



The Spectrum IFA Group

Independent Financial Advisers

French State Pensions – So what’s all the fuss about ?

Millions have taken to the streets over the past couple of months to protest against the French government’s proposed overhaul of the state pensions system raising the retirement age from 60 to 62 (progressively between now and 2018) and the full pensionable age from 65 to 67 (again progressively between now and 2018). And as we speak both houses of parliament have adopted the key clauses of the pension reform bill with the Senate due to follow suit in the coming days, meaning a final vote is expected in late October to fully pass the bill so we have by no means seen the end of the protests.

Under the current rules, both men and women in France can retire at 60, providing they have paid social security contributions, although they are not entitled to a full pension until they are 65. If the new rules are adopted this will rise the retirement age to 62 by 2018, and the pension age to 67, which the government says will save 70bn euros.

So how does the State Pension system work ?

The amount you receive as a pension will not change, and even if the changes to the retirement age and required years of contributions are adopted, it will still be one of the most attractive state pension schemes in Europe.

Retraite De Base

Currently for a salaried person (and Auto-Entrepreneurs) to receive a full basic pension you must have contributed for at least 164 ‘trimestres’ (quarters) so 41 years, this is however slightly dependant on age but for those born after 1952 this is the case. The ‘Retraite De Base’ is managed by the Caisse Nationale d’Assurance Vieillesse (CNAV).

A full pension is calculated by taking an average of the 25 highest paid years in your career (linked to inflation), once they have this average figure your pension is then 50% of this amount. However the maximum pension you will be entitled to receive is capped using the social security annual ceiling, for 2010 this is €34,620 so the maximum pension would be 50% of this i.e. €17,310 per annum. If you don’t qualify for a full pension then you have the option to either purchase additional trimestres which can be expensive, or you can take a reduced pension which is proportional to the number of trimestres you have contributed for, i.e. if you had 123 trimestres your pension would be 75% of what your full pension entitlement would have been.

However the biggest drawback with the ‘Retraite De Base’ is that it is based on the principle that people currently working are funding the pensions for those who are already retired. This is being compounded by the number of pensioners rising due to the post war baby boom and unemployment levels continuing to increase month on month. As a consequence the number of people funding pensions is decreasing so it has become harder to maintain this model. And in fact according to government sources France’s pensioner population which is currently around 16 million is forecast to rise to 18 million by 2020 and 23 million in 2050. Therefore if nothing is done the existing pension deficit of 32 billion could rise to some 50 billion euros a year by 2020 and to 100 billion euros by 2050.



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Retraite Complémentaire

All employees will also benefit from a retraite complémentaire which contributions are compulsory for all employees. Arrco (Association pour le régime de retraite complémentaire des salariés) is the scheme that covers all employees in the private sector. And management staff (cadres) also has to contribute to the Agirc (Association générale des institutions de retraite des cadres) supplementary pension scheme.

As Arrco and Agirc supplementary pensions are managed by contributions deducted from the salaries of active employees, they finance the pensions of today's pensioners. In return for the contributions paid, employees obtain pension points on a monthly basis. These points then give you the right to a supplementary retirement pension at the legal retirement age. Your pension will then be financed by the contributions of those who are working, and payment of your pension is guaranteed because the contributions for those working are compulsory.

The amount of points you receive is calculated by dividing the amount of contributions by the purchase price of a point that changes each year: for 2010 this is currently €14,4047 per point for Arrco, and €5,0249 per point for Agirc. At retirement these points are multiplied by a fixed figure per point (reviewed annually) to calculate the actual pension amount. On retirement your accumulated points are converted into euros by multiplying them by the value of each point. For 2010 the value was €1,1884 per point for Arrco, and €0,4216 per point for Agirc, with the result giving you the annual pension you are entitled to.

Self Employed

If you are a profession libérale it is a lot more complicated as the régime de base is ran by the CNAVPL (Caisse nationale d'assurance vieillesse des professions libérales), and is based on points system like the Arrco/Agirc instead of taking an average salary. Artisans & Commerçants still come under the same régime de base like employees but this is overseen by the Régime Social des Indépendants (RSI).

For the retraite complémentaire it is again complicated as there are 11 different organisations who manage the retraite complémentaire for this sector, and the one you come under is based on your profession. Most people will probably be attached to the Caisse Interprofessionnelle de Prévoyance et d'Assurance Vieillesse ([CIPAV](#)), this includes Auto-Entrepreneurs and again it functions on a points system like the Arrco/Agirc.

What about private schemes, are they available ?

PERP

The main one is Plan d'épargne retraite populaire (PERP). This pension savings plan was only introduced in 2003, and you can normally save from as little as €50 per month into the pension. One of the main advantages of a PERP is that you can get an income tax credit for payments you have made into it, up to 10% of your revenues from professional activity the year before (after deducting 10% for professional fees). This is however limited to 8 times the annual amount of the sécurité sociale ceiling, so a maximum deduction of €27,696 for 2010, and the minimum deduction is 10% of this ceiling i.e. €3,462.



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With most contracts it is possible to stop making payments for a time or to increase or reduce the payments as the situation warrants. The payments made into your plan are locked until your retirement date when you have to convert the investments built up in the PERP into a type of annuity which, according to the terms of the contract, can be fully passed on to the surviving spouse on death. However the only circumstances under which you can get your money out of the PERP before your retirement date are if you cease your business activity due to a liquidation judgment against the business or if you contract an illness/disability that makes it impossible to exercise your profession, although in some cases it is possible to recover some or all of the amount in a PERP in the case of divorce, or the death or incapacity of your spouse.

Assurance Vie

However if you are unsure about where you are going to retire, an Assurance Vie would be a more appropriate place for you to save into on a monthly basis. The reason behind this is that most offshore Assurance Vie providers also offer suitable tax efficient products in other countries in Western Europe. So for example if you were to move to the UK the policy could then be transferred to a local UK product that would still offer favourable taxation.

Over 22 million individuals or couples have either invested lump sums or save regularly using this product, and neither French capital gains tax nor income tax applies whilst the funds remain inside the policy and no withdrawals are made. Even when an amount is withdrawn only the growth element is taxable, for example if your portfolio of assets held within the policy has grown by 5%, only this percentage of the withdrawal would be taxable, the remaining 95% would be tax-free. Any gains are liable to 'social charges' of 12.1% when they are drawn down, plus taxation on a sliding scale depending on how long the policy has been in force: 35% for a policy less than 4 years old, 15% for policies between 4 & 8 years old and then 7.5% for all policies over 8 years old. Another advantage after 8 years is that there is an annual tax-free allowance of 4,600 euros (single person) or 9,200 euros (married couple) of gains, so the 7.5% tax would not apply if you staggered the withdrawals for example to supplement your pension or pay children's tuition fees.

On the other hand if you do know that you intend to permanently retire in France and you have pensions left behind in the UK, looking into a Qualifying Recognised Overseas Pension Schemes (QROPS) or Qualifying Non-UK Pension Schemes (QNUPS) would be prudent as they could bring all of your pension pots together to make retirement planning simpler.

The information provided in this article was obtained from public sources including the AGRIC, ARRCO & CNAV websites, and is only provided as a guide based on our understanding of current legislation. If you need assistance in this area you are strongly advised to seek the help of a specialist in this field as each individual case is different.

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