



# The Politics of French and German Pension Reforms

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# The Politics of French and German Pension Reforms

1. The systems in the late 1970s
2. Before retrenchment: Early exit and increase in social contribution
3. A first wave of retrenchment
4. A second wave of reforms
5. Multi-pillarisation
6. A staggered process of reform

# I. The systems in the late 1970s

## A relatively unified German system:

A compulsory PAYGo system administered solely by the employers and the insured

Aimed at providing enough income to maintain the standard of living (*Lebenstandardsicherung*)

In 1980, the target replacement rate (*net*) for a ‘standard pensioner’ (*Eckrentner*) – which assumed an insurance career of 45 years and always having earned the average wage – stood at 70.3 per cent.

A residual role for assistance (no minimum income specific for the elderly), and for top up.

# I. The systems in the late 1970s

## A highly fragmented French system:

The generalisation of compulsory basic schemes from 1945 to 1974 through the addition of various schemes (+600)

The complementary “points” schemes, for the *cadres* in 1947 (AGIRC) and others after 1956 (ARRCO), made compulsory in 1972

*Minimum vieillesse* in 1956

Replacement rate made more generous in 1971: 37,5 years, 50% of 10 best years for the basic schemes. Plus around 30% by comp comp schemes

From 67% of the elderly being on the minimum pension to 5% today.

For men (women receive pension 41% lower than men)

## II. Before retrenchment:

Late 1970s, 1980s: Economic slowdown, increased international competition, ageing, maturation of the pension schemes => deficits

First reaction: Using pension to face the crisis.

Labour shedding strategy: competitiveness through getting rid of the least productive: outsourcing, early exit

Financing the unification with social insurances

Increase in social contributions for consolidating the regimes

# III. A first wave of retrenchment

- \* Late 1980s in Germany, “1992” reform, adopted in 1989 (bi-partisan), need to prepare for the demographic change.

It involves increase in the federal subsidies paid into the scheme, the introduction of a permanent deduction for pensions claimed before the standard age of retirement, the phasing-out of subsidies for early retirement (until 2012) and a shift in the indexation method from gross to net wages. After 1992 a *net* replacement level of 70 per cent for the ‘standard pensioner’ was ensured.

Politics: Consensual between the two camps (last time)

But reunification, high cost, increase in social contribution

- \* 1993 in France. Balladur Reform

Private sector, from 37,5 to 40 years, indexation on price, best 25 years.

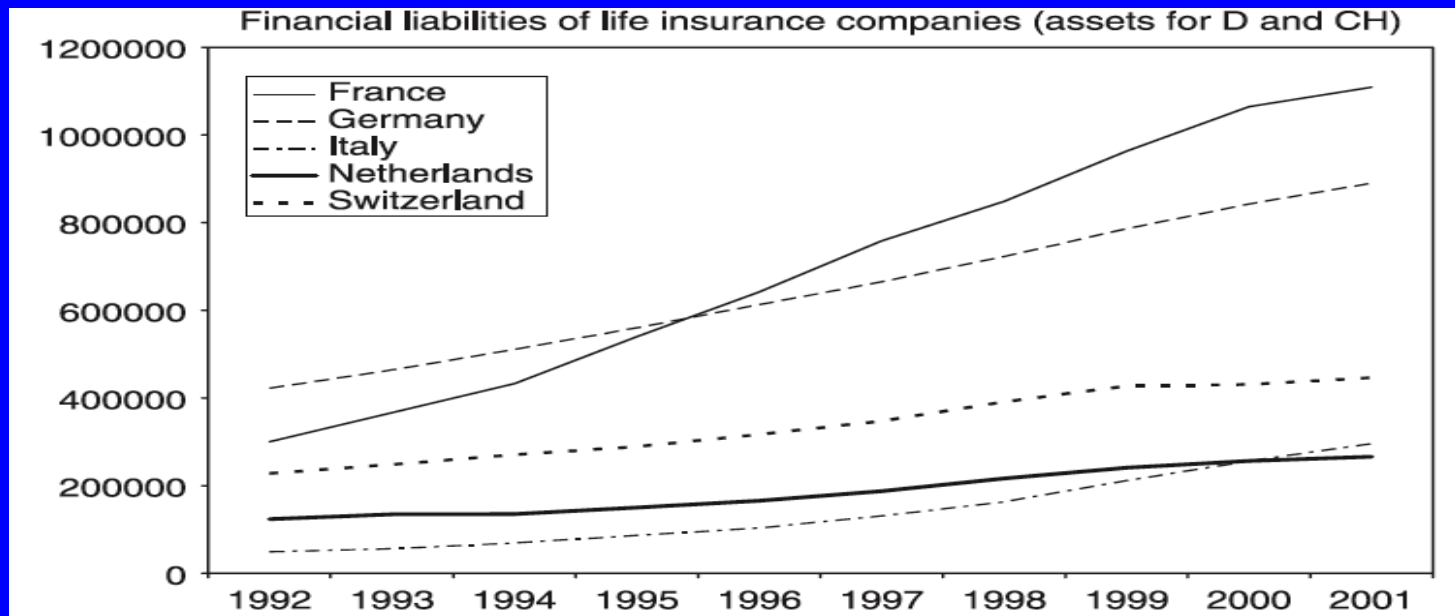
Politics: Quid Pro Quo (FSV)

# III. Society's reaction: more saving

- These reforms are perhaps less important for their actual content than for the fact that they bring pension reform, population ageing and the future of pensions into the public debate. They breed a climate of insecurity with regard to future benefits, which prompts some citizens to seek out private individual alternatives
- Raise in saving See G Bonoli's presentation:

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# IV. A second wave of reforms, more structural

- Germany. Schröder repealed the 1997 reform, and in 2001, Riester Reform.

Three main elements:

1. The standard replacement ratio of 70 per cent (net), established in 1992, was replaced with a fixed contribution rate that is not supposed to exceed 20 per cent until 2020 and 22 per cent until 2030. In order to keep to these targets, 'brake mechanisms' were included in the benefit formula. The expected decline of the standard replacement ratio (down to 52% of net wage in 2030) meant a clear departure from the dogma of status maintenance (after a complete full-time career) to be attained by public pensions alone.

# IV. A second wave of reforms, more structural

2. Creation of a social assistance minimum for the elderly (pre-emptive, to guarantee a minimum to those who will have less and less pension in the future)
3. *Riester-Rente*. The voluntary take-up of certified savings plans is encouraged by offering tax advantages or direct subsidies. The new funded provision is supposed to compensate for the reduction in benefits

The 'Grand Coalition' government decided in 2007 to lift the normal retirement age from 65 to 67 years between 2012 and 2029. This implies lower benefits for future retirees who, for whatever reason, (have to) claim their public pension at an earlier age

# IV. A second wave of reforms, more structural

France. Jospin created the *Conseil d'Orientation des Retraites*, to build a shared diagnosis

Since then, a series of reforms: the 2003, 2007 reforms, the “Rendez-vous” 2008 And 2010

## - The 2003 Fillon Reform:

- Alining the public sector
- Increasing the contribution duration (to 41 years in 2008)
- Creating PERP and PERC

## - The 2007 reform of the public enterprises

## - The Rendez-vous 2008, The Rendez-Vous 2010

The net replacement ratio should decline from about 83.6 % for a standard worker retiring in 2003 to about 76.8 % in 2020 and 73.5 % in 2050

# V. Multi-pillarisation

Make pension funds relatively attractive

- Decrease the replacement rate of the PAYGo old age insurance (// to Thatcher's way of crowding out SERPS)
- In France, approximately 2,700,000 to 2,800,000 workers were covered by private pension plans in 2006 compared to 2,200,000 in 2004
- In Germany, the coverage of occupational pensions in the private sector has risen from 38 percent (2001) to 52 percent (2007).

(Data from Seleib-Kaiser, Saunders and Naczyck)

**Table 1: Percentage of Employees in the German Private Sector Covered by Occupational Pension Plans by Industry (2001 –2007)**

<b>Industry</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Manufacturing</b>							
Production/Intermediate Goods	43%	49%	55%	56%	73%	73%	74%
Consumer Durables	58%	57%	59%	60%	62%	63%	62%
Food, Alcohol & Tobacco Goods	30%	45%	57%	58%	62%	64%	61%
Consumer Goods	24%	29%	39%	40%	53%	53%	53%
Mining, Quarrying & Energy	63%	66%	72%	73%	71%	71%	73%
Construction	22%	25%	30%	32%	37%	40%	42%
<b>Services</b>							
Financial Intermediation	76%	76%	83%	84%	89%	89%	90%
Wholesale/Retail & Repair	27%	33%	39%	40%	47%	46%	46%
Real Estate & Business Services	16%	19%	25%	25%	28%	29%	29%
Hospitality and Food Services	10%	20%	25%	25%	26%	26%	28%
<b>Total Private Sector Coverage</b>	<b>38%</b>	<b>42%</b>	<b>45%</b>	<b>46%</b>	<b>52%</b>	<b>52%</b>	<b>52%</b>

Source: TNS Infratest Sozialforschung, *Situation und Entwicklung der betrieblichen Altersversorgung in Privatwirtschaft und öffentlichem Dienst 2001 – 2007*. [The Situation and Development of Occupational Pensions in the Private Sector and Public Service, 2001 – 2007], Untersuchung im Auftrag des Bundesministeriums für Arbeit und Soziales, Endbericht, München: 30. Oktober 2008: 42.

# A staggered process of reform

- First increase in social contribution, some stabilisation measures, early exit.
- Second, first wave of retrenchment (blame avoidance: demography, Europe, Unification)
- Third, development of people's insecurity // private saving
- Fourth: further retrenchment of the public pillar(s), collective support of the development of private complements

Merci!