. Instead, he has devoted recent years to preparing the ground for future pension reforms. He has also taken several measures to protect PAYG pensions, while simultaneously preparing the ground for future funded pension schemes. In 1999, the Prime Minister asked the Commissariat au Plan to consider possible reforms to pensions. The Charpin Report (1999) ensued. It was presented to the Prime Minister on 29 April 1999 and followed on from the previous reports published during the 1990s. As cited in the introduction to this paper, it showed how, if no changes are made, the future of the PAYG pensions will be undermined by 2010. Consequently, the Charpin Report again proposed to reform the general regime by extending the period of contribution necessary to obtain a full pension to 42.5 years. It also proposed to align the future of public employees (and associates) with those of the private sector. This report, however, did not generate consensus amongst all key players. While CFDT approved the report and CNPF went one better calling for the years of contribution to increase to 45 years, the other trade unions were opposed to its conclusions.

Further reports were published during this period. In contrast to the homogeneity of expert opinion in the 1990s, these reports adopted a range of approaches.[9] A report by the Copernic Foundation[10] was published several months after the Charpin Report and contested the idea that a demographic shock threatened the pension system. It pointed out that, according to a report by the Commissariat au Plan, pension spending needed to increase from the current level of 12 per cent of GDP to 16 per cent by 2040. This rise in pension spending, however, is only a small increase compared with the rise that has occurred from the 1950s, since when pension spending has doubled. The Copernic Foundation also contested the view that any increase in pension contributions was impossible (they could be partly financed from future

productivity gains), especially given that increased contributions could save the PAYG pension system without changing the replacement rate of future pensions. Furthermore, the report highlighted that the ageing of the population, which threatened the pension system, would concurrently result in a reduction in the number of children, young people and most likely the unemployed,[11] and, hence, the amount spent on social security in them. These future savings could be spent on pensions so that their generosity could be maintained.

Faced with these two extreme positions, the Prime Minister preferred to seek further expert opinions rather than chose a solution that was too entrenched. Hence, in September 1999, Dominique Taddéi (2000) made a study for the Conseil d'analyse économique.[12] The report highlighted the contradiction between increasing the length of contributions and the continuing use of early retirement. In France, the effective retirement age is 57, not 60. Furthermore, people are entering the labour market at higher ages. Extending the length of contributions made it is impossible for many to work the number of years required to get a full pension. Dominique Taddéi, instead, recommended starting 'à la carte' pensions by implementing a progressive system of transition from full activity to retirement, which allowed people to combine revenue from employment with retirement income.

Several months later, René Teulade wrote a report on pensions for the Conseil économique et social (Teulade, 2000). Reflecting the main attitudes found in the Conseil économique et social (especially among trade unionists), the report stressed the level of uncertainty in forty year demographic projections and, instead, opted for a five year perspective. This report also contested the proposal to increase the contribution period, given high unemployment and low activity rates amongst people over fifty. Unlike the Charpin Report, this report proposed to increase the level of pensions in exchange for indexing private pensions to prices and taking more account of periods outside formal employment when calculating pension rights (unemployment, training, education, children…). It disagreed with the idea of aligning the special regimes with the private regimes. To assure the financial viability of PAYG pensions, the report recommended increasing the reserve fund and the state's role in financing non-contribution related pension rights. The Teulade Report, like the Taddéi Report, favoured an economic approach over a financial or demographic approach to the pension problem, noting that any solutions would be implemented during stronger economic growth and with higher employment rates amongst older workers.

Pensions are the object of an important, at times contradictory and always high profile debate. Therefore, Lionel Jospin has prudently preferred to wait until after the elections in 2002 before reaching any major decision. However, to show his commitment to preserving, not undermining, the PAYG pension system, the Jospin government created a reserve fund under the 'loi de financement de la Sécurité sociale' (voted in 1998). This law was implemented at the start of 1999 with an initial contribution of 2 billion FF to the reserve fund. It will be supplemented with future surpluses in the social regimes (CNAV, FSV and Contribution sociale de solidarité des sociétés), half of all earnings from social deductions paid on inheritance income and with any exceptional revenue. For example, it is expected that profits from the sale of the third generation mobile telephone licences will be paid into the reserve fund. Capital in the fund is currently increasing incrementally via government decisions. By 2001, it should have risen to 20 billion FF. The source of payments into the fund as well as its use (where it could be invested) have not yet been firmly decided by government.

At a press conference on pensions in March 2000, Lionel Jospin announced that the accumulated amount in the reserve fund is expected to increase to 1,000 billion FF by 2020. He also announced that he wished to recommence reform of the special public pension regimes. He proposed guaranteeing public servant pensions under a pact that, first, progressively lengthened the contributory period required for a full pension to forty years and, second, reorganized regime management by compensating for more laborious jobs and by integrating total bonus earnings into public servants' pension rights. Immediately after these announcements, the public service trade unions mobilized in opposition to Jospin, reducing the possibility of reforming the special regimes.

In order to gain the consensus the Charpin Report had failed to achieve, Lionel Jospin also announced the creation of the 'Conseil d'orientation des retraites' (COR) in April 2000. The council was made up of experts and representatives of the social partners (MEDEF[13], notably, refused to take part). In April 2001, COR organized a seminar on the theme 'Age and Work' which sought to combine attempts to increase the length of contributions with raising the employment rate. In fall 2001, the COR published its first report, in which it promoted the lengthening of contribution period to obtain a full pension as the main solution for pension, as well as increase in the employment rate.

The Prime Minister's comments, like the recommendations from the main public institutions, base the solution to the pension problem on an increase in the contributory period required for the right to a full pension. However, Lionel Jospin has not found a basis for compromize that would allow him to introduce such reforms without them being highly contested. Employers were also faced with protests from trade unions and the general population when they tried to extend the length of contribution required for complementary pensions. As part of a new negotiated social agreement, MEDEF wanted to alter the rules for calculating complementary pensions in the AGIRC and ARRCO regimes, to extend the contributory period to 45 years. To promote this cause, MEDEF asked its members to stop paying contributions to the ASF.[14] However, this tactic, which resembled blackmail by MEDEF, caused trade unions to mobilize in defence of complementary pension schemes. Several days later on 25 January 2001, the trade unions organized a protest of more than 300,000 people against MEDEF. Reneging on its position, MEDEF signed an accord with CFDT, CGC and CFTC. This accord froze contribution rates to AGIRC and ARRCO until December 2002 and brought the two complementary regimes more into line with each other. The accord also urged the government to undertake a full reform of pensions, including both the public and private regimes.

Despite the government being armed with new instruments (the reserve fund) and new slogans (raising the rate of employment), the formula for preserving the future of PAYG pensions always rests on increasing the contribution period. It implies either an increase in the effective age of retirement or a reduction in the size of the pension paid, compared with what would have been paid had previous legislation remains in place. As there is no current tendency towards a longer working life, this indicates a progressive reduction in the level of pensions paid out by the compulsory PAYG pension regimes. Expected reductions in public pensions open the space for an increase in private pension saving.

4. A political situation favouring pension savings funds

The 1993 reform was the chief cause of weakening of the French PAYG pension scheme. Due to this reform, future pensions will be significantly lower than they are now. The most optimistic perspective, proposed by COR, show that the 1993 reform imply a decrease in the replacement rate from 78% to 64% in 2040 (COR 2001). Henceforward, private sector workers will no longer be able to rely as much on their basic pension and will have to supplement it with other sources to enjoy an equivalent level of retirement income.

However, this first reform was insufficient because the reform of the general regime and aligning public service (and associated) pensions with those in the private sector remained unresolved (a conclusion of the Charpin Report). In order to win political support, reform is being preceded by a new phase of scare-mongering about the state of French pensions. This reflects the 1980s when several reports predicted that the pension system would be doomed by the end of the 1990s (See note 2). Several demographic and economic analyses have highlighted the future weakness of PAYG pensions. These predictions have had a significant impact on the French population. Indeed, the growing number of reports, publications, and media and government campaigns concerned with population ageing and its supposedly catastrophic effect on the pension regime, have contributed to sapping public confidence in PAYG pensions. Consequently, the French population strongly believes that the current system will not provide an appropriate pension for future generations. Surveys confirm that the French are anxious about the level of future pensions. In a survey by Cencep for *Le Parisien* in 1999, the future level of pensions ranked as the third greatest preoccupation.[15] The same year, 85 per cent of the 955 people surveyed by BVA for CFDT, LCI and *L'Expansion* said they were anxious about the future of the pension system. Similarly, 72 per cent of 534 employees surveyed by Ipsos for *l'Argus* think that they will be at a disadvantage when they retire and 72 per cent of 952 people questioned by l'Ifop for *Notre Temps* believe that pension reform is urgently required.

These survey results and the various positions of different actors show that there is an ambiguous consensus about the content of reform: reform is a matter of establishing a mixed system where funded pensions supplement the PAYG scheme. While funded schemes were taboo for many involved with social protection in the 1970s (especially trade unions and left-wing parties), politicians and trade unionists today are increasingly ready to consider a role for funded schemes to supplement PAYG pensions.

However, there is still no consensus over the form funded pension schemes should take. Consensus only concerns the principle that supplementary funded pensions should be developed in conjunction with (and not in the place of) PAYG pensions. This nonetheless represents a significant step forward in the debate, especially as, for a long time, it was pitched between supporters of either PAYG pensions or funded schemes. There is now agreement on the general framework within which debate must occur. Future debate will be significantly more concerned with the form of a mixed system than with the principle itself.

One sign of this consensus is agreement by the majority of protagonists over the use of the term ‘pension savings’, which has been substituted for the term ‘pension funds’, a term considered tainted by the behaviour of the powerful British and American pension fund institutions.[16] However, the reasons for agreement to develop pension savings differ widely.

Insurers, mutual banks, credit agencies, commercial banks and employers have wanted to develop pension funds for a long time. However, while they all wish to develop funded pensions, they disagree about the way funded pensions should be organized.[17] In 1991, soon after the publication of the white paper on pensions, insurers represented by the *Fédération française des sociétés d’assurance* (FFSA) published their proposal for ‘ensuring the future of pensions’. The insurers suggested not one way of funding pensions, but two: one provided individual contracts for supplementary pensions and the other created a ‘pension fund *à la française*’. The aims were to encourage individual initiatives, freedom for anyone to apply, withdrawals solely transferable into annuities, including terms of revertibility. Since then, the FFSA has modified its thinking and proposed the possibility of optional partial withdrawals of capital. As for ‘pension funds *à la française*’, the FFSA proposed developing a collective fund (combining employees by sector, firm or profession), which would be established by contract with optional membership. The system would be tax deductible and managed through integrated capitalization (with transferable rights), using the prudential management principle and overseen by the social partners (who would control administration and financing of contributions). This system would also require termination in an annuity, with rights transferable to the surviving spouse.

Fifteen months after the insurers’ report, mutual banks and credit agencies joined together in the *Association de recherche et d’études pour l’épargne et la retraite* (AREPPER).[18] The association, initiated by GEMA, Groupama and affiliates of Crédit Mutuel, aimed to differentiate itself from the private insurers’ proposals and offered a mutualist-based proposal founded on the principle of creating a balance between solidarity and insurance. This included developing pension savings funds in ‘tight collaboration between the social partners’. The pension savings fund would include firm or enterprise funds, not managed by the firm but by professional mutual societies controlled by the traditional actors (the managers of social insurance: employer and employee representatives). The only notable difference from the FFSA proposal concerns withdrawals. Under the FFSA proposal withdrawals are only by

annuities. Under the GEMA and Groupama proposal there is a system of options for withdrawals.

Concurrently, in October 1992, approximately 60 of France's biggest companies united together under the banner of the *Association française des entreprises privées*. The president was Ambroise Roux, the honorary president of Alcatel-Alsthom. He proposed measures allowing the 'provision of supplementary pensions'. The objective would be to invest at firm level, allowing returns to augment the original savings fund. This involved a fund created by employers, to which they were the sole contributors. The management of the fund would be internal to the firm and returns would be accounted for on the balance sheet, has long been the case in Germany. Withdrawals at the time of retirement would be made only be in the form of a life annuity.

In July 1993, the banks (non-mutuals) presented their own proposal entitled '*Fonds d'épargne retraite*'. In France, the banks already have a presence in niche life insurance markets, managing salaried workers' savings schemes. The banks proposed that workers' savings schemes should be extended, either on the firm's initiative (firm funds or inter-firm funds between SMEs), or on the initiative of authorized organizations. This system would allow individual membership (liberal professions and crafts). Membership would be optional and the employer would not be obliged to make a financial contribution. Management would be external to the firm, with the possibility of internal management for very big companies. The investment rules would allow quoted and non-quoted shares. They would also allow portable pension rights to remove restrictions on the working population and have transparent management. Benefits would be paid as life annuities or as a lump sum on retirement. The main difference compared with previous proposals is that it is possible of an employer to exempt himself from contributing to the funds and the possibility for fund management to remain internal to big companies.

Given these numerous concurrent projects, the representative organization for French employers attempted to generate one coherent strategy and to create a compromise. It held a commission presided over by Ernst-Antoine Seillère (who became the president of the new French employers association, MEDEF, in 1999) and involved industrials, bankers and insurers, including the authors of the FFSA and AFB proposals. According to the working group, the creation of pension funds would contribute to the better 'functioning of the

economy'. However, they remained vague about concrete methods for organising the funds. The pension system should be consolidated and reinforced by proper pension funds and the quasi-funds within firms and, in so doing, develop French capital markets. In 1999, Denis Kessler, a spokesperson for pension funds in France, became president of the *Fédération française des assurances* and deputy head of MEDEF. His arrival in two of the highest posts in employer organizations implied that pensions had become a priority for French employers. The reasons used by Kessler to promote the development of pension funds were not the immediate interests for insurance companies or banks who would benefit from the expansion of this significant market, but the importance of developing a French and European capital market and, consequently, giving (French and European) firms greater financial capacity.

Political parties on the right were the first to adopt the employers' proposals. Three laws concerning the creation of pension savings funds were put before parliament between April 1993 and May 1996. The Right argued in favour of creating pension funds using similar arguments to those used by French employers, but recently adding arguments concerning 'sovereignty'. Since 14 July 1999, Jacque Chirac has criticized the Jospin Government's inaction on the subject of pensions and has pushed for the creation of pension funds. Beyond just the interests of business, he has also argued their interest for France given the current power of foreign investors (British and American pension funds): "We must create a system of pension funds … so that French pensioners and workers can once again own their firms".[19]

At the end of the 1990s, members of the Socialist Party, like many trade unionists, also became sensitive to anti-American arguments, which they could advocate more easily than economic arguments in favour of pension funds. Nicole Notat, the Secretary General of CFDT, used this argument: "European and French workers must ask themselves if they will continue to let Anglo-Saxon pension funds … continue to have the monopoly over intervention in the capital of French and European enterprises".[20] In a report by the *Conseil d'analyse économique*, François Morin (2000) showed that French firms required capital from French pension funds if they were to no longer to be dictated to by American pension funds.

A second argument (which diverges from those of employers) is used by the 'Left' to justify the development of workers' pension savings: the creation of pension savings funds inside firms is a way of reinforcing the power of the workers. In a report by Michel Sapin (2000), this argument is refined. "For us, it is a way for the opinion of workers to penetrate the firm

that is different to the ‘pension fund shareholder’ method or to those of management”. [21] For some on the Left and for certain trade unionists, pension saving funds, managed collectively by workers, constitute a way for them to strength their control and decision-making power in the firm, thereby justifying the establishment of pension funds in France.

Most players in the pension debate now support a mixed pension regime, whereby a funded element is introduced into the regime to supplement PAYG pensions. However, they support it for different, even contradictory, reasons. In 2001, this issue again became the object of staunch opposition from FO, the Communist Party and, to a lesser extent, CGT. However, this idea seems to have the support of most French people. Surveys concerning the future of pensions show that, as a result of lower future pensions, people are prepared to save for their retirement in order to supplement their PAYG pension. Between November 1996 and December 1999, all the (numerous) surveys showed that a majority of those questioned (between 43 per cent and 80 per cent, nearly two-thirds on average) favoured the creation of a pension savings regime that complemented PAYG pensions (Palier, Bonoli, 2000).

Therefore, most of the important players in the pension reform debate and a majority of the French public (two-thirds of those surveyed) think that the French pension system will become a mixed system combining PAYG and funded pensions. However, further analysis of the positions of funded pensions shows that there is still insufficient agreement on the characteristics of pension savings (Should they be compulsory or voluntary? How should they be financed? Who manages them? Should they offer withdrawals through annuities or a capital lump sum? etc.). A first, essentially qualitative, step is about to be taken involving the formal introduction of funded pensions into the French pension system. However, before any system can be put in place by the public authorities, pension savings need to develop in France through changes in individual behaviour.

Beyond these debates, several factors show that France is in the process of developing pension savings funds. Optional funded pensions already exist in certain professions.[22] A first tentative piece of legislation concerning the generalization of optional private pension funds was introduced in 1997 (*loi Thomas*). This law was not implemented because of a change in the government. In 1997, the Juppé Government wanted to create the opportunity to establish optional pension savings funds, organized within the firm, for workers in commerce and industry. The law passed on 25 March 1997 sought to institute a pension savings system for

14.5 million workers in the private and agricultural sectors in France. The system would have been financed by member employees and eventually by employers who wished to contribute. It should have allowed withdrawals as annuities and eventually partly as capital. The reform package would have been made attractive by exemption from taxes and social charges. The law could only be applied after the publication of decrees precisely defining the conditions of its implementation. This should have occurred in June 1997. However, the dissolution of the National Assembly and the arrival of a new majority government interrupted the process. The new Prime Minister, Lionel Jospin, announced that he would look again into the proposed system which risked "putting in danger the PAYG system" because employers, who contributed to these funds, would be exempted from their social contribution, creating a deficit in the PAYG pension system. The decree to apply this law was blocked by the Jospin Government in 1997 and the law was repealed in the summer of 2001.

The Jospin Government, however, also helped pave the way for the creation of these types of pensions. Despite repealing the *loi Thomas* and not openly wishing to develop pension funds, the Minister for the Economy and Finance in the Jospin Government, Laurent Fabius, had parliament adopt a plan to establish 'voluntary wage savings partnership plans'. These provided those workers who wished to save with a long-term savings plan (10 years or more as collective negotiation would determine) that was tax exempt and could eventually be contributed to by employers.[23] Amounts saved by workers would be payable as capital or in a more divided manner (politicians wanted to avoid using the notion of an annuity). This is a funded system in all but name; it aims to return power to French workers and to provide French savings funds for use in French firms. It is not explicitly designed to supplement all French pensions. However, it makes a contribution, as revealed, in a slip of the tongue, by Fabius, who called wage savings plans 'pension savings plans' on television in January 2001.

The French population have already responded to the future fall in PAYG pensions. The savings rate in pension products grew throughout the 1990s even though purchasing power did not change. If we analyse changes in the composition of French households expenditure, we see that the amount relating to pension savings (life insurance and pension savings in the strict sense) rose steadily during the 1990s; a period of intense debate about of the PAYG pension system. Consequently, while only 31 per cent of French households owned such a product in 1986, 46.6 per cent did in 2000 (INSEE 2001).

Today, nearly one household in two saves for their retirement. Strictly defined pension savings (the institutional forms of which are poorly developed, as we have seen) are used by 20 per cent of households aged between forty and fifty years. In the case of those in liberal professions, the rate rises to 31 per cent. It is nearly 24 per cent for agricultural workers and commercial artisans and nearly 20 per cent of managers (INSEE, 1999, p. 294). For want of proper pension funds, life insurance is the substitute most used by households to prepare for retirement. This product provides a reasonably good return on capital (the return was 5.4 per cent in 1999) and has tax exemption. Investment in life insurance plans has steadily increased through the 1990s. "In 1997, life insurance represented 18 per cent of total investment, compared with less than 5 per cent ten years earlier" (INSEE, 2001, p. 147). More generally, "the role of financial products (bank savings, stocks and shares, life insurance etc.) has increased over the last 20 years and represents today half of the wealth of individuals, taken that regional variations have diminished continuously during the period (3.5 per cent in 1997)" (INSEE, 1999, p. 279).

Even before the government has adopted any laws concerning the generalization of pension savings fund, such savings are developing independently because individuals anticipate that PAYG pensions will fall. The main question today is whether the future funded pension system will receive or not contributions from the state and from employers. It does not concern the development of private pension savings, which is already well underway in French households. In this, France is merely following the same path as other developed countries.

5. The trend towards reduced compulsory public pensions to the profit of optional private pensions

The French pension situation follows the path of most Bismarkian pension institutions; it has maintained a relative status quo despite several difficult reforms. Bismarkian pension institutions are very difficult to reform because change confronts the special interests of various privileged groups of workers. In order for the reforms to pass they must be negotiated with the social partners, drawing a distinction between reforms altering insurance and those altering solidarity. Reform seeks to extend retirement regimes based on contributory insurance. Reforms represent a change in the instruments used. Old-age insurance no longer functions as a deferred salary, but more as salary savings: with it being the responsibility of each person to determine the amount saved. Restricting the cover offered by basic old-age

insurance regimes results in the development of individual funded pensions and, for those with insufficient contributions, increased dependence on means-tested benefits. This outcome emerges at a time when there is significant long term unemployment, a greater number of interruptions in people's careers, and more insecure employment and/or part time employment.

These reforms are based on an actuarial[24] logic which increasingly pervade social insurance, increasingly resembling private individual insurance: the amount of pension received upon retirement is calculated more and more with reference to the level of contribution paid and less according to the level of previous earnings salary. This logic implies a reduction in the redistribution function of old-age pensions (those most disadvantaged by these reforms are workers with unequal and interrupted careers, most notably women). We find here again the same dynamic of progressive marketization of social insurance that characterized changes in Anglo-Saxon systems of social protection (Pierson 2001, 455). However, the French situation is still a long way from the British situation.

In order to appreciate the changes underway, it is best not to focus solely on reforms (more or less achieved) of the compulsory public pension systems. An analysis of the French situation that incorporates changes in household behaviour highlights that, despite the French system being one of the more difficult to reform, profound changes are nonetheless underway and these tend towards the development of private pensions. This trend only becomes noticeable if the (symmetrically inverted) relationship between compulsory funded pensions and private savings for pensions is considered. It is in estimating how the public/private divide will change that we see what the future of French pensions will hold.

There are inter-connections between compulsory PAYG pension systems and voluntary funded insurance schemes. Generally, the pension reforms that frequently occurred in Europe during the 1990s have provided an opportunity to not only 'adapt' but also to restructure pension systems, giving funded pension schemes a greater role. Despite considerable institutional differences between European countries, developments in the 1990s are based on a common logic. Under this logic, there is a relative reduction in the importance of PAYG systems as a method of income-transfer towards the aged, benefiting funded schemes (Palier, Bonoli, 2000). Each country follows its own path in reforming its pension system. However,

this path runs through a new and common landscape, structured by a global pension system model where funded pensions play an important role.

All national pension systems in Europe are being progressively transformed through the same inter-connected mechanism. This proceeds at two speeds. First, the replacement rate offered by basic collective pensions is reduced. This reduction in the basic pension opens the space necessary to develop supplementary funded pensions. Given reductions in benefits under the basic regimes, one can expect an expansion in the role of funded pensions, or at the least in considerable pressure to go in this direction. This process has effectively been underway since the 1980s in many European countries.

Given the uncertainty about the future of PAYG pensions (due both to increasing negative demographic and financial predictions and the political scare-mongering that surrounds their publication) and the progressive reduction in the benefits they offered, there was an increase in private spending on old-age pensions during the 1980s and 1990s. While reform of the PAYG pension regimes is foremost to assure their financial viability, now and in the future, they also contribute to developing private pensions by reducing the replacement rate.

It is for sure that new forms of private and voluntary pension forms will develop in France in the following years (as promised by the new and former President Jacuqes Chirac). However, it is still difficult to assess the implication these developments will have for international finance yet. Indeed, France has made a step towards the development of private pension funds in a system which was previously nearly exclusively based on PAYG. This step was merely a political one, the difficulty having been to convince all the actors that this should be done, and to find different arguments in favour of these developments. This chapter has analysed the content of the debates and the reforms which lead to this new step. However, it is still unclear what type of pension funds will develop, who will be in charge of them, how they will be invested, etc. once the political decision is ready, it is still to be debated the concrete way oit will be implemented. Whatever the form of these supplementary private pension will take, they should take on board social issue beside the economic and political reasons put forward to support them.

6. Conclusion: Considering the social consequences of the new public/private divide

Throughout Europe, the generosity of PAYG pensions is falling. Reforms have reduced old-age benefits for future generations of pensioners, resulting in the expansion of funded pension schemes. This trend risks occurring independent of government policy: not only in France but also in Germany, increases in spending on private old-age insurance (through funded schemes) occurred in the 1980s before any significant legislative change in the area.

On a Europe-wide scale, the main issue concerning pension policy no longer seems to be the choice between PAYG and funded pension schemes. It seems the principle of combining the two systems has been adopted in all countries, as much because governments have accepted this change as because it is occurring already, through individual economic decisions.

Therefore, the main issue in future decades will concern less the establishment of pension funds, and more the regulation of these funds. If pension funds develop without regulation, the logic of the market alone may have significant social implications. We can expect higher contributions for women, because they live longer than men, proportionally higher administrative costs on the pensions for low-income earners because charges are set at a fixed rate, and greater risk to pensions because they will be invested on the stock market etc. The development of pension funds without appropriate regulation could result in increased inequality and significant problems for 'atypical' workers, whose working lives are decreasingly atypical. Part-time workers, often those on the lowest salaries, and those who have had numerous interruptions in their careers (especially women) will be the biggest losers.

In Bismarkian systems, workers benefit from a level of redistribution (through, for example, credit for contributions, benefits calculated on the basis of X best years salary, and a floor below which pension benefits do not fall). The goal of redistribution is put at risk by increasing the contributions-related nature of PAYG systems.[25] Furthermore, mechanisms for redistribution do not exist in funded pension schemes. This is a problem that must be dealt with if the object of pension reform is to create a system that is not just financially sustainable, but also socially sustainable.

7. Bibliography

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[1] Schopflin, 1987 ; Etats généraux de la Sécurité sociale, 1987 ; INSEE, 1990 ; *Livre blanc sur les retraites,*1991 ; Bruhnes, 1992 ; Davanne, 1998.

[2] See Charpin, 1999, but also Teulade, 2000 ; Taddéi, 2000 ; Conseil D'orientation des Retraites, 2001.

[3] In 2001, the minimum pension was 3,654.50FF (€557.17) for a single person or 6,555.83FF (€999.51) per household.

[4] *Translator's note*: the English equivalent term might be 'unbrella' schemes

[5] This situation is not found in the German system even though the institutional structures are relatively similar. There is a legal obligation in Germany for the social partners man ageing social security funds to take measures to balance their funds' accounts as soon as a deficit is predicted. Social insurance accounts are 'automatically balanced' in Germany without government intervention.

[6] Since this reform, pensions are calculated with reference to the 25 best years salary (previously, it was the 10 best years). To be paid a full pension (50 per cent of the reference salary up until the fixed social security ceiling of 14,950FF, as at 1 January 2001), one must contributed for 40 years (160 trimesters) instead of 37.5 years previously (150 trimestres). This extension of the length of contribution required will be introduced progressively (one extra trimester per year: people who retired in 1994 had to contribute for 151 trimesters, etc. The full reform will be fully implemented in 2004). Furthermore, increases to pensions are no longer indexed to gross wages but to prices. This last change was adopted for 5 years in 1993, but has since been extended by the Jospin Government.

[7] The President of the Republic, the National Assembly and the Senate were all held by the same party. Electoral failure seemed unlikely and Juppé had three years before the next election.

[8] The method for calculating private sector pensions remains unchanged: 37.5 years of contributions must be paid to receive a full pension. The pension is calculated from the salary paid over the last six months of the public servants' career (discounting bonuses), the period during which their salary is usually highest. The pension regimes for public servants provide a replacement rate in the order of 75 per cent of the reference salary.

[9] For further information on these debates see Bozec, Mays, 2001.

[10] Made up of academics opposed to the neo-liberalism and trade unions opposed to Juppé's reform plan (Kahlka, 2001).

[11] The Charpin Report based its projections on the hypothesis that the unemployment rate would stabilise between 6 per cent and 9 per cent of the active population. This rate was contested by the foundation because it showed that the public authorities had abandoned the goal of full employment.

[12] A committee of economist established to undertake research on the request of the Prime Minister.

[13] The principle employer organization

[14] ASF was created in 1983 to finance complementary pensions taken at the age of 60.

[15] After the future for children and fear of unemployment.

[16] One argument in favour of establishing pension funds in France is to create a counterbalance to British and American pension funds. To construct this argument, it was first necessary to show how powerful these Anglo-Saxon pension funds were. However, in doing this, a negative image was associated with the term 'pension fund' which it is hoped will be forgotten through the use of another term.

[17] The positions of the various groups analysed here are analysed in further detail in Charpentier, 1997, pp. 306-312.

[18] Members at the time included: ACM vie, ARF Vie, Euromut, GEMA, GMF Vie, Groupama, MAAF Vie, MAVPS, MEPM Vie, MUTA VIE, MUTEX de la FNMF, Parnasse MAIF, SMAP, SMA Vie BTP, Suravenir.

[19] Speech by the President of the Republic, 14 July 1999.

[20] *Libération* 14 September 1999, p.15.

[21] Interview with M. Sapin in *Le Monde*, 5 January 2000, p.5.

[22] See above.

[23] The first 15,000FF paid by employers are exempt from social deductions. Above this point, payments are subject to a contribution of 8,2 per cent for the FSV.

[24] This term acknowledges that public pensions are increasingly calculated according to an actuarial model, usually used by private insurance. This model calculates the rate of annuity as a function of contributions paid, interest rates earned on these savings, economic conditions and the life expectancy of the person receiving the annuity at the time of the first payment.

[25] All the reforms to PAYG pensions are based on the actuarial logic of social insurance. This logic implies a reduction in the redistributative function of old-age insurance, bringing it closer to the logic of private insurance.