CONSEIL D'ORIENTATION DES RETRAITES
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"Savings for retirement"

Brief

Prepared by the General Secretariat of the Council, under the direction of the President of the COR

The rationale: According to the latest financial projections by the COR, the relative standard of living of pensioners and their replacement rates are likely to decrease over the generations by 2070. How can household savings behavior adjust to these evolutions in the pay-as-you-go pension schemes? Updating and enriching past work of the Council from July 2015 (dossier du COR de juillet 2015), this report reviews the regulatory and fiscal features of the supplementary pension schemes in France, their recent developments and the financial volumes involved, with a special focus on the "PERCO". It analyses retirement savings behavior in light of foreign experiences.

- Strictly speaking, a retirement savings product differs from a conventional savings product as it mutualizes savers' longevity risk. It implies then an annuity exit excluding a lump-sum withdrawal. The products commonly grouped under "retirement savings" in France are analysed in this report even though some are significantly different from this strict definition. Other savings instruments, such as life insurance or real estate, are considered as close substitutes for retirement savings, while they do not necessarily offer the best mutualisation of longevity risk over time.

I. Supplementary pension schemes: legal and statistical framework

- **What are the features of the supplementary retirement savings schemes in France?** Supplementary retirement savings offer the possibility of setting up, either individually or work related, savings for retirement purposes, in addition to mandatory pension plans. We differentiate between defined contribution and defined benefit plans and whether they are taken out on a personal (eg. "PERP") or at a professional level (eg. "PERCO"). Their other important features are the targeted audience, the terms of contributions or benefits payment (early withdrawal possibilities, annuities or lump sums – bearing in mind that lump-sum withdrawals mean the schemes that propose them are strictly speaking not retirement savings, with longevity risk mutualisation) as well as tax exemptions (*documents n° 2, n° 3 & n° 4*).
- **Who are the subscribers and beneficiaries of the supplementary retirement savings schemes?** At the end of 2015, all products schemes taken together, there were 12.2 million French subscribers to a supplementary pension contract. The average contribution to a personal scheme was €934, compared to €992 for the average employee contribution to PERCO. Some 2.2 million people benefited from supplementary retirement savings schemes in 2015. A total of 2.1 million life annuities were paid, covering just over 11% of pensioners eligible for a mandatory normal pension *(document n° 5)*.
- **What are the financial volumes managed by these schemes?** In 2015, €13 billion in contributions were collected (representing 4.3% of total contributions to retirement schemes) and €5.7 billion in benefits were paid (representing 1.9% of total benefits) *(document n° 5)*.

II. Collective preparation for retirement

- **How important are the occupational retirement saving schemes?** 14% of the companies with 10 or more employees in the non-agricultural sector offer a supplementary retirement saving scheme for their employees *(document n°8)*.
- **What about the "PERCO"?** Since its creation in 2003, number of covered employees and total assets managed are constantly growing in "PERCO". Employer's contributions are the assets

main source and the exit is almost exclusively done through lump-sum. *(document n° 6).* At the end of June 2017, the assets managed in "PERCO" amounted to € 15.3 billion. The average amount per beneficiary reached € 6,147. The life cycle management which secures investments close to retirement, now accounts for 30% of the total amounts. When considering an investment entirely made at the beginning of the period, the annualized return in real terms over the period 2003-2016 is 2.0%. *(document n° 7)*.

III. Savings behavior for retirement

- **What role do retirement savings play in household wealth in France?** With the financial crisis, retirement savings (including life insurance) have replaced investment securities when it comes to household wealth. Retirement savings increase with income level, age (including for those over 70) and level of education. Being self-employed increases the savings rate more than the other social categories *(document n° 9)*.
- **What is the influence of the PAYG system on household wealth accumulation in France?** PAYG pension wealth can partially substitute for the accumulation of wealth, especially with regards the purchase of the main residence. Even though PAYG is predominant, France is one of the European countries where the household savings rate is the highest, with a strong component of real estate savings. (*documents n° 10 & n° 16*).
- **Is life insurance a relevant substitute for retirement savings in France?** No, because it is mainly composed of relatively liquid instruments with guaranteed benefits, which leads the insurers to invest a large proportion of the contributions collected in bonds. Regarding contracts in euros, insurers pass on equity investments, which are only made possible when a long-term horizon makes up for short-term volatility. *(document n° 11*).
- **What life products could be promoted to make up for the lack of attractiveness of existing retirement savings schemes?** Life annuities remain unattractive because they block the wealth that can be passed on. It is possible to create products that better cover the longevity risk, for instance, by partially selling real estate to an intermediary, something that avoids tying up the entire capital to bequeath. (*document n° 12*).
- **Why and how can retirement savings be encouraged?** The arguments in favor of incentives for retirement savings are based on macroeconomic, paternalistic and redistributive considerations. Retirement savings behavior is indeed influenced by tax incentives (with different conditions depending on the country), financial incentives (complementary employer contributions) but also non-monetary incentives (automatic enrollment, default options, information campaigns) (*document n°13*).

IV. Retirement savings abroad: elements of international comparisons

- **How much private retirement savings are there in OECD countries?** There is more than US$38 trillion in retirement savings managed, two-thirds of which is held by US pension funds. Pension funds are mainly invested in stocks and bonds (*document n°14*).
- **What are the retirement savings schemes in Sweden, the United Kingdom and in Germany?** Sweden, the United Kingdom and Germany have developed some original national experiments, either by organizing the retirement savings market – with a public interface in Sweden or the United Kingdom – or by shaping and targeting financial aid as in Germany (*document n° 15*).