

Blossoming change

France is on the cusp of landmark pension reforms, but the country must overcome complexity and public opinion to succeed

WRITTEN BY DAVID ADAMS, A FREELANCE JOURNALIST



France is in the early stages of an ambitious pensions reform programme. Simplifying its complex and multi-layered existing pensions system – and hopefully making some cost savings along the way – is at the top of the list.

The country has many pensions challenges in common with the rest of the Western world. With public spending on pensions higher than the European Union average, its currently generous level of state provision is unsustainable over the long term. Like many other countries, France is trying to shift the burden of saving for retirement

from the public purse to private individuals. At present though, its voluntary pensions system is not well developed.

Arguably, France is less far along the road towards greater pensions sustainability than other European countries. However, its problems are less pressing due to its strong demographics, points out Amundi's co-head of institutional clients coverage and executive board member, Jean-Jacques Barbéris.

“When you look at the first main trend you always consider – demographics – in France they are relatively strong. This is due to the

fact that, all in all, France maintains almost two children per woman, which is the level you need to reach for the renewal of generations,” Barbéris points out.

France might be a demographic outlier, but nonetheless, things must change. “The culture in France is to rely on the social security system,” explains Mercer’s head of investments for France, Frédéric Debaere. “The issue today is because of demographic imbalances, the system is too expensive. Sooner or later, it will need to be rebalanced in favour of supplementary schemes.”

Taking action

The first step in the French government’s reform of its pensions system is simplifying and harmonising the first and second pillars. Plans to develop the country’s voluntary pensions system are yet unpublished, although President Macron has expressed his desire to do so.

Fairness is at the heart of the reform of the first and second pillars. At present, although two French workers – one in the civil service and one in the private sector – may contribute the same to their pension, they may receive different amounts, because different methods are used to calculate their entitlements.

“The issue that could be considered problematic from an equality and budgetary perspective is that one euro you subscribe to in

The French pensions system

The French pensions system is built on three pillars. The first pillar is the state pension system, known as the régime général. All workers must save into it, and are placed into different parts of the scheme, depending on the type of work they do, from self-employed to civil servants or employees. This pillar is relatively generous, but by itself will not give most people enough money to enjoy a comfortable retirement.

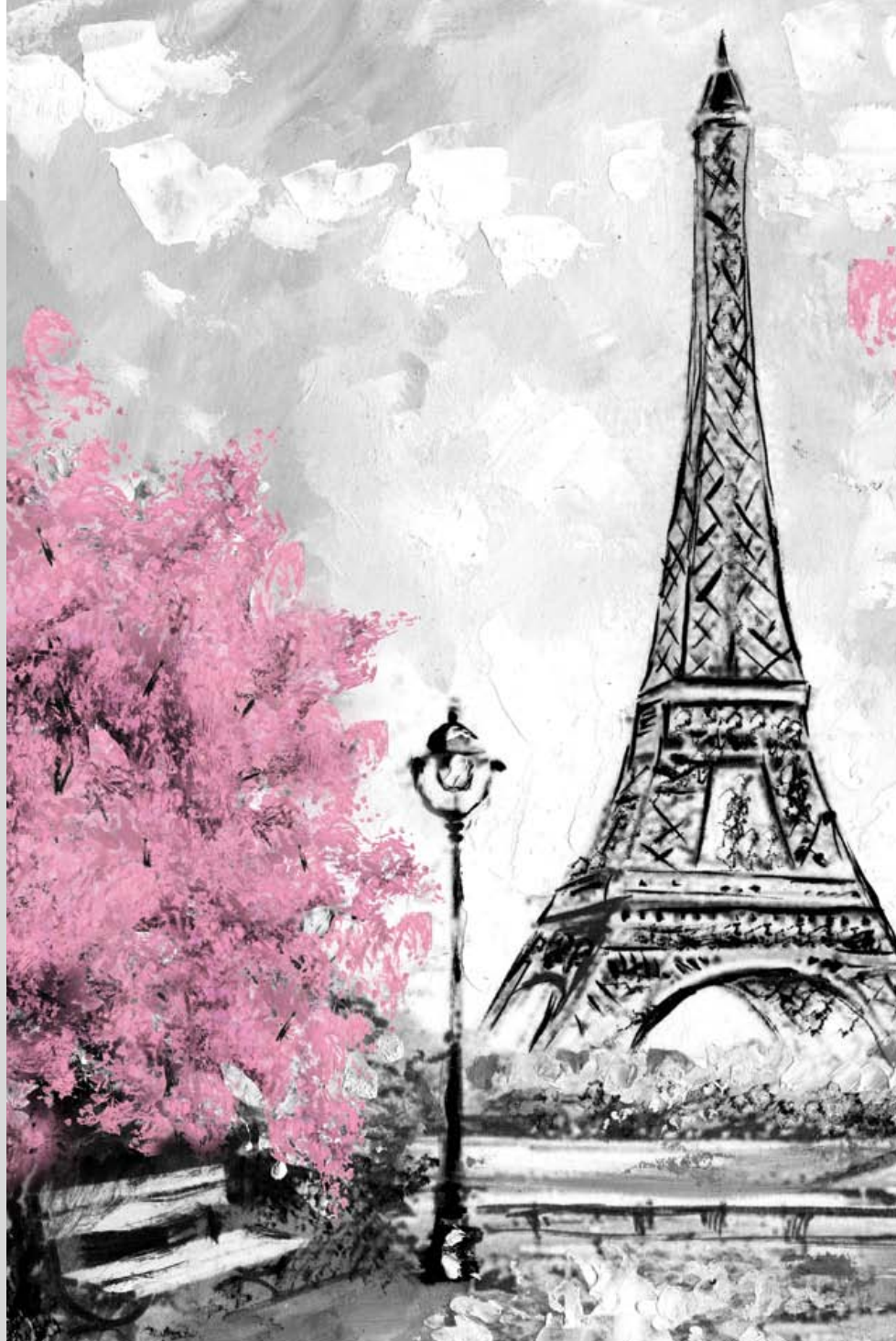
All employees must also save into the second pillar, which is known as the supplementary or complementary pension. There are two main schemes, the ARRCO scheme for employees and the AGIRC scheme for executives. The two schemes are set to merge on 1 January 2019.

Private pension schemes form the third pillar of the French system. Most of these are defined contribution schemes, most commonly known as Article 83. They are run by third-party providers, such as insurance companies. President Macron is eager to encourage more French people to save into private pension schemes, seeing the capital that could be built in such voluntary schemes as a potential source of finance for French companies and state projects.

pillar one does not produce the same result for everyone,” says Barbéris.

The government intends for reform of the second pillar to be complete by January 2019, bringing pensions for executives and employees into line. Consultations and discussions on how best to reform the first pillar continue.

Macron’s plans to reform the third voluntary pillar are still nascent. “We have a very important debate about those supplementary schemes.



In general, the political left-wing are against those schemes and the right-wing parties are for these schemes,” explains Eversheds Sutherland principal associate, Vincent Roulet.

He adds: “I am sure that president Macron wants to develop these private schemes, for two reasons. First, people will need this money when they retire – the younger generation in particular. The second reason is he wants French people to invest their savings in the economy.”

The politics of reform

Pensions reforms are often both highly complex and contentious.

The last time that French pensions reform was attempted on such a grand scale in 1995, it led to a wave of protests that ultimately contributed to the fall of the incumbent government.

Subsequent changes, such as the rise of the retirement age from 60 to 62 in 2010, led to strikes and civil unrest. For that reason,



How French pension schemes approach investment

French pension schemes have historically been quite conservative in the way they invest. However, they are increasingly investing the levels of private debt within their fixed-income asset allocations, explains Amundi's Jean-Jacques Barbéris.

In addition, French schemes are looking to incorporate non-listed real assets into their portfolios, say Barbéris and Mercer's Frédéric Debaere.

Debaere explains: "We have a trend in favour of non-listed assets in France, including more and more impact investment solutions as a way to address the issue of climate change especially. In France we had new regulation recently, called Article 173, asking managers and institutional investors to disclose on a regular basis what they do in respect of ESG policy and addressing climate change."

President Macron has made it clear that he is eager to develop green finance initiatives. While the details of his plans are yet to be revealed, French pension schemes are increasingly considering investing in green bonds as part of their fixed income portfolio, says Barbéris.

As is true of many other countries, French schemes are seeing new ways

to control volatility. For that reason, smart beta has been growing in popularity.

Today's uncertain policy environment is influencing schemes' approaches. "They are going to be completely reorganised and they don't know what the reform will be. Logically, because of the situation, they are considering options that allow them to be reactive," explains Barbéris.

As and when the third pillar is developed, more will need to be done to encourage French people to invest their savings. "Some French people have a DC plan, but they don't really use it. So they are not used to investment," explains Eversheds' Vincent Roulet. "They don't know how it works, how they can invest their money. Most of the savings are invested in state bonds, but they don't invest in stocks or other investments."

Roulet adds: "We don't have a culture of investing in France and that is one point that Macron wants to deal with. Today, investment products in France are not very exciting because everything is in the hands of the state or big French companies, but maybe tomorrow French people will invest in new asset classes."

the stakes are high.

Roulet is cautiously optimistic about Macron's ability to pass the reforms without such a crisis. "In the past decade we have seen that retirement change is very difficult to implement. The same was the reform of the Labour Code in France. But since President Macron was elected, we have to note that he reformed the Labour Code in two months without any discussion or difficulty.

"So I think he will be able to

reform the entire pensions system without many difficulties in the next year. It can happen. A lot of French people know that the retirement system is very complicated, is not very efficient and I think the reform could arrive quite easily."

Barbéris is more cautious. "It is too early to say. French opinion seems to be comfortable with the fact that Macron is delivering what he said during the campaign. Potentially this issue

could be the most socially difficult reform in France.

"I think the reforms could be difficult for employers because they will have to explain the new institutions to employees. That is a problem for 2018," says Roulet. "Thereafter, I think it will be easier because they won't have to make a distinction between employees and executives. Everyone will pay the same contributions and will benefit from the same pensions." ■