**Historical Perspective on Pension Systems around the World**

Country: **France**

**Summary**

The French pension system is based on the pay-as-you-go (PAYG) principle and its financing is mainly ensured by contributions from workers and employers. It has been reformed several times to reflect shifts in the structure of the contributing and retired populations and changes in the economic environment.

For the private sector and a large majority of civil servants, the most recent reforms include the increase of working years required for a full pension from 37.5 to 40.. Since 2010, the legal retirement age (i.e. the age at which pension benefits become available, albeit not in full) is increasing gradually from 60 to 62 for those born after 1955. Moreover, the eligibility age for the social security pension, irrespective of contributing years, will be 67. However, those with harmful jobs are able to access a full pension from the age of 60.

In France, employees of some government-owned corporations (e.g. military, the police, energy companies, public transport workers, opera workers, members of parliament) enjoy a special retirement plan – which have lower retirement ages, and require fewer working years for full benefits. These special pension regimes have much more alarming support ratios than the private sector schemes, and thus require significant taxpayer funding.

According to a 2008 law, a later retirement (until age 70) is now allowed if the person is willing to work longer. Women gain two working years per child.

The pension system in France means that for all salaried workers and civil servants, national system grants 50-55 % of the previous income. The benefit includes a ‘social security pension’ and a system of ‘complementary pensions’. Everybody is entitled to the former, which is based on the concept of Pay As You Go (PAYG) scheme. The French pension system embodies a preference for a social redistributing mechanism more than for an economic investing process: the money collected from active people is not invested but immediately redistributed to retired people. The complementary/occupational pension is obligatory and universal but financially more rewarding for people with high salaries; in addition, corporate or personal plans based on a funding system (close to the American system) exist depending on the company.

Overall, the system is protected against inflation and stock market fluctuations. But the PAYG system means that the system is vulnerable to the deteriorating ratio of workers to retired individuals. Nevertheless in 2016 the social security pension system is not in deficit.

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HISTORICAL PERSPECTIVE

**A: From 17th to 20th century: creation of pension plans established for specific professional groups linked to the state.**

1673: Colbert institutes the first « pay as you go » (PAYG) pension for sailors

1768 : first pension funds fueled by withholding from 1.25% to 2.5% on salaries for military officers, the royal administration and clergy.

1850: the first private railway companies create pension funds for certain employees (creation of special pension regimes)

1853: Napoleon III generalizes the distribution pension scheme for all employees (civilian and military) to 60 years of age (55 for harmful work) and creates a survivor's pension.

1894: Miners get health insurance and a pension plan

1897 : Pensions for workers arsenals and armaments.

**B: 20th century : the time of the reforms**

1909 : Pensions for all railway workers.

1910 : Act "worker and farmer retirement" creating mandatory funded pension systems, which benefit 3 million employees over 8 million. The normal age of retirement is 65 years, but the revision in 1912 offers the opportunity to touch the retirement at 60 (as only 8% of the population reach the age of 65)

1914-1930 : The Bismarck model (funded) applying to the Alsace-Moselle, is adopted for the rest of the country. In 1928, the law guarantees the pensioner who has attained the age of 60 and can justify 30 years of contribution, a pension that is 40% of average earnings over the period of assessment. In 1930, 10 million people are concerned by a pension system based on capitalization and a disease protection system by distribution.

1941-1944 : Reforms of the Vichy government

* The Second World War and the successive devaluations since 1936 lead to a new law in 1941 on the establishment of the allowance to Old Salaried Workers (Allocation aux vieux travailleurs salariés, AVTS), the first full « pay as you go » (PAYG) system
* The success of the AVTS exceeds forecasts and presents a funding problem: about 1.6 million beneficiaries in 1944 with nearly 1 million who have never contributed. The AVTS ensures a pension of 40% of the reference salary, from the age of 65. Initially funded by the reserves of old age pension structures (FF 20 billion).

1945 The State Social Protection System

* The pension system, including the reversionary pension, based on the PAYG system is integrated in the State Social Protection System covering health insurance, pensions and family allowances . This system has been set up by P. Laroque
* 1945 : the enforcement orders repel in fact the normal retirement age to 65 for a legal age of 60: the amount of the pension is equal to 20% of the annual base salary for 30 years of contribution but enhanced by 4% per year of work between 60 and 65. Some complementary pension systems are developed to improve the coverage beyond the ceiling of the Social Security Pension.

1947 : A complementatry pension plan, based on accrued number of points during the contribution period, is created for executives : AGIRC (Association Générale des institutions de Retraite des Cadres)

1948: 63% of individuals over 65 receive a retirement income.

* The PAYG system is maintained but special pension regimes regain their autonomy. This results in multiple different arrangements; the richest (eg notaries) have the means to collect higher contributions, to pay relatively early high pensions; others (state monopoly such as energy and public transport workers,miners...) get the same result by a massive participation of their employer; still others, by choice or lack of means finance late and /or very low pensions
* France creates a minimum pension and pension rights for mothers.

1949 : Establishment of old age insurance schemes for craftsmen, retailers, manufacturers and liberal professions (Cancava, Organic and CNAVPL)

1952 : Creation of the National Agricultural Pension Fund (CNAVMA) for farmers.

1956 : Establishment of the "Minimum Vieillesse" funded by the National Solidarity Fund (NSF) for people who have never contributed to the pension system.

1961 : Extension of the complementary pension system for employees of the private sector (Association pour le régime de retraite complémentaire des salariés, ARRCO) supplementing the basic plan to ensure a replacement rate above 40%.

1971 : Establishment of the Complementary Pension Institution for non-tenured employees of the State and public authorities (Institution de Retraite Complémentaire des Agents Non Titulaires de l'État et des Collectivités, IRCANTEC). The replacement rate is increased to 50% (instead of 40%) , and the pension based on the 10 best years of salary instead of the last 10.

1974 : the ARRCO system is open to salaried executives on the part of their salary limited to the social security ceiling.

1975 : The age of full retirement is lowered to 60 for manual workers and working mothers.

1977 : Women totaling 37.5 years of contribution can get away with a full pension at age 60.

1978 : Generalization of Assurance Vieillesse Obligatoire for the entire workforce.

1983 : Auroux Act: Lowering to 60 the legal age of retirement for a career of 37.5 years at 50% of the average annual salary.

1987 : Seguin Reform: wages are adjusted for inflation, resulting in a 20% drop in the level of pensions over 25 years.

1993 : Balladur Reform concerning the private sector:

• The duration of contribution gradually increases from 150 quarters (37 years) to 160 quarters (40 years)

• Creation of a discount for each quarter of missing contribution (2.5% per quarter, or 10% per year)

• Increase the reference length of career: the pension is calculated on the best 25 years instead of 10

• Indexation of retirement pensions to inflation

• Creation of a solidarity fund for the elderly (Fond de Solidarité Vieillesse, FSV) funding the minimum pension for the elderly and the family benefits.

1993 : ARRCO and AGIRC reduce the yield of the purchased point by 40% in 30 years

2000 : Creation of the Pensions Advisory Council (Conseil d’Orientation des Retraites, COR, www.**cor**-retraites.fr/). The COR is an institution in charge of monitoring the middle and long term prospects of the pension system. It is both an institution of expertise and an institution of dialogue ("concertation"). The three main missions are :

* to describe the middle and long term prospects of the pension system with regard to demographic, economic and social background
* to delineate the required conditions to ensure the financial sustainability of the pension schemes
* to publish, every year a "public document" on the pension system, based on a set of indicators and assessing their consistency with the pension system's objectives

2002 : Creation of the Pension Reserve Fund.

2003 : Fillon Reform

* Gradual transition of the contribution period for all plans including civil servants but not the special pension regimes, to 42 years by 2008
* Reduction of the contribution period for those who started working very young
* Possibility to combine employment and retirement pension is more flexible
* Employees can redeem quarters of contribution corresponding to the post graduate education period
* New individual savings products (PERP) and collective (PERCO) are created (funded system).

2007: Reform of the special pension regimes

* The objective is to align the duration of employee contribution of the public transport and energy sectors on the private and the public sector. The reform aims to increase the contribution period from 37.5 years in 2007 to 40 in 2012
* Since July 1, 2009, pensions are indexed to inflation.

2010: Woerth Reform: A financing problem exacerbated by the crisis

* Progressive increase of the retirement age from 60 to 62 years
* Raising the retirement age for a full pension from 65 to 67 years even if the mandatory full contribution period is not reached
* Long career: people who started working at the age of 14 should go up to 58 years
* retirement of civil servants is postponed to 62 by a gradual increase in 6 years (at 4 months per year)
* Anticipated use of the Pension Reserve Fund, only supposed to be used after 2020

2012

* The legal age of 62 years for retirement will be effective in 2017 for people born in 1955
* It softens the conditions of access to early retirement for long career at age 60 or before 60

2014: Act guaranteeing the future and justice in the pension system

The first decree allows persons with a part-time activity to more easily enforce their pension rights : low-wage workers, part-time or short contracts, women (who represent 80% of part-time), young born after 1983. A one month summer job validates a contribution for a full quarter.

The second decree allows to relax the conditions of departure to 60 years for those who began their careers before age 20.