

# Financial Institutions and Economic Security

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## Retirement Security and Pensions: The French Experience

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### Abstract

Among developed countries, France offers a very particular case for the provision of pensions insofar as the place of funded schemes is marginal: they account for less than 2 % of all pensions paid to retirees. Almost all retirement pensions, including supplementary pensions, are financed on a pay-as-you-go basis.

The paper will first present a brief history of pension schemes in order to analyze some of the reasons that might explain this atypical situation. The failure of previous funded schemes implemented in the first half of the twentieth century is one of the most important explanations.

Despite this feature of the French pension system, the savings rate is quite high in France according to international standards. As a consequence of the high savings rate of households, overall income of French pensioners is considerably higher than their pension income. Overall, income from property (defined in a wide sense) is equivalent to about 45 per cent of income from pensions. Therefore, financial markets and institutions may play a significant role for the economic security of retirees, at least for the most well-off among them.

Successive changes in the French pension system have led, and will continue to lead to cutbacks in mandatory retirement scheme replacement rates. In this context, the 1990s witnessed much debate over whether or not funding for pensions should be expanded. Developments in regulations concerning funding over the 1990s pointed to the future shape of new funded schemes set up by the 2003 law. However, the size and coverage of these funded schemes remain small. In the near future, one may reasonably argue that there exist several obstacles to the development of funded retirement pension schemes in France.

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