Will you afford to retire?

The Real Return of Long-term and Pension Savings

2023 Edition

BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

Disclaimer

This report is an independent research publication, elaborated through the efforts of its independent coordinators, contributors, and reviewers.

The data published in this report stems from publicly available sources (national statistics institutes, regulatory bodies, international organisations etc) which are disclosed throughout the report.

The authors and contributors produce and/or update the contents of this report in good faith, undertaking all efforts to ensure that there are no inaccuracies, mistakes, or factual misrepresentations of the topic covered.

Since the first edition in 2013, and on an ongoing basis, BETTER FINANCE invites all interested parties to submit proposals and/or data wherever they believe that the gathered publicly available data is incomplete or incorrect to the email address info@betterfinance.eu.

Download the full report:

https://betterfinance.eu/publication/willyouaffordtoretire2023

Country Case 7

France

Résumé

Le système français de retraite continue à reposer majoritairement sur les régimes d'assurance vieillesse de base et complémentaire par répartition (Piliers I et II), avec un taux moyen de remplacement du revenu d'activité de 48% en 2020, et une valeur totale des actifs représentant 11.1% du PIB en 2021 (assurance vie et immobilier exclus). Malgré une allocation d'actifs plutôt dynamique, les plans d'épargne-retraite entreprise ont eu un rendement réel de -14.6% en 2022 et +0.2% en 23 ans entre 2000-2022 (+5.4% en cumulé). L'assurance vie—le produit individuel de loin le plus utilisé pour l'épargne retraite par les Français—a eu une performance réelle très contrastée : +31% pour les fonds en euros (à capital garanti) encore dominants sur les 23 dernières années, mais -25% pour les contrats en unités de compte qui sont davantage promus et se développent plus rapidement. Les produits individuels dédiés spécifiquement à l'épargne retraite (PER, produits dédiés aux employés publics, etc.) sont moins développés, ont des performances plus opaques et souvent plus mauvaises. 2022 a été une année terrible pour tous les épargnants retraite.

Summary

The French pension system continues to rely heavily on the mandatory PAYG Pillar I and Pillar II income streams, with an aggregate replacement ratio for pensions of 48%, and a total value of retirement assets of 11.1% of the French GDP in 2021 (excluding life insurance and real estate). Despite a rather dynamic asset allocation, corporate pension plans had an annual real net return of -14.6% in 2022 and +0.2% average annual for the 23 years between 2000-2022 (+5.4% cumulative). Life insurance products—by far the most widely used personal product for pension purposes by French savers—had very contrasted long-term pre-tax real returns: +31% over the last 23 years for the still dominant capital guaranteed ones, but -25% for the more promoted and faster growing unit-linked ones, despite very positive listed stocks and bonds returns. The personal products specifically dedicated to pensions (PER, Public employee schemes, etc.) are much smaller, and their performances are less transparent and often poorer than those of life insurance. The last year, 2022, has been terrible to all pension savers.

Real returns 2022

Life insurance - CG: -4.51%

Life insurance - UL: -18.18%

Insurance-based pension savings products: -4.24%

Public employee pension schemes: -4.82%*

Corporate DC plans: -14.56%

* The evolution of the purchasing power of annuities is adopted as proxy the for real net return of public employee pension schemes.

Introduction: The French pension system

Over a 23-year period, from the end of 1999 to the end of 2022, capital-guaranteed life-insurance contracts show on average a positive yearly real pre-tax performance of +1.2% in real terms, while the unit-linked contracts show a negative yearly real return of -1,2%. The worst performing schemes over the long term seem to be the Public Employee ones. Corporate DC plans delivered +0,2% on an annual basis before tax. After-tax returns for corporate DC plans would typically be close for the latter due to a favourable tax treatment.

Table FR.1 – Long-term and pension savings vehicles analysed in France

Product	Pillar	Reporting period	
		Earliest data	*Latest data*
Life insurance - CG	Voluntary (III)	2000	2022
Life insurance - UL	Voluntary (III)	2000	2022
Insurance-based pension savings products	Mixed (II/III)	2011	2022
Public employee pension schemes	Voluntary (III)	2003	2022
Corporate DC plans	Occupational (II)	2000	2022

Table FR.2 – Annualised real net returns of French long-term and pension savings vehicles (before tax, % of AuM)

	Life insurance - CG	Life insurance - UL	Insurance-based pension savings products	Public employee pension schemes	Corporate DC plans
Reporting period	2000-2022	2000-2022	2011-2022	2003-2022	2000-2022
1 year (2022)	-4.5%	-18.2%	-4.2%	-4.8%	-14.6%
3 years (2020–2022)	-1.9%	-4.4%	-1.3%	-2.5%	-3.4%
5 years (2018–2022)	-1.2%	-2.8%	-0.6%	-1.9%	-2.0%
7 years (2016–2022)	-0.6%	-1.3%	0.0%	-2.3%	-1.0%
10 years (2013–2022)	0.2%	0.5%	0.7%	-1.9%	0.6%
Whole period	1.2%	-1.2%	0.8%	-1.6%	0.2%

Data: France Assureurs, Good Value for Money (GVfM), Préfon, *Union Mutualiste Retraite* (UMR), *Association française de la gestion financière* (AFG), Eurostat; *Calculations:* BETTER FINANCE.

Pension savings have been a political issue in 2018-2019 with the *PACTE* reform which created a new Pillar II/Pillar III pension product called *Plan d'Epargne Retraite* (PER) (Pension savings plan). In 2022-2023 , the reform of Pillar I pensions has been a much hotter political issue with a very strong opposition of trade unions. The project has been adopted in a watered-down version in May 2023 with the minimum legal age to get full pension rights increased from 62 to 64.

Pension system in France: An overview

Using the World Bank multi-pillar structure, the French pension system mainly relies on:

- **Pillar I** — the public pension, a DB PAYG scheme, which is managed by the State and comprises the basic pension insurance;
- **Pillar II** — the occupational retirement provision (complementary component), also DB and privately managed and funded by both employer and employee contributions, to which participation and contribution rates are mandatory;
- **Pillar III** — composed of the voluntary retirement savings plan, also privately managed, to which participation is optional, and which can be set up by the employer (voluntary occupational plans) or by providers for the pension saver on his own (voluntary personal plans), *but via saver associations*.
- **But also life insurance (its main purpose is retirement) and real estate.**

Table FR.3 – Overview of the French pension system

Pillar I	Pillar II	Pillar III
Mandatory State Pension	Private Occupational Pension	Voluntary Personal Pension[1]
Basic pension insurance	Supplement of the 50% pre-retirement income target of Pillar I	Divided into different financial retirement savings products
Divided into multiple sub-categories of pensions regimes for private sector, private service and special professions.	The complementary component contributions are collected by different designated paritarian institutions, depending on the sector.	Voluntary pension products are tax-incentivised in order to support participation in the third pillar and are mostly DC
DB PAYG	DB PAYG and small DC (PERCO)	DC
Quick facts		
A relatively high old-age dependency ratio of 34.3% (2021)[2]		
An average pre-retirement income replacement ratio of 48% (2020)[2]		

[2] Including life insurance contracts that are not pension products *per se* but are mostly used in France for retirement purposes;
[1] OECD data.

Pillar I — Mandatory State pensions

The French state pension system (Pillar I) is divided it into several sub-categories of pension regimes for:

- Private sector employees;
- Public service; and
- Special professions (such as the army or hospital workers).

Each pension regime is further organised into two sub-components: (1) The base pension insurance, which incorporates both the non-contributory Pillar 0 and the DB Pillar I to which all employees and self-employed individuals must contribute; and (2) The *complementary pension insurance*, which supplements the basic state pension allowance (Pillar II).

To benefit from the basic pension allowance (*assurance vieillesse*) of the French social insurance system, a person must reach the standard retirement age, which is currently not the same for all cohorts, thus birth-date dependent.[1] The 2023 pension reform was very difficult to achieve politically and increased the legal retirement age from 62 to 64.

The full pension entitlement from Pillar I is calculated by multiplying the mean annual gross income,[2] by the correction coefficient,[3] and by the insurance coefficient, the latter being calculated by dividing the total insured period (limited by a set ceiling in the form of a maximum insurable period) by the maximum insurable period (thus, it cannot be higher than 1).[4]

Pillar II — Mandatory occupational pensions

Most of the French Pillar II is a mandatory DB, PAYG and privately managed pension scheme, designed to supplement the 50% pre-retirement income target of Pillar I.[5]

The mandatory complementary component contributions are collected by different designated paritarian institutions, depending on the sector. The largest part of complementary mandatory contributions, those for private sector employees, are collected and redistributed by AGIRC-ARRCO (employees' pension regimes association). Employer and employee participation in Pillar II is mandatory and usually set up through collective agreements.

In France, Pillar I and Pillar II should cover 100% of all employees receiving a salary.

There is also a small but growing voluntary occupational DC Pillar II (see next sections).

Pillar II/III — Voluntary occupational and personal plans

The third pillar of the French pension system is composed of the voluntary pension plans. It was reformed in 2019, with the *PACTE* Law creating the *Plan d'Epargne Retraite* (PER) or "Pension Savings Plan" divided into:

A. Occupational PERs, which are:

[1] The standard retirement age for the basic allowance and for the full pension entitlement starts at 60 and 65 years, respectively (for those born before 1951) and grows by 5-months for each later year of birth until 1954. This is to say, all persons born after January 1, 1954 have a standard retirement age of 62 years (for the minimum allowance) and 67 years old (for full entitlement) — see https://droit-finances.commentcamarche.com/contents/1163-age-de-depart-a-la-retraite-en-2018..

[2] Which is the average of the highest 25 annual gross salaries.

[3] The correction coefficient, in fact, referred to as a rate which can represent a maximum of 50% of the social security income limit.

[4] *Caisse Nationale d'Assurance Vieillesse* (CNAV), "Elements de calcul de la pension", https://www.statistiques-recherches.cnav.fr/les-elements-de-calcul-de-la-pension.html.

[5] This is because, as indicated above, the full Pillar I pension entitlement at retirement is calculated by multiplying the average annual gross income and the insurance coefficient (which should be 1 in normal conditions) with a correction coefficient, which in normal conditions is set at 50%.

- Collective corporate PERs (corporate plans, for private sector employees at large), which are set up by employers either through DC pension funds, which are progressively replacing the existing *Plans d'Epargne Retraite Collectifs* (PERCOs); employee participation is voluntary;

- "Mandatory" collective corporate PERs are insurance-regulated PERs which are mandatory for employees, or categories of employees, once the employer has set it up. They are replacing the existing *PERs Entreprises* (PEREs), also called "Article 83".

- Existing professional or sector-specific personal plans, such as the *Contrats Madelin* (for self-employed), *Madelin Agricole* (for the agricultural sector) or the *Complémentaire Retraite des Hospitaliers* (CRH) for Public Health sector workers, and Préfon (mainly accessible to public employees) have or will be converted into individual PERs.[6]

B. Personal PERs, unrelated to occupation:

- Individual PERs ("People's Retirement Savings Plans"), sub-divided into insurance-regulated contracts with capital guarantee (including Préfon and Corem, see below) or linked to units in UCITSs or AIFs, and into securities accounts. The insurance regulated individual PERs are progressively replacing the *Plans d'Epargne Retraite Populaire* (PERPs) "People pension savings plan" and *Contrats Madelin* for self-employed workers: the existing balances can be transferred to PERs, and no such new plans can be opened since October 1, 2020.

The PER can be offered both by insurers and by banks/asset management companies, and beneficiaries are free to choose between the two pay-out options: annuities or capital withdrawals. Individual PERs must be subscribed and governed by independent representative saver associations. All PERs are freely transferable to other PERs. However, the new law lifted the 15-year ban on inducements for unit-linked personal pensions in order to try to boost their promotion. The French saver organisation *Fédération des Associations Indépendantes de Défense des Epargnants pour la Retraite* (FAIDER) estimates that this will cost pension savers at the very least €20 billion over the average life of the PER contract.[7]

Long-term and pension savings vehicles in France

Figure FR.1 details the AuM for life insurance (mostly used for retirement) and public employee pension schemes.[8]

Second pillar

Collective occupational pension products are limited in size in France, despite the development of the DC long term and pension corporate plans.

[6] "Fonpel", "Carel-Mudel" and "RMC" are pension vehicles dedicated to very specific occupational categories and not covered by this report.

[7] faider.org, June 6, 2019.

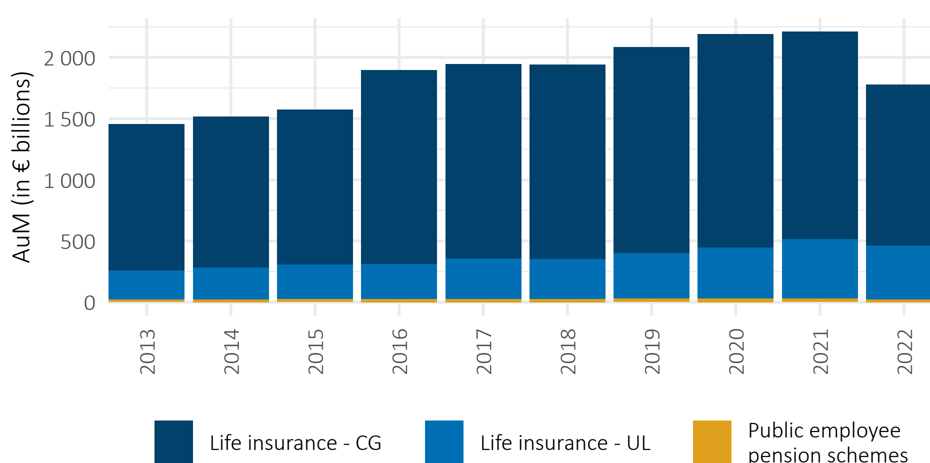
[8] As of yet, data are not available for corporate DC plans and insurance-based pension savings products.

Table FR.4 – Financial assets of French households at the end of 2022

	% of total	2022/2021
Currency and bank deposits	35.3%	9.0%
Investment funds*	4.8%	10.1%
Life insurance and pension funds	33.2%	-8.1%
Direct investments (direct holdings of bonds and stocks)	26.8%	-1.5%
Total	*100.0%*	

Data: Banque de France;
* 10.2% when including "units" of insurance-regulated products

Figure FR.1 – AuM of French long-term and pension savings vehicles



Data: France Assureurs, Préfon, UMR; *Calculations:* BETTER FINANCE; *Note:* AuM of Corporate long-term and pension savings plans, amounting to €162.2 billion in 2022 are not shown in the graph due to lack of historical data.

Collective occupational insurance-based pension saving products

In total, mathematical reserves grew a little, from €118.8 billion to €134.9 billion from the end of 2017 to the end of 2021. For insurance-regulated corporate DC plans under "Article 83" of the French tax code (PERE), mathematical reserves stood at €65 billion at the end of 2020.

As many "Article 83" contracts are progressively transferred into mandatory collective occupational PERs, they are less and less tracked by the national supervisor—the *Autorité de Controle Prudentiel et de Résolution* (ACPR)—and by the national trade association. For insurance-regulated DB plans ("Article 39" of the French tax code), mathematical reserves stood at €40,5 billion at the end of 2021.

Corporate long-term and pension savings plans

The total assets of French DC corporate savings plans (PEE + PERCO + collective PER)[9] decreased by 3% in 2022 to €162.2 billion. The number of members in those plans increased to 11.2 million

[9] *Plan d'Epargne Entreprise* (PEE) is a corporate savings plan where savings are typically blocked for a minimum of five years.

people in 2020.

The PERCO, exclusively dedicated to pension investments, is still less "mature" than other pension plans, since it started in 2004, but continues to grow quite rapidly. Since October 2019, PERCOs have begun to be converted into the new "collective PERs". Assets under management amounted to €25 billion at the end of 2022 (-2.3% over 2021). Close to 3.4 million employees had a PERCO or collective PER at the end of 2021 and 189 000 companies propose this type of plans to their employees.

PERCO and collective corporate PER are quite similar to the US Corporate pension plans ("401k") in their design. However, they are generally not invested in general purpose investment funds like UCITSs, but mostly in specifically dedicated French-domiciled AIFs called *Fonds Communs de Placement d'Entreprise* (FCPEs).

Third pillar

Life insurance contracts

Ordinary life insurance contracts are not specifically designed for pension purposes. However, retirement is the main objective of French savers who subscribe to these insurance contracts, and they are by far the main long-term financial savings products used in France.

From 2016 to 2022, contributions to unit-linked contracts rose more than those to *contrats en euros* (capital guaranteed contracts, or misleadingly called "with profit policies" in the United Kingdom (UK)) and their share in total mathematical reserves increased from 15% to 25% (see Table FR.5).[10] This increase is partially due to capital gains, but can be mostly attributed to net inflows (contributions minus benefits).[11] Unit-linked contracts accounted for 21% of contributions to life insurance in France in 2012 and 39% in 2021.[12]

Table FR.5 – Mathematical provisions of French life insurance (in € billion)

	2016	2017	2018	2019	2020	2021	2022	2022/2021
Capital-guaranteed	1 586	1 590	1 589	1 684	1 747	1 694	1 318	-22.2%
Unit-Linked	284	328	328	372	416	488	437	-10.5%
All contracts	1 870	1 918	1 917	2 056	2 163	2 182	1 755	-19.6%

Data: ACPR; *Calculations:* BETTER FINANCE.

In 2014 a new life insurance contract, the *Eurocroissance*, was created. The contract does not guarantee the invested capital in case of withdrawal until eight years following subscription. This new type of contract is intended to encourage savers to accept a higher level of risk in the short-term for potential better long-term returns, for example by investing more on equity markets. By the end of June 2022, those contracts amounted to only €5.4 billion of mathematical provisions,[13] probably at least partly due to the ultra-low interest rates, making it challenging to

[10] *Source:* ACPR.
[11] *Source:* France Assureurs, 2022.
[12] *Source:* France Assureurs, 2022.
[13] *Source:* France Assureurs.

generate a decent return. Since 2016, insurers are allowed to transfer unrealised capital gains from their general assets covering capital guaranteed contracts to the *Eurocroissance* contracts to boost returns.

Insurance-based pension saving products (IBPPs)

Plans d'Epargne Retraite (PERs):

Launched in October 2019, PERs reached €48.5 billion in assets and 4.3 million participants by September 2021.

Plans d'Epargne Retraite Populaire (PERPs): PERPs were launched in 2004 as insurance-regulated personal pension plans. Thanks to higher contributions and paid benefits remaining low, mathematical provisions in PERP personal pension plans increased from €7.5 billion in 2011 to €20.9 billion in 2020. New PERP contracts are not allowed since October 2020. The number of subscribers increased slowly from 2011 to 2019 from 2.1 to 2.5 million, (+18%), and flattened out in 2018 and 2019 due to an exceptional ban on tax deductibility and to the launch of the PER that year, as many PERPs have collectively transferred into PERs, or individual participants have transferred their rights to PERs as well.

Contrats Madelin (for self-employed individuals): Mathematical provisions related to *contrats retraite Madelin* decreased by 3.8% to 39 billion in 2020.[14] There were 1 363 million outstanding contracts at the end of 2019 (+2.0%). The *contrats Madelin* are widely used by self-employed individuals because the PAYG system is less generous (and contributions lower) than for employees. New Madelin contracts are not allowed since October 2020.

Contrats Madelin agricole: Mathematical provisions of *contrats Madelin agricole* (plans for persons working in the agricultural sector) decreased by 1.6% in 2020 to €6 billion. 326 000 farmers had an open contract at the end of 2018.

Public employee pension savings products

These schemes have all adopted the new (2019) legal framework of the individual PER, but they have very specific features:

- They are mostly (*Corem*) or entirely dedicated to public employees (*Préfon* and CRH);
- They are not subscribed and governed by independent associations representing the pension savers (a legal exception to the governance rules of all other individual PERs);[15]
- Their pension rights are accounted for in "points", not in euros or in units;
- The French NCA—ACPR—excludes them from its statistics on IBPPs.

All personal pension products in France have to be subscribed by savers associations in which the participating pension savers are members of the general assembly, have the right to vote at the general assembly, and have the right to propose resolutions to the general assembly. However

[14] *Source:* France Assureurs.

[15] *Corem* just set up an independent subscribing and governing saver association in 2022.

French Law still exempts the three biggest ones (*Préfon*, *Corem* and CRH) from all these governance rules protecting pension savers' rights. They could also transform themselves into PERs as soon as 2019 without requiring the approval of their participants as they would for any other pension savings product.

Préfon: *Préfon* is a deferred annuity plan open to all current and former public employees and their spouses that had 398 500 participants at the end of 2022. It had €13.5 billion in AuM (market value) at the end of 2022, down from €17.6 billion at the end of 2021 (Association PREFON, 2022b).

Corem: *Corem* is also a deferred annuity plan open to everyone but so far mainly subscribed to by civil servants. It had 322 635 participants at the end of 2022 (down from 397 515 in 2016). Its assets under management went from €10.6 billion (market value) at the end of 2021 to €9.5 billion at the end of 2022.[16]

***Complémentaire Retraite des Hospitaliers* (CRH):** CRH, a deferred annuity plan[17] open to all public employees from the public health sector and their spouses, had about 350 000 participants in 2021. Its technical reserves amount to €3.3 billion in 2018.[18] We could not find more precise publicly available information.

Charges: Often opaque, high and rising

Available data on average annual charges for savings products are scarce in France.

Investment funds

According to the Autorité des Marchés Financiers (AMF, 2022b), overall annual fees for equity funds were 1.51% on assets, and 1.25% overall in 2020, and they would have gone down slightly from previous years. However, these averages are not asset-weighted, and include 2 374 funds, both "retail" and "institutional" ones. Moreover, they only include French-domiciled funds and leave out other UCITS funds sold to French individuals. Even more important is the fact that the *Autorité des Marchés Financiers* (AMF) data do not take into account the fact that two thirds of investment funds offered to French retail investors are via insurance contracts' "units".

- For French equity funds offered via those, annual total charges of the funds themselves reached 2,17% on average in 2021 and 1,96% for the now most offered mixed funds:[19] much more expensive than the overall French fund market estimated by AMF;
- But the full "units" cost was even higher: respectively 2.98% and 2.77%, when including the annual contract wrapper charge.

These charges are very high: the average ongoing fund charge for all UK domiciled active funds (both equity funds and all other funds) was only 0.92% in 2015 (1.38% for retail funds and 0.69% for institutional ones, Financial Conduct Authority [FCA], 2016).

[16] Combined participants and assets of *Corem* (9.5 billion) and another smaller pension plan (*R1*) managed by the same provider UMR.

[17] Rights acquired before mid-2008 do not provide annuities guaranteed for life, but only for 10 to 15 years.

[18] Règlement intérieur CRH 2020 article 18

[19] *Source:* GVfM

Capital-guaranteed insurance contracts (*fonds en euros*)

Since 2018, the national supervisor ACPR publishes their annual average charge, based on a sample of 100 insurers. The published average charge decreased from 0.65% in 2021 to 0.62% of assets in 2022,[20] but doesn't include:

- the profit sharing taken by insurers (0.31% in 2019),[21]
- the underlying fund fees,
- and the impact of any entry and exit fees.

Unit-linked insurance contracts

Neither ACPR nor the industry trade body disclose any information on the total charges of unit-linked insurance, which cumulates at least two annual asset-based fees: the units' (investment funds) charges plus those of the wrapper contract itself. Contract fees alone account for 0.80% to 0.95% in fees on average per annum on assets according to private surveys.[22] Overall, for unit-linked insurance contracts invested in French equity funds, the total average fees are estimated at 2.98% per annum, 2.08% when invested in bond funds, and 2,77% when invested in mixed funds(Good Value for Money [GVfM], 2022). Mixed funds and equity funds combined account for 71% of all funds in French unit-linked contracts (AMF, 2022a, p. 106). Two thirds of investment funds held by French households are through these unit-linked insurance contracts. These actual total annual charges are never disclosed to prospects and retail clients either.

And these fees do not include the "delegated management" fees which are growing as more and more savers are directed by insurers and distributors to this "delegated management" in unit-linked contracts. There are no aggregate data on the amount of these additional asset-based fees, but it often represents an additional 0,30% or more every year taken on assets.

The total average fees of around 3% per year or more don't seem to go down, although ACPR has recently (2023) asked insurers to eradicate the most egregious cases. For example, the biggest life insurance subscribing association announced an increase of its unit-linked contract annual fees by 35 basis points in 2019.[23]

Personal and occupational pension plans

There are very few data available on their charges as well as for corporate DC plans. When available, the data tell us that they are on average rather high. For example, Préfon charges 0.60% on assets plus 2% on net investment income for asset management plus a 3.90% entry fee in 2020; lowered to 2,05% in 2022. This does not include the underlying investment fund fees. For unit-linked personal pension products, the French government has lifted the 15-year ban on commissions in 2019, when deciding to end PERPs for PERs (see above, previous sections). This significantly increases their net charges to pension savers. FAIDER estimates the cost impact for

[20] ACPR, 2023

[21] *Source:* ACPR, 2020 (did not publish more recent data).

[22] Dossiers de l'épargne n°152, 2014. A more recent evaluation from Goodvalueformoney.eu (2023) mentions 0,80% but could be on the rise as newer contracts tend to charge 1,00% or more

[23] Afer.fr, 2019.

French pension savers to represent a minimum of €20 billion over the life of these personal pension plans[24]. A recent study of the National Public Advisory Committee CCSF estimates that the annual ongoing costs of the new equity "units" alone are close to 3%, of which close to 0.90% result from commissions ("inducements").[25] This represents an increase of more than 40% in annual charges for the new PER compared to its PERP predecessor, for which commissions on "units", if any, have to be credited back to the PERP itself, i.e., to its participants.

This average annual fee of around 3% compares very unfavourably with the annual 1% fee cap of the basic option of the future PEPP created by the EU, and with the annual total charges of US individual retirement accounts (IRAs), which are very often well below 1%.

The CCSF report also points to the opacity of these total annual charges and recommends the public disclosure of total annual charges of unit-linked PERs, i.e., the sum of the underlying "units' costs and the wrapper fee". This was obtained by FAIDER back in 2005, but this disclosure rule was repealed two years later by the French Authorities. The French Government then reinstated the mandatory disclosure of the total annual charges in February 2022 but only on a per unit basis, not at the insurance contract level, so it would still be up to the saver to try to compute the overall cost of his unit-linked contract.[26] This also applies to all unit-linked life insurance contracts.

Since 2018, the ACPR estimates the average annual charges for the capital guaranteed funds in the personal and occupational insurance regulated pension products and puts it at 0.39% for 2022. But like for life insurance, this does not include the profit sharing for the provider (0.24% on average in 2018), the underlying fund fees or the impact of entry and exit fees. Exit fees can be very heavy on annuities, typically 1 to 3% of their amounts.

Neither ACPR nor the national trade association disclose any data on the costs of unit-linked personal and occupational pension products, although they are now a major part of the individual PERs.

Taxation

For PERs, PERPs and Public Employee schemes (Préfon, Corem, CRH), contributions are deductible from taxable income with a minimum of €4 113 and up to 10% of total professional income with a tax deduction ceiling (€32 909 in 2022). For Madelin contracts, the ceiling is higher. Annuities are taxable like pensions with a 10% fixed haircut (with a ceiling of €3 850 in 2021). They are also subject to a social contribution, currently standing at 9.10% (7.4% in 2017). In some cases, capital withdrawals from PERPs are allowed up to a 20% maximum of total pension rights. In those cases, the current taxation amounts to 7.5% income tax plus social contributions of 17.2%.

Since August 2012, the taxation of employers' contributions to corporate savings plans (PEE and PERCO) and DB plans ("Article 83") increased from 8% to 20% (with some exceptions).

The general rise in taxation of savings also impacted life insurance. In 2012 the rate of "social contributions" increased from 13.5% to 15.5% , and again in 2018 to 17.2%.

[24] FAIDER.org, June 2019

[25] CCSF – Rapport sur les nouveaux plans d'épargne retraite, July 2021

[26] Arrêté du 24 février 2022 portant renforcement de la transparence sur les frais du plan d'épargne retraite et de l'assurance-vie.

The overall taxation of all long-term financial savings was again globally increased from 2018 onwards, with the creation of the "PFU" or "flat tax". It amounts to 30% for most nominal investment income except for life insurance contracts after eight years (24.7%, or 17.2% for annual divestments below €4 600 for an individual, and below €9 200 for a couple). And direct long-term investments in equities are no longer taxed at a lower rate than short term ones: the negative impact of inflation on long-term investment values and income is no longer taken into account except for real estate investments.

On the other hand, the wealth tax on all financial assets was abrogated from 2018 on (but not on real estate).

Table FR.6 – Taxation of pension savings in France

Product		Phase		Regime
	Contributions	*Investment returns*	*Payouts*	
Life insurance - CG	Taxed	Exempted	Exempted	TEE
Life insurance - UL	Taxed	Exempted	Exempted	TEE
Corporate DC plans	Taxed/Exempted	Exempted	Taxed/Exempted	Variable
Public employee pension schemes	Exempted	Exempted	Taxed	EET
Insurance-based pension savings products	Exempted	Exempted	Taxed	EET

Data: French tax code.

Performance of French long-term and pension savings

Real net returns of French long-term and pension savings

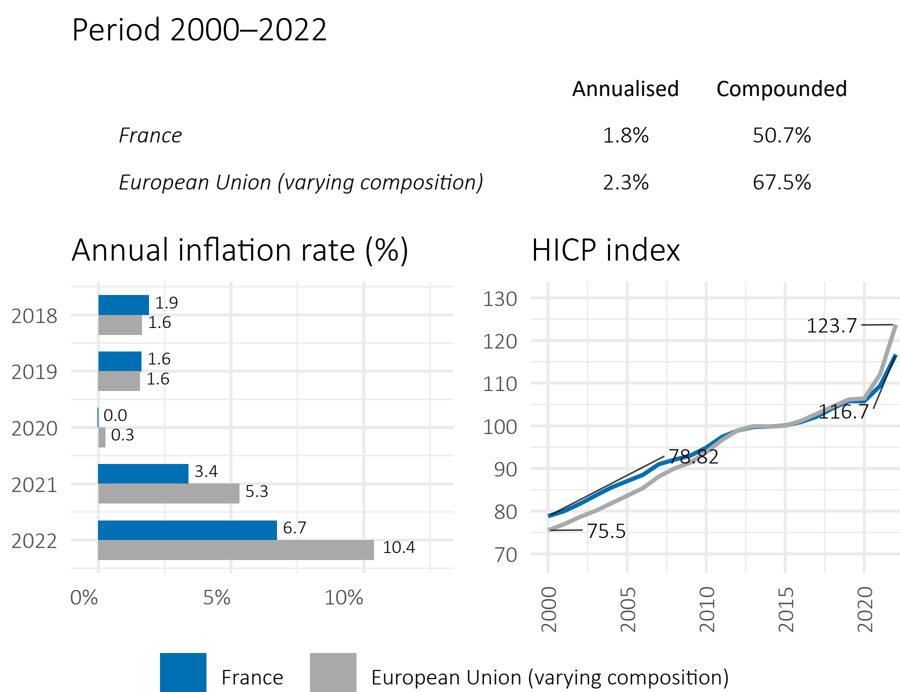
Equities and bonds

In 2022, the French equity market (dividends reinvested) dropped by 7.7% (CAC all tradable GR index) after a gain of 29% in 2021, in line with European equity markets overall (see Figure GR.6). Over the last 23 years (end 1999 to end 2022), it returned a total of +157%, while large capitalisations (CAC 40 index, dividends reinvested as well) returned notably less, +125%, demonstrating the very strong long-term over-performance of small and mid-cap equities. Inflation over the same period was +51%. So, despite two sharp downturns (2000-2002 and 2007-2008) plus other drops in 2011, 2018, 2020 and 2022, French equities delivered positive nominal and real returns over the whole period. However, the real (after inflation) performance of the largest stocks (CAC 40) started to be positive only since 2015.

Packaged long-term and pension products in France are also invested in other European equities. Therefore the European equity universe is also an appropriate benchmark for their equity returns.

The same applies to bond where the most appropriate general benchmark is European bonds.

Figure FR.2 – Inflation in France



Data: Eurostat, HICP monthly index (2015 = 100); *Calculations:* BETTER FINANCE

Life insurance

Life insurance – Capital-guaranteed contracts

The *after-tax* real returns of guaranteed life insurance contracts plunged back deeply into negative territory in 2021: -2.5% and even more in 2022 to -4.5%, mainly due to the rise of inflation, while nominal returns rose in 2022. Such returns should be assessed from a long-term perspective: the last data available from the industry trade body indicate that outstanding life insurance contracts were open for 12 years on average. These contracts – although of a long-term nature – are invested only 9% in equities.[27]

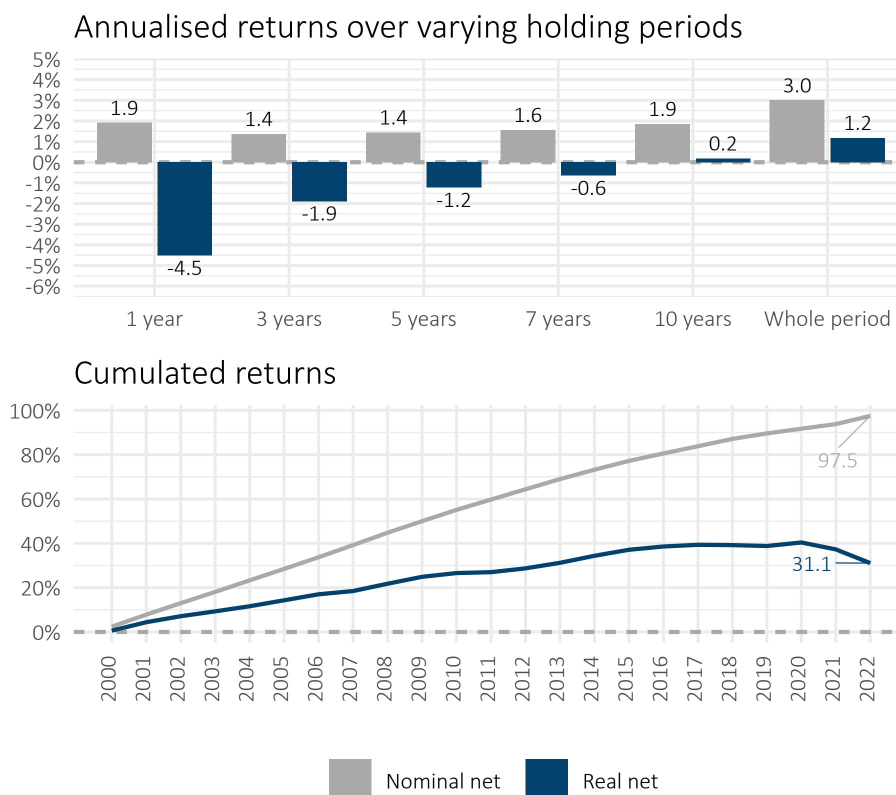
Over a 23-year period, cumulated pre-tax real returns of guaranteed life-insurance contracts totalled +31%, and varied from a maximum annual performance of +3.8% in 2001 to a negative performance of -4.5% in 2022 (see Figure FR.3).

After-tax real returns are presented in Table FR.7. In the most favourable case, where savers do not redeem more than €4 600 per annum for at least eight years after the first subscription (see section on taxation, Page 163), real returns after tax are slightly better.

These returns do not take into account the changes in the insurers' reserves for profit sharing ("Provisions de participation aux bénéfices" or PPB), which are legally required and are credited with the capital gains on sales of non-fixed income assets. They must be returned to the life insured within 8 years of their inception. They are then included in the annual return. French

[27] *Source:* goodvalueformoney.eu, 2021.

Figure FR.3 – Returns of French capital-guaranteed life insurance contracts (% of AuM, before tax)



Data: France assureurs (up to 2018), GVfM since 2019, Eurostat; *Calculations:* BETTER FINANCE; *Note:* * Reduced by the average entry fee of 2.76% for the year 2000.

regulators allowed insurers to book most of these profit-sharing reserves into their shareholders' funds for prudential purposes from 2019 fiscal year. This is not an incentive for insurers to use these large and growing profit-sharing reserves to offset the poor current returns, quite the contrary.[28] Indeed, the outstanding amounts of these reserves stood at 1.9% of total mathematical reserves at the end of 2013 and have increased again since then to reach 5.4% in 2022.[29]

Following capital-guaranteed life insurance reporting rules, capital gains or losses are not accounted for in the disclosed returns in Table FR.7.

In 2012, taxation increased by 200 basis points, as a result of the rise in social contributions from 13.5% to 15.5%. In 2018, social contributions rose again to 17.2%. As taxation is applied to nominal returns, any rise in inflation increases the real tax rate which reached 76% in 2017, as shown in the table below. For 2018 ,2019, 2021 and 2022 since the real income before tax was negative (loss of purchasing power), taxing nominal income had the effect of deepening the real

[28] "The persisting accruals to the PPB could be also helped by the evolution of rules, which allow insurers since 2019 to include part of it in the computation of own funds eligible to cover capital requirements" (ACPR)

[29] Source: ACPR, 2023

loss for life insurance savers further.

Table FR.7 – Returns of French life insurance contracts - capital guaranteed (% of AuM)

Year	Disclosed return	Real return before tax	Real return after tax	Real return after tax*
2000	5.3%	3.5%	2.7%	3.1%
2001	5.3%	3.8%	3.1%	3.5%
2002	4.8%	2.6%	2.0%	2.3%
2003	4.5%	2.1%	1.4%	1.8%
2004	4.4%	2.1%	1.5%	1.8%
2005	4.2%	2.4%	1.6%	1.9%
2006	4.1%	2.4%	1.6%	1.9%
2007	4.1%	1.3%	0.5%	0.8%
2008	4.0%	2.8%	2.0%	2.3%
2009	3.6%	2.6%	1.8%	2.1%
2010	3.4%	1.4%	0.7%	1.0%
2011	3.0%	0.3%	-0.3%	-0.1%
2012	2.9%	1.3%	0.7%	0.9%
2013	2.8%	1.9%	1.3%	1.5%
2014	2.5%	2.4%	1.8%	2.0%
2015	2.3%	2.0%	1.5%	1.7%
2016	1.9%	1.1%	0.6%	0.8%
2017	1.8%	0.5%	0.1%	0.3%
2018	1.8%	-0.1%	-0.5%	-0.4%
2019	1.3%	-0.3%	-0.6%	-0.5%
2020	1.1%	1.1%	0.9%	1.0%
2021	1.1%	-2.2%	-2.5%	-2.4%
2022	1.9%	-4.5%	-5.0%	-4.8%

Data: France Assureurs (up to 2018), GVfM since 2019; *Calculations:* BETTER FINANCE.

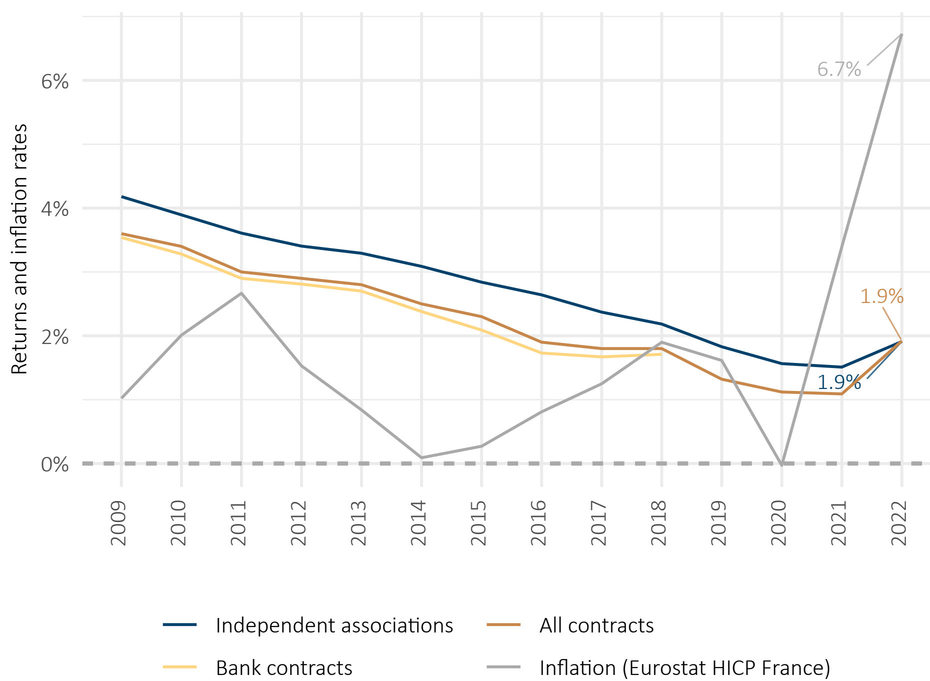
* for redemptions below € 4 600 per annum.

These average returns mask important differences depending on distribution networks and governance: for standard contracts distributed by banks, the 2020 average nominal return was less than 1.08%,[30] whereas the return for contracts subscribed by independent associations was 1.56% (see Figure FR.4.[31] Higher annual average fees for bank insurers (0.65% versus 0.58% for traditional insurers in 2020) and higher profit-sharing reserves are part of the explanation. Considering that contracts distributed by banks represent about 60% of the French capital guaranteed life insurance market, this returns gap constitutes an opportunity cost of about €6 billion for 2020 alone for savers getting their capital-guaranteed life insurance contracts from their bank instead of from independent savers' associations.

[30] FAIDER estimates that it may have fallen below 1%, as, according to ACPR, the 2020 return of all types of capital guaranteed contracts run by Bancassureurs was 10 bps below the market average, and the average return for standard contracts was 1.09% according to GoodValueforMoney.eu

[31] Source: FAIDER. Independent associations representing life insurance contracts holders included AGIPI, AMIREP, ANCRE, ASAC-FAPES and GAIPARE in 2020 FAIDER is a member organisation of BETTER FINANCE.

Figure FR.4 – Nominal returns – All contracts vs. independent life insurance associations (% of AuM, before tax)



Data: FAIDER, France Assureurs, GVfM, Eurostat.

Table FR.8 – French nominal and real tax rates on capital-guaranteed life insurance returns

		Return		Tax rate	
Year	Inflation	Nominal	Real	Nominal	Real*
2000	*1.8%*	*2.4%*	*0.6%*	13.4%	53.4%
2001	*1.5%*	*5.3%*	*3.8%*	13.4%	18.8%
2002	*2.2%*	*4.8%*	*2.6%*	13.4%	24.8%
2003	*2.4%*	*4.5%*	*2.1%*	13.4%	29.4%
2004	*2.2%*	*4.4%*	*2.1%*	13.7%	28.6%
2005	*1.8%*	*4.2%*	*2.4%*	18.5%	32.3%
2006	*1.7%*	*4.1%*	*2.4%*	18.5%	32.0%
2007	*2.8%*	*4.1%*	*1.3%*	18.5%	60.1%
2008	*1.2%*	*4.0%*	*2.8%*	18.5%	26.6%
2009	*1.0%*	*3.6%*	*2.6%*	19.6%	27.6%
2010	*2.0%*	*3.4%*	*1.4%*	19.6%	48.9%
2011	*2.7%*	*3.0%*	*0.3%*	21.0%	194.0%
2012	*1.5%*	*2.9%*	*1.3%*	23.0%	49.4%
2013	*0.8%*	*2.8%*	*1.9%*	23.0%	33.1%
2014	*0.1%*	*2.5%*	*2.4%*	23.0%	23.9%
2015	*0.3%*	*2.3%*	*2.0%*	23.0%	26.1%
2016	*0.8%*	*1.9%*	*1.1%*	23.0%	40.4%
2017	*1.2%*	*1.8%*	*0.5%*	23.0%	76.0%
2018	*1.9%*	*1.8%*	*-0.1%*	24.7%	-457.7%
2019	*1.6%*	*1.3%*	*-0.3%*	24.7%	-112.8%
2020	*0.0%*	*1.1%*	*1.1%*	24.7%	24.1%
2021	*3.4%*	*1.1%*	*-2.2%*	24.7%	-12.1%
2022	*6.7%*	*1.9%*	*-4.5%*	24.7%	-10.5%

Data: France Assureurs until 2018, GVfM since 2019, French tax code, Eurostat, GVfM since 2019; *Calculations:* BETTER FINANCE.

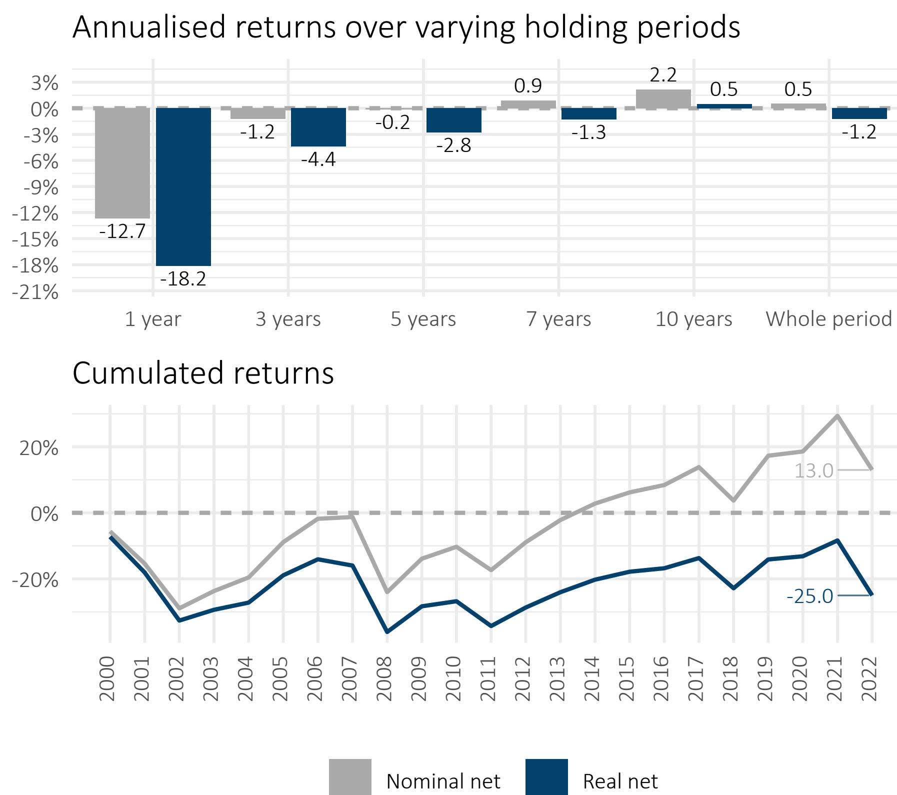
* tax / real (net of inflation) income. When negative, the real "income" tax rate only increases the real pre-tax loss by the percentage indicated.

Life insurance – Unit-linked contracts

Nominal returns were pushed upwards by the rise in stock prices from 2012 to 2017 and from 2019 to 2021. Despite the long period of positive equity returns, unit-linked contracts still have a very negative cumulative return net of inflation since the end of 1999 (see next section and Figure FR.6).

Over a 23-year period, real returns after tax of unit-linked life-insurance contracts were very volatile. The worst performance was recorded in 2008 (-23.9%) and the best one in the following year (+12.2% in 2009).

Figure FR.5 – Returns of French unit-linked life insurance contracts (% of AuM, before tax)



Data: France assureurs (up to 2018), GVfM since 2019, Eurostat; *Calculations:* BETTER FINANCE; *Note:* * Reduced by the average entry fee of 2.76% for the year 2000.

Life insurance – All contracts

In order to compute the real return achieved by an investor who would have subscribed to a life insurance contract at the end of 1999 and who would have withdrawn his funds 23 years later, one has to subtract the entry costs paid in the year of subscription, as these fees are not taken into account in the disclosed returns. We estimate that entry costs in 2000 represented 2.76% on average of the investment,[32] to be deducted from real returns that year. Also, annual contract fees on assets are already taken into account for capital guaranteed contracts by the insurance industry body (France Assureurs), but not for unit-linked ones in its annual "key figures" until 2021 (and from then on restated nominal net returns back to 2012).

An average saver has thus received a cumulated net real pre-tax return of 31% for this 23-year period of investment on guaranteed contracts,[33] and a negative one of -25% on unit-linked contracts. On a yearly basis, the rates of returns would be +1.2% and -1.2% respectively. It is worth noting that, although unit-linked contracts are riskier for subscribers, they also provided cumu-

[32] Source: OEE

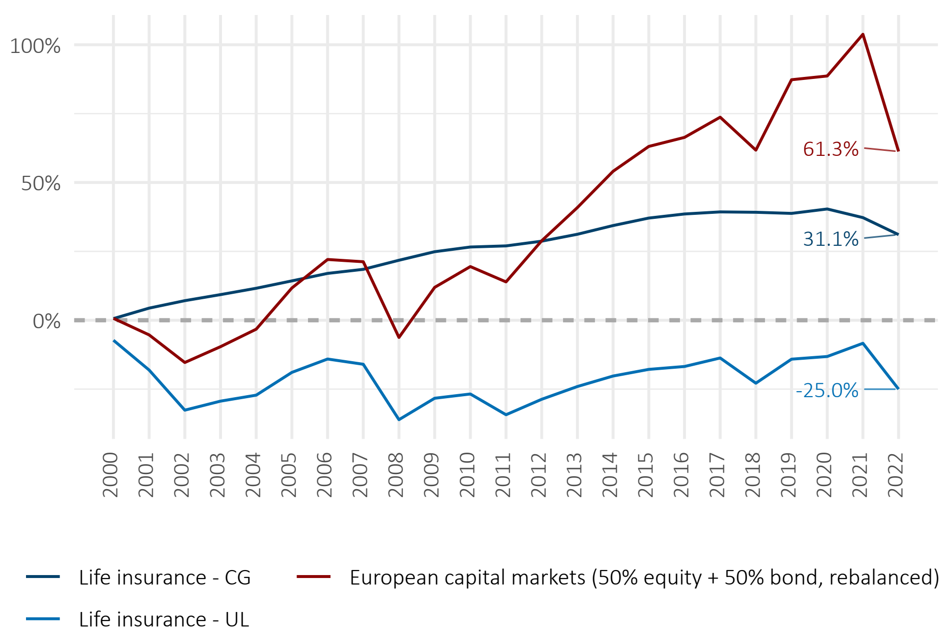
[33] + 28% with the most favourable tax treatment and minimum 8-year-old contracts, see table FR 5 above

lated returns that were much lower than those of the guaranteed contracts. Such a lower—and negative—real performance over 23 years is primarily due to:

- much higher fees (see the fees and charges section above): about five time higher for the dominant equity and mixed asset "units",
- and to the fact that mostly expensive retail share class actively managed funds are offered and promoted and very few, low-cost funds such as index exchange-traded funds (ETFs) or institutional or "clean" share classes of actively managed funds.[34] Independent research determined that over the mid and long-term, high charges hurt net performance on average. This in turn is due to the higher sales commissions ("inducements") for highly charged funds.

Capital markets as a whole (bonds and equities) provided a strong positive real performance over the same period. Figure FR.6 shows that the pre-tax real performance of unit-linked contracts is well correlated to that of capital markets, but massively below those over time (minus percentage points over the last 22 years), making unit-linked a high-risk and low-return offer.

Figure FR.6 – Long-term life insurance real returns vs. capital markets



Data: France Assureurs, GVfM, Eurostat; *Calculations:* BETTER FINANCE;
Details regarding the calculations of the European capital markets benchmark are provided in the introductory chapter of this report.

[34] The institutional share class of an investment fund bears lower annual fees than the retail share class, but requires a higher minimum initial investment. The "clean" share class of an investment fund bears no sales commissions and therefore also enjoys lower overall annual fees.

Insurance-based pension saving products (IBPPs)

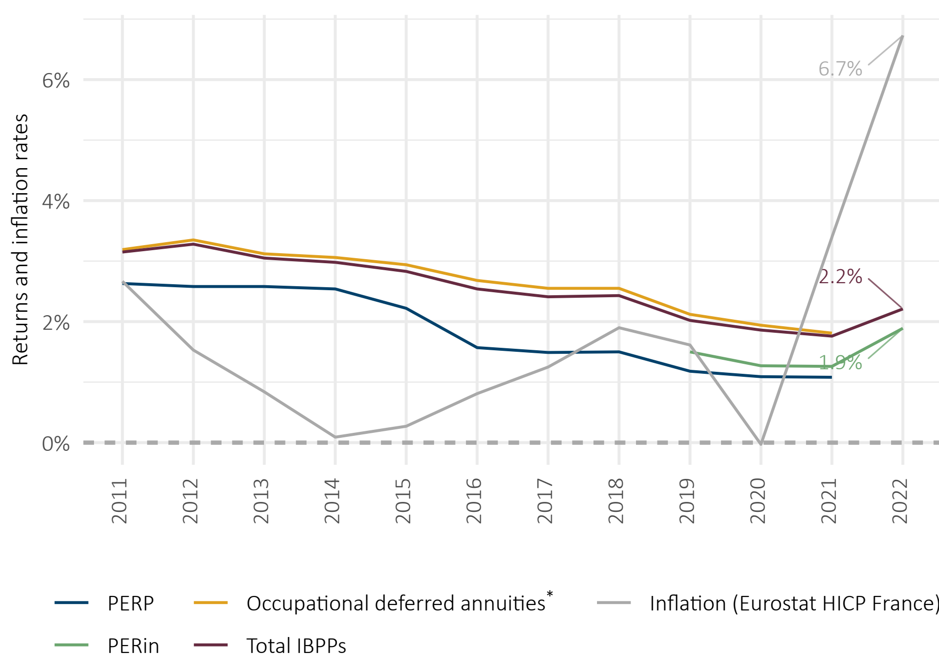
Individual PER (PERin)

According to GoodValueforMoney.eu, aggregate nominal performance for the new PERs' "fonds en euros" (capital guaranteed investment option) launched at the end of 2019 has been better than for ordinary life insurance contracts between 2019 and 2021, but was similar in 2022 (1,89% versus 1,92%) and very much below inflation.

PERP

A majority of PERPs are structured like ordinary life insurance contracts in the accumulation phase: a combination of capital guaranteed funds ("fonds en euros") and "units" representing investment funds. A minority of PERPs are structured like deferred annuities, similar to the main pension savings products for public employees (see next section).

Figure FR.7 – **Nominal returns of insurance-based pension savings products (2011–2022, % of AuM, before tax)**



Data: ACPR, GVfM for PERin, Eurostat;
* Occupational deferred annuities include PERE, Madelin and Article 83 contracts

It was impossible to find global long-term return data on PERPs before 2011 and after 2021. The insurance industry body publishes the average return of ordinary capital guaranteed ("fonds en euros") and unit-linked life insurance contracts (see previous sections), but not that of insurance-regulated personal pension products such as PERPs and PERs. Based on the disclosed nominal returns of a majority of PERPs collected by the French Supervisor ACPR only from 2011 to 2021, the weighted average nominal return of the capital guaranteed PERPs ("fonds en euros") was 1.08% in 2021, similar to the average return of ordinary capital guaranteed life insurance contracts. This can be surprising, since PERPs enjoy a much longer duration of their liabilities, which

should allow for a higher allocation to equities which have performed much better than bonds since 2011. The returns of PERPs should also be boosted by the rule unique to PERPs according to which the commissions (inducements) on units (funds) must be credited to the PERP, and, in practice they are credited to the capital guaranteed fund. On the other hand, PERPs are on average more recent than ordinary life insurance contracts and therefore so is their bond portfolio, which generates lower returns than older bond portfolios. In 2021, pre-tax real returns of French personal pensions (PERP) became very negative; on average -2.2%.

Occupational deferred annuities (Madelin, PERE and Article 39)

The nominal returns of occupational deferred annuities were higher (1.81% in 2021) and did not decline as much as for PERPs. This could be explained by older fixed income portfolios yielding higher rates, and by higher discount rates ("taux techniques") forcing insurers to deliver higher returns. Charges may also be lower than for PERPs, but cost data are missing specifically for these pension products. Since 2018, the French supervisor ACPR publishes the average annual cost (0.39% in 2022) but that is for the capital-guaranteed option of all IBPPs combined. Again, no cost and performance data on unit-linked and schemes in "points" are disclosed by the French NCA.

Unfortunately, it also did not identify separately the historical returns and costs of the pension products for self-employed individuals ("Madelin", most of which are subscribed and supervised by independent pension saver associations), from the employer-sponsored DC plans (PERE) or DB plans ("article 39"). And ACPR stopped disclosing their average return in 2022. Following the European Commission (EC)'s request for the ESAs to improve the transparency of past performances and fees, it is urgent to collect, analyse and disclose these data.

Public employee pension schemes

It is challenging to evaluate the real returns of these deferred annuity plans to the participants. To start with, up to 2010, it was not mandatory for those plans to disclose investment returns. Following action by BETTER FINANCE's French member organisations, a 2010 Law made this a legal requirement from 2011 onward.[35] Préfon has also started to give an indication of its economic returns (taking into account the annual evolution of the market value of all assets in the portfolio) in its annual report.

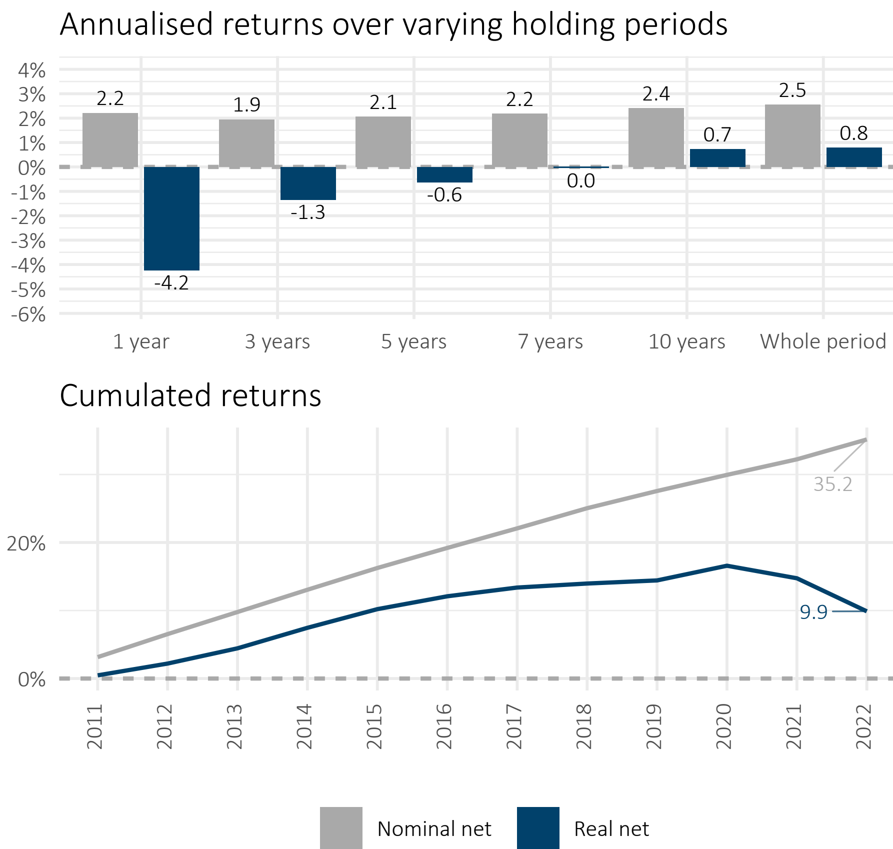
Then, these schemes disclose the pension rights in "points", not in euros or in units. The evolution of the value of the points does not permit to compute the annual return to participants on their pension savings. This data can only help compute the real evolution of the pension rights, or, in other words the evolution of the purchasing power of the annuities paid to the participants.

Préfon

Préfon published an accounting return (net of fees) on its investment portfolio of +3.05% (excluding real estate and private equity) versus -0.9% in 2021. However, as mentioned above, the accounting return does not take into account the changes in the market value of assets (the market value of the portfolio dropped by 20.6% in 2022). Prefon's investment portfolio is still heavily tilted towards fixed income (79% of total in 2022, and equity weighing only 12%, in accounting,

[35] Law n° 2010-737 of July 1, 2010—art. 35 (V), which modified Article L441-3 of the French Insurance Code.

Figure FR.8 – Returns of French IBPPs (before tax, % of AuM)



Data: ACPR, GVfM; *Calculations:* BETTER FINANCE.

not market value terms). This seems an inadequate asset allocation for the long-time horizon of the pension plan, and an inadequate reporting as the accounting value has little relevance to assess its performance.

Part of the investment return has been set aside in the past in order to replenish reserves. In 2010, the French Supervisor ACPR decided that Préfon reserves were not sufficient and forced Préfon's insurers to contribute €290 million of their own funds (as of December 31, 2013) to help Préfon balance its assets and liabilities[36] . At the end of 2016, this contribution from the insurers amounted to € 333 million (Association PREFON, 2022a) despite the massive cuts in pension rights for those who retire after age 60 decided in 2014 and 2017 (see Figure FR.9).

In 2017, in relation to the entry into force of the Solvency II Directive, French law was modified to move to use the market value of assets instead of their historical cost (accounting value). This enabled Préfon to show at last sufficient reserves and solvency ratio, but—up to now—not enough to allow for reducing or even capping the loss of purchasing power of its pensions since 2002. Thanks to this change in solvency rules, the ratio of assets to liabilities of Préfon increased from 97.5% in 2016 to 119.6% in 2020, allowing it for the first times in many years to increase the nominal value of its annuities from 2017 on. But from then to the end of 2021, despite these increases, the real value (purchasing power) of its participants pensions rights (for those who retire at the age of 60) shrank again by 5.5% (+2.4% nominal increase for a +8.4% inflation). It will be even worse in 2022.

In addition, only since 2012 is the value of the participants' accumulated savings communicated individually to them, and unfortunately with more than a one-year delay (this essential information should be released sooner), and just as an "estimate". It was therefore impossible to compute a real rate of return individually and for all participants with the data made available by the Plan up to 2019 (see below the new approach).

Another difficulty for deferred annuity products is to translate the impact of portfolio returns (and other factors such as the capital conversion rate into annuities, the discount rate and the evolution of annuities paid) on the actual long-term return for the pension saver. One proxy return indicator is the annual rate of pension rights' and annuities' increases before tax for several years (see Figure FR.9).[37]. Préfon participants who contributed in 2002 and who will retire at the age of 60 have lost 22% of the real value of their pensions (before tax[38]). The advertised objective of Préfon to maintain the purchasing power of pensions has not been fulfilled since 2002 and Préfon remains silent on the perspectives to reduce this loss of the real value of pensions in the future. This key performance information is not publicly disclosed.[39]

This return indicator, however, does not include the discount rate embedded in the conversion ratio of accumulated savings to annuities. But this discount rate varies from one year to another, and also varies according to the actual retirement age—which is not disclosed.

Also, this indicator is only valid if one exercises his liquidation rights at age 60. But very few

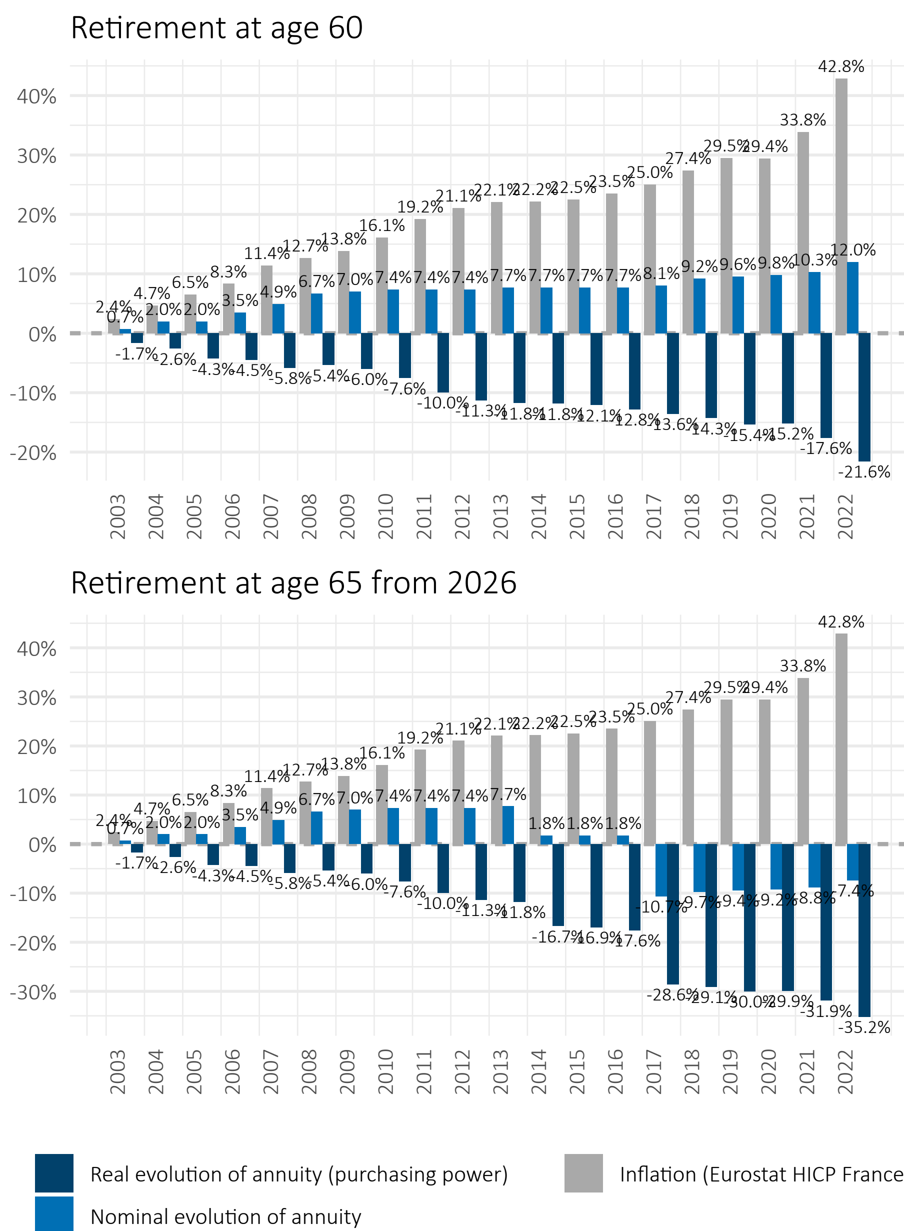
[36]"Les Echos" 27 December 2010. This information was not disclosed by Préfon to the participants.

[37]This key data is very difficult to find, but recently Préfon has been making significant efforts to improve its transparency and disclosures.

[38]Savings into Préfon (like into PERPs and into Corem) are income tax deductible, but the annuities are fully taxable. Both savings and annuities bear social levies ("prélèvements sociaux").

[39]ARCAF, 2019

Figure FR.9 – Préfon annuities real value: Compounded evolution



Data: Préfon, Eurostat; *Calculations:* BETTER FINANCE.

people can now retire at age 60 due to the postponement of the legal age to retire with full Pillar I pension rights to between 62 and 67. For example, if one exercises these rights at the age of 65, starting from the year 2026 on, the initial annuities have been reduced by 17.3% in nominal terms from 2013 to 2017), even though Préfon always guaranteed its participants at subscription that its pension annuities could never be reduced in nominal terms. In real terms it is much worse (-35% lost since 2002 to 2021), as shown by the lower plot in Figure FR.9.

It is difficult to compute the evolution of the Préfon annuities paid after tax, since they are taxed at the marginal income tax rate on pensions and salaries (plus social levies) and since contributions have been deducted from the taxable income for income tax purposes (but not for social levies).

An alternative approach mentioned by Préfon in its 2020 annual report, could be to use the new valuation of transfers or redemptions of accumulated pension rights in capital (which are allowed in certain cases since 2010). For valuations done since 2019, those are based on annual revaluation coefficients computed on contributions. Préfon claims that they beat inflation on average by nearly 1% since 2004. But they are computed on contributions net of the 3.9% commissions charged. And (based on a published graph that does not disclose the quantified data for two out of every 3 years), they are on average below the historical returns of other capital-guaranteed long-term products such as capital-guaranteed life insurance (see Figure FR.3), and far below the returns achieved by Préfon itself on contributions invested (e.g., for 2020 + 1.15% revaluation versus + 6.82% for the portfolio return: five times higher). And this type of disclosures was not pursued in its latest report (2021).

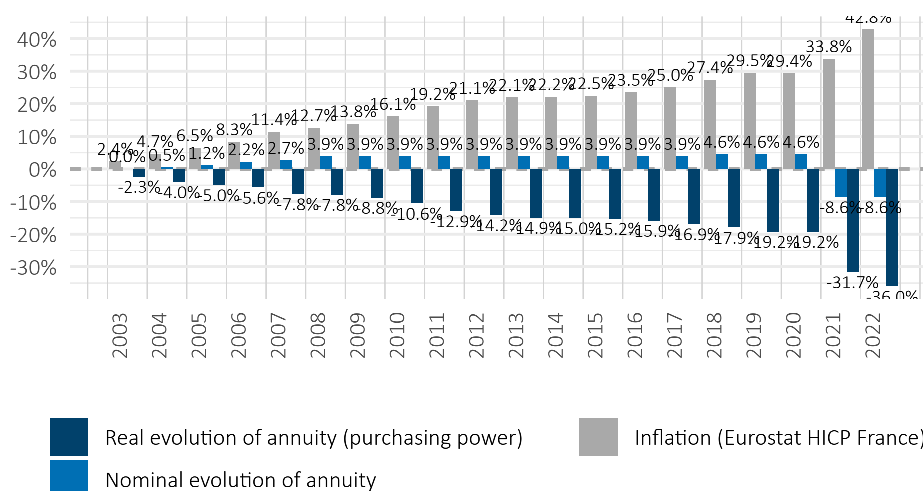
Corem

Corem publishes the annual accounting return on its investments but does not specify whether these are gross or net of fees. The accounting return for 2022 was +3.88% up from +3,37% in 2021. Its asset allocation is less inadequate than Préfon's for a long duration pension plan: 19% in equities. However, this accounting return does not take into account the changes in the market value of assets either. In addition, and more importantly, all the investment return of the Corem assets has been set aside in order to replenish reserves. It is therefore impossible to compute a collective real rate of return.

The deferred annuity mechanisms of Corem are similar to those of Préfon, with the same difficulties in estimating the real return for the pension saver. Therefore, we also use the evolution of the annuities' values as a proxy return indicator here (Figure FR.10). Corem has been in deficit for a very long time; the main—undisclosed—tool of its recovery plan in place since 2002 is not to increase the nominal value of annuities served. As a result, the annuities served by Corem will have lost a whopping 36% of their real value before tax (purchasing power) over the last 20 years, since Corem has not increased them for many years, pocketing the return on its portfolio for other purposes, and has announced in April 2021 to its participants that the nominal value of their pension rights as of January 1, 2022 will be reduced by 12.6%. These figures are before tax. This key performance information is not clearly disclosed to the public and to new participants.

The reality is even worse since, in November 2014, Corem announced new measures to reduce its reserve gap by further reducing the returns for participants: they now need to be 62 years of age to get the full pension rights instead of 60 years of age (thus losing 2 years of pensions), and the minimum guaranteed return on pension contributions was lowered from 2.3% to 1.5% from 2015 on.

Figure FR.10 – COREM annuities real value: Compounded evolution



Real evolution of annuity (purchasing power)
Nominal evolution of annuity
Inflation (Eurostat HICP France)

Data: UMR, Eurostat; *Calculations:* BETTER FINANCE.

The financial situation has been very difficult as its reserve gap (difference between its assets and the present value of its pension liabilities) reached €2.9 billion at the end of 2014, as measured using French common prudential rules at that time.[40] At the end of 2015, Corem obtained permission from the French Government to use a minimum discount rate of 1.50% (instead of 0.59% according to the previous rule) to compute the present value of its liabilities, helping it to reduce its reserve gap to €1.3 billion at the end of 2016.

In 2017, the French Government allowed deferred annuity schemes such as Corem to use the market value of assets instead of the accounting (acquisition cost mostly) one, to compute its assets/liabilities coverage ratio. This new rule improved its coverage ratio to 98.2% at the end of 2018, but it went down again in 2019 and in 2020 to 91.8%. Otherwise Corem would have been in breach of its Recovery Plan which required it to cover at least 90% of its liabilities. Thanks to the massive cut in pension rights as of 1/1/2022, the coverage has jumped to +119%, again at the sole expense of participants.

Since 2016, the Corem rules also allow it to reduce the nominal value of annuities under certain conditions, contrary to the commitment that was provided to participants when they joined.

The distribution of new Corem contracts has resumed in 2019, despite the continuously escalating losses borne by its participants. In 2023, despite complaints to the ACPR, the product is still actively distributed and without any visible and intelligible warning about its catastrophic performances and about its massive recent cut in its pension rights.

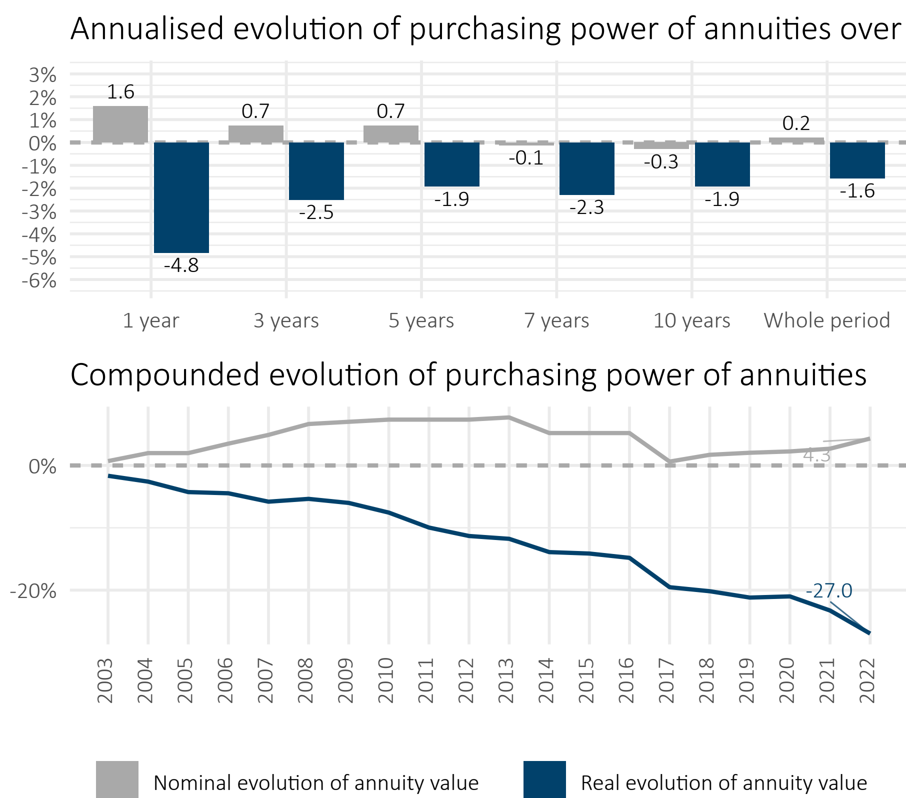
[40] Until 2017, Corem's recovery plan allowed it to exceptionally use a discount rate of 3% and an older mortality table to compute the present value of its pension liabilities instead of the regulatory 0.78% at the end of 2014 and 1.5% end of 2015. Using the 3% discount rate, Corem assets cover 107.5% of its liabilities at the end of 2015.

CRH

CRH does not disclose an annual report or financial data publicly. Even its pre-contractual publications do not disclose past performance. Because of an ongoing restructuring that started in 2008, the real returns of this plan are probably low and below inflation. For the last six years (2015-2021), CRH annuities' nominal value has increased by 2.7%, against an inflation of 9.2%; representing a loss in the real value of the outcome of participants' savings of 6%.

Overall, BETTER FINANCE estimates the loss of purchasing power over the last eighteen years (2002-2020) of participants to the French Public Employee Pension Schemes (Préfon + Corem) to be at -26.97% (-1.56% per annum, see Figure FR.11), based on the relative asset portfolio size of Préfon and Corem, and assuming that Préfon participants retire as early as age 60 and not later.

Figure FR.11 – **Evolution of the purchasing power of French public employee pension schemes annuities (before tax)**



Data: Préfon, UMR; *Calculations:* BETTER FINANCE; *Note:* Purchasing power of annuities is adopted as a proxy for returns; Figures represent the asset-weighted average evolution of Préfon and COREM pension annuities.

Corporate DC plans

With the precious help of AFG, the French asset management industry association, we combine information provided by SIX on the performance of each category of funds (FCPE) with data on

their total outstanding relative weight to estimate the overall returns of corporate savings (PEEs, PERCOs and the new collective PERs).[41]

Table FR.9 – Performance of French DC corporate plans — PEE (% of AuM, before tax), 23 years to 2022

	Equity	Bond	Money market	Diversified	All funds
Cumulated nominal	58.4%	58.4%	29.6%	57.9%	58.8%
Annualised nominal	2.0%	2.0%	1.1%	2.0%	2.0%
Cumulated real	5.1%	5.1%	-14.0%	4.8%	5.4%
Annualised real	0.2%	0.2%	-0.7%	0.2%	0.2%

Data: AFG; *Calculations:* BETTER FINANCE.

Real returns of corporate DC-based plans before tax over a 23-year period, from the end of 1999 to the end of 2022, were overall positive: the yearly average real performance before tax of the aggregate of all funds was +0,2%, which makes French DC plans the second-best performing pension savings product after capital-guaranteed life insurance contracts (before tax). This regards PEEs (€137 billion of assets) and PERCOs and collective PERs (€25 billion). PERCOs and collective PERs only had a slightly higher return (+0,3% per annum) due to a slightly lower allocation to money market funds.

The overall real returns of PEEs before tax of PEEs are:

- positively influenced by the positive real return of DC equity funds (with a positive cumulated real return of +5,1%). However, equity funds, which account for about 22% of total outstanding assets (excluding company stock), largely underperformed equity markets over the last 23 years: +58% in nominal terms versus +114% for European equities;[42]
- negatively influenced predominantly by the negative return and surprisingly heavy weight of money market funds (-6,3% real return in 2022 and 25% of assets, more than equities!).
- Also, DC Bond funds (around 2% of total assets) returned +58% in nominal terms over the period versus +102% for the European bond market (see Figure GR.6).

A primary factor for this underperformance of DC equity and bond funds relative to capital markets could be the level of fees charged. Unlike corporate DC pension plans ("401k") in the US, the French ones do not invest in general purpose mutual funds, but in special purpose AIFs called FCPEs, specifically dedicated to these plans. Consequently, French savers are faced with an additional offering of investment funds (about 1 100 FCPEs in addition to the about 3 500 UCITS funds already domiciled in France), the average size of these AIFs is quite small, and many FCPEs are merely wrappers of other—general purpose—funds, adding a layer of fees. Another factor

[41] Data published by AFG relate to "FCPE L214-164". These funds are diversified funds which do not invest in the own shares of the concerned company ("company stock"). There is another category of corporate savings' funds, the "FCPE L214-165" dedicated funds which can invest without limit in the own shares of the concerned company but there are no data available on the returns of these "FCPE L214-165" funds. The "FCPE L214-164" assets represented 62% of all FCPE assets at the end of 2022.

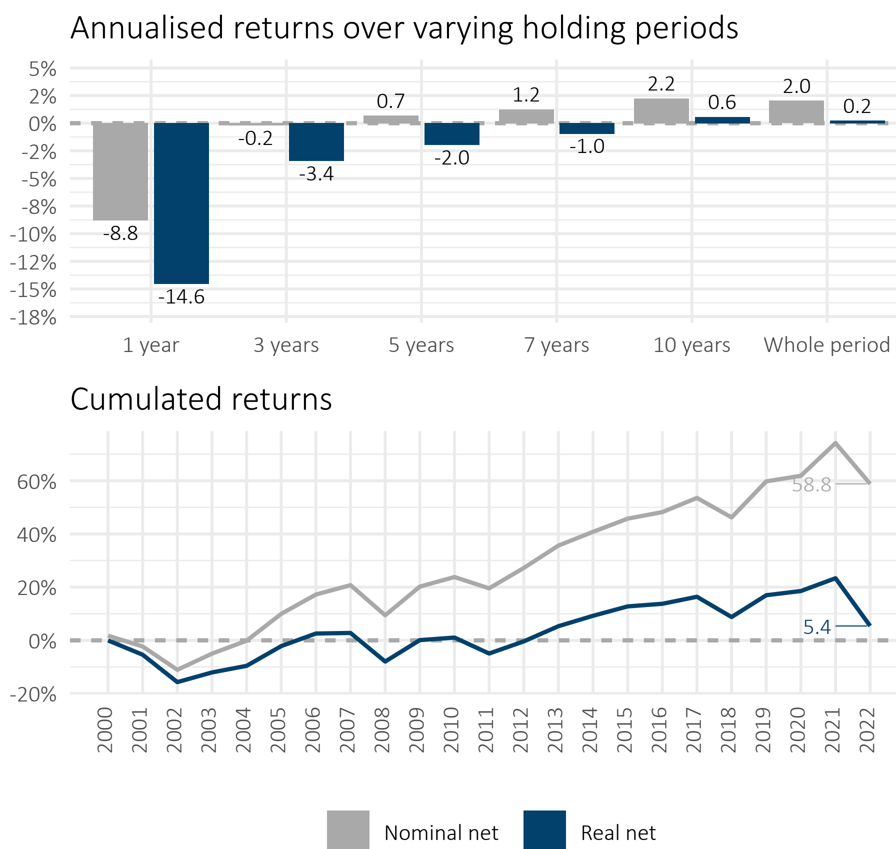
[42] STOXX All Europe Total Market TR index in euros

is that equity FCPEs are not 100% invested in equities.

However, the French supervisor AMF recently found that the ongoing annual charges of multi-sponsor FCPEs are on average lower than those of French-domiciled general-purpose funds: 1.31% in 2019 for the 178 diversified (multi-asset) FCPEs analysed versus 1.53% for the general-purpose diversified funds; and 1.46% for the 145 European equity FCPEs analysed versus 1.53% for the general-purpose European equity funds(Autorite des Marches Financiers, 2021).

As mentioned above in the costs & charges section (Page 161), these estimates are unfortunately not asset-weighted. Still, that is about half the cost of the comparable funds held via unit-linked insurance contracts. In addition, a part of the FCPE fees can sometimes be paid by the employers, not by the employees. Therefore (see above the costs and charges section) the differences are even bigger with investment funds held via insurance contracts. This seems due to the distribution modes—more "wholesale" for corporate plans, and more "retail" for life insurance (implying commissions paid out of fund charges to distributors)—and to the double layer of fees in the latter case.

Figure FR.12 – Returns of French corporate DC plans (before tax, % of AuM)



Data: AFG; *Calculations:* BETTER FINANCE.

A limitation of such computations is that performance indices provided by SIX only relate to di-

versified funds inside the corporate savings plans. They do not take into account the part of corporate long-term savings which is invested in shares of the plan sponsor company ("company stock"), accounting for 38% (€60.6 billion end of 2022) of all corporate savings plans.

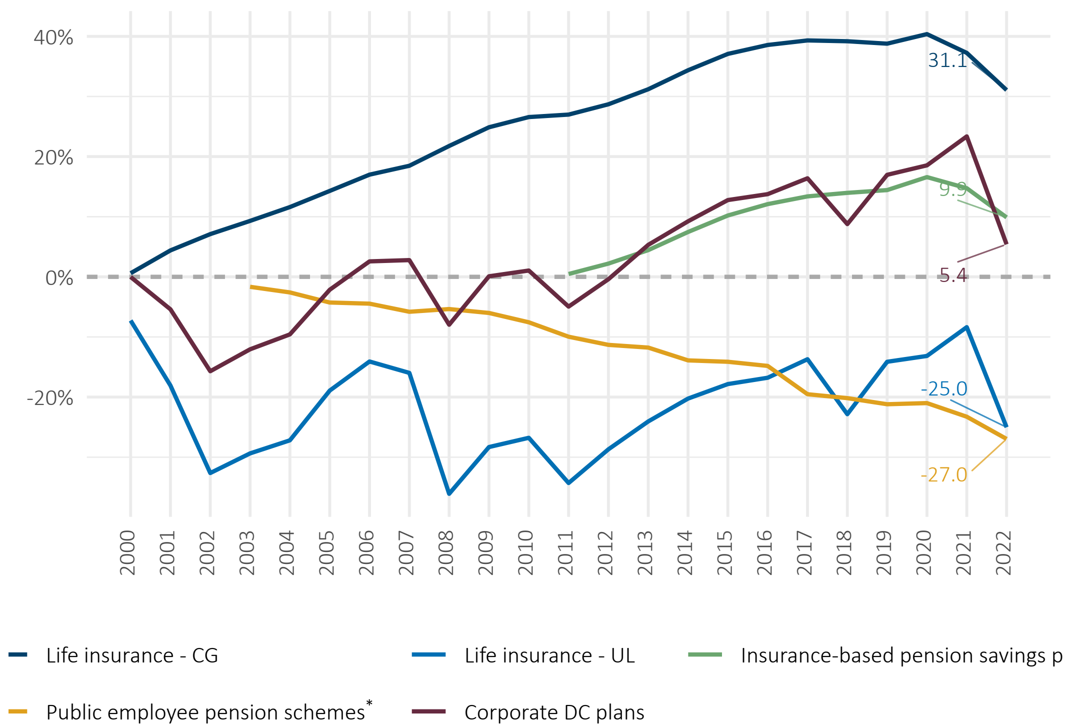
Return of regular identical investments over 23 years

Also—same rule whenever possible for the whole research report—the computed returns relate to a one-time investment at the end of 1999 and kept to the end of 2022. Many pension savers will tend to invest regularly every year or every month. AFG computed the annualised returns from 2000 to 2022 for the same amount invested every year over the last 23 years. This generated a similar before-tax real return of 3.14% instead of 5.4%. This return becomes less volatile with time, as it is spread over many years instead of only one.

After-tax returns are often higher

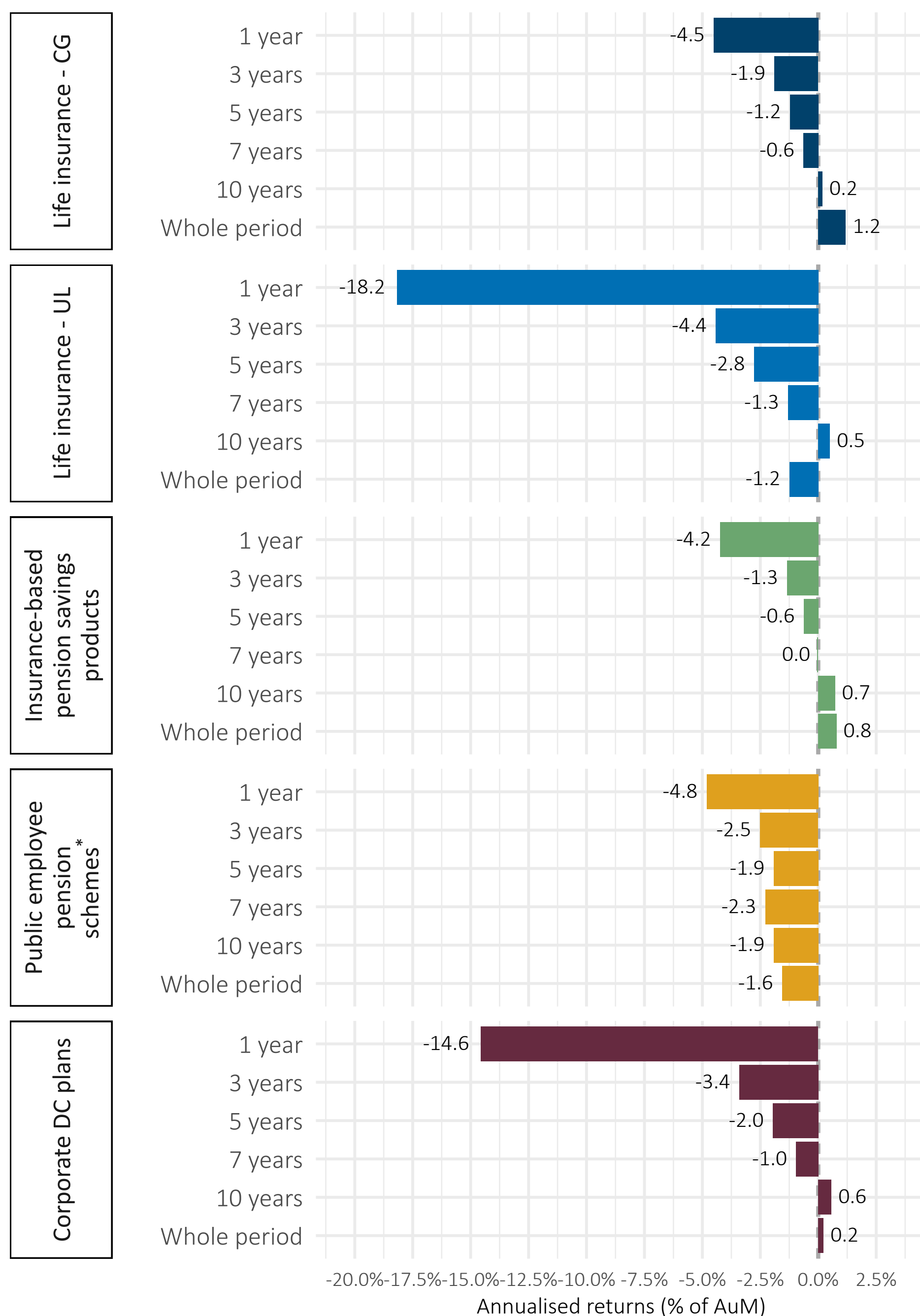
Finally, after-tax returns of French corporate long-term savings plans are difficult to compute globally, but they can often be very close to—or higher than—before-tax ones since their taxation is the most favourable of all long-term and pension savings products in France (redemptions are exempt from income tax and are only subject to "social" levies of 17.2% of net gains). Also, a majority of these savings come from non-taxable profit-sharing income contributed by employees ("intéressement" and "participation") and by employers' matching contributions.

Figure FR.13 – Cumulated returns of French long-term and pension vehicles (2000–2022, % of AuM, before tax)



Data: France Assureurs, Préfon, UMR, AFG, Eurostat; *Calculations:* BETTER FINANCE; *Purchasing power of annuities used as proxy for returns of public employee pension schemes.

Figure FR.14 – Annualised returns of French long-term and pension vehicles over varying holding periods (% of AuM, before tax)



Data: France Assureurs, Préfon, UMR, AFG, Eurostat; *Calculations:* BETTER FINANCE; *Purchasing power of annuities used as proxy for returns of public employee pension schemes.

Conclusions

Unsurprisingly all packaged long term and pension saving products have recorded severe real losses in 2022, due to the conjunction of bearish stock markets, exceptionally bearish bond markets (due to the increase in interest rates) and to “financial repression” at all-time high (as simply measured by the positive difference between inflation and money policy interest rates).

Over the long term though, charges and selection biases (due mostly to conflicts of interests in the retail distribution, but also—to a lesser extent—solvency policies of insurers generating an asset allocation very tilted towards fixed income) are most to blame for the real cumulated losses in unit linked insurance, in personal pension products, and in Public Employee schemes.

The outlook for 2023 and 2024 is not as gloomy as 2022, but unfortunately still not positive in real terms. Indeed financial repression is still enforced by central bankers although not with the magnitude of 2022, and still aggravated by national tax policies which most often use the largely fictitious nominal investment income as a tax basis, resulting more and more in taxing the purchasing power losses of pension savers increasing those losses. And recent statistics do not show any significant trend of fee reduction.

References

Association PREFON. (2022a). *Préfon-retaite rapport de gestion 2016*. Paris. https://www.prefon.asso.fr/nos-publications/rapports-annuels/

Association PREFON. (2022b). *Préfon-retaite rapport de gestion 2021*. Paris. https://www.prefon.asso.fr/assets/files/publications/rapport-gestion/rapport-de-gestion-prefon-2021.pdf

Autorité des Marchés Financiers. (2022a, July 6). *Cartographie 2022 des marchés et des risques*. Paris. Retrieved September 4, 2023, from https://www.amf-france.org/fr/actualites-publications/publications/rapports-etudes-et-analyses/cartographie-2022-des-marches-et-des-risques

Autorité des Marchés Financiers. (2022b, February 23). *Lettre de l'Observatoire de l'épargne de l'AMF* (No. 47). Paris. Retrieved September 4, 2023, from https://www.amf-france.org/fr/actualites-publications/publications/observatoire-de-lepargne/lettres-de-lobservatoire-de-lepargne/lettre-de-lobservatoire-de-lepargne-de-lamf-ndeg47-fevrier-2022

Autorite des Marches Financiers. (2021). Lettre de l'observatoire de l'épargne de l'amf - n°42. https://www.amf-france.org/fr/actualites-publications/publications/observatoire-de-lepargne/lettres-de-lobservatoire-de-lepargne/lettre-de-lobservatoire-de-lepargne-de-lamf-ndeg42-mars-2021

Financial Conduct Authority. (2016, November). *Asset management market study* (Market study No. MS15/2.2). London. https://www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf

Good Value for Money. (2022, August 4). *Benchmark 2022 des frais facturés au sein des unités de compte* (Newsletter No. 54). Retrieved September 4, 2023, from https://www.goodvalueformoney.eu

The writing and publication of this report
is co-funded by the European Union.
There is no implied endorsement by the EU
or the European Commission of work carried
out by BETTER FINANCE, which remains
the sole responsibility of BETTER FINANCE.

Copyright 2023 © BETTER FINANCE