Will You Afford to Retire?

The Real Return on Long-Term and Pension Savings

2024 Edition

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

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The Real Return of Long-term and Pension Savings

2024 Edition — France

A research report by BETTER FINANCE

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Executive Summary

Was 2023 the year when European retail investors finally obtain the "fairer deal" that the outgoing European Commissioner Mairead McGuiness wished for them (McGuinness, 2023)? As far as long-term and pension products are concerned, this report presents mixed results. While European capital markets performed strongly in 2023, helping many pension funds and life insurance companies to rebound after a calamitous 2022, we find that many of the products we analyse failed to pass on the benefits of this renewed performance to pension savers. One or even two years of past performance, however, do not tell us much about the long-term performance of saving products. What matters for individuals who invest part of their income into those products is how much income they will be able draw from them in the distant future, in particular for retirement purposes. The objective of this report therefore is to provide readers with a long-term perspective on performance that aligns with the extended investment horizon. We analyse the costs and performance of a broad range of products across various holding periods, spanning up to 24 years. Over this longer period good years supposedly make up for bad ones. Nevertheless, we observe that many of the product categories do not offer sufficient nominal returns in the long run to compensate for inflation, even with the moderate inflation rates of the of the 2000s and 2010s. This weak performance then results in a loss of purchasing power for many European savers and investors.

The real net return of European long-term and pension savings

The object of this report is to assess the ability of long-term and pension savings products to at least preserve the purchasing power of European retail investors' savings over more than two decades, and at best increase the real value of these savings, increasing the capital on which European pension savers may rely on to maintain their living standard in retirement. That is why we focus our analysis on time-weighted returns.

The risk of financial losses is inherent in any investment in capital markets: capital markets are volatile—as their performance over the last two years clearly shows (see Figure XS.4). Nevertheless, we share European Insurance and Occupational Pensions Authority (EIOPA)'s view that

> the riskiness of a personal pension product is its potential inability to outperform inflation, and so to lose savings in real terms, or not being sufficiently "aggressive" to reach higher investment returns to compensate for potentially low contribution levels (European Insurance and Occupational Pensions Authority [EIOPA], 2020, p. 3),

and generalise it to any long-term and pension savings product. Short-term volatility—the alternance of good and bad years—is of little consequence for most pension savers; what matters is the cumulated performance over the life of the contract, the holding period, which often spans more than two decades. Over such long periods, the crucial risks are those arising from cumulated costs—which divert a portion of the accumulated capital towards financial intermediaries profit and loss accounts—and inflation—which progressively erodes the purchasing power of savings. The *real net rate of return* is therefore the main metric of interest for pension savers.

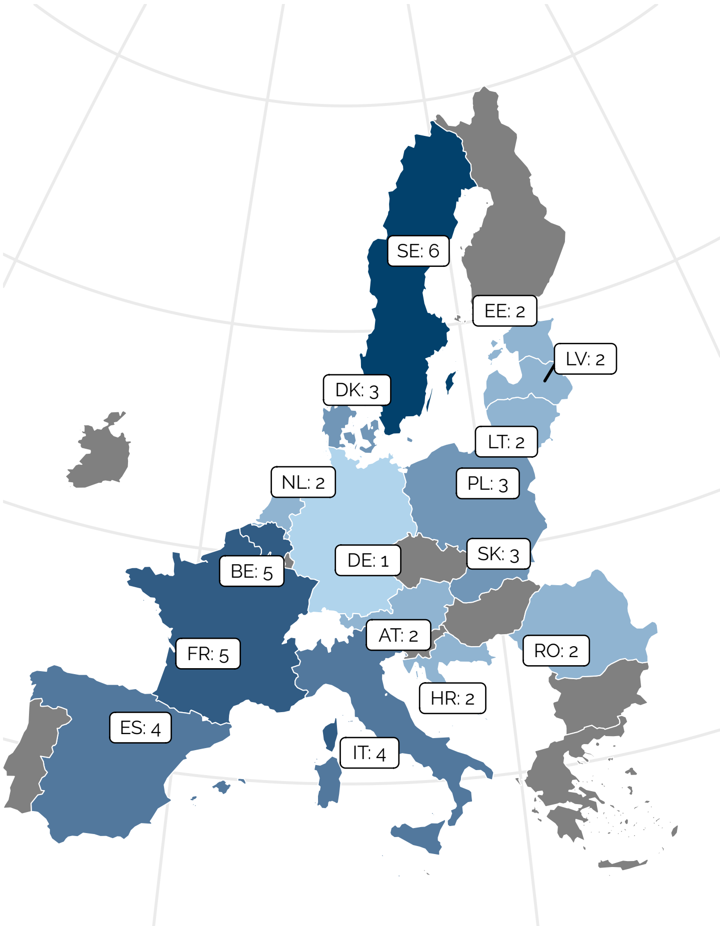
This research report by BETTER FINANCE covers 16 of the 27 European Union (EU) Member States. In each of these countries the team of contributors analyses the costs and performance of up to 6 product categories. Our goal is to calculate, based on publicly available data about these product categories, the *real net return* that long-term and pension savers may expect to obtain from their investments, going back as far as the year 2000. When we refer to real net return, we are indicating the rate of return on an investment after deducting all costs and charges levied by the product provider. This calculation also accounts for inflation, which reduces the purchasing power of both the invested capital and returns. The map in Figure XS.1 shows the countries included in this study, and the total number of product categories analysed in each country.

Assessing the real net return of a category of pensions products requires three classes of information about these products: (a) reliable data about the nominal, gross return of investments made on behalf of pension savers in relation to the total amount of accumulated capital; (b) total costs being levied for the management of these investments (administrative costs of managing the investor's contract, cost of management of investment fund "units", entry fees, exit fees, etc.) and; (c) the rate of inflation in one's country for each year of the investment period.

These are but typical examples of the data availability issues that our team of expert contributors face across countries and product categories. While data about average inflation is easy to come by—thanks, inter alia, to the work of Eurostat—, we can hardly say the same for data about returns and costs. The availability of such data often limits the scope of our study. Reliable information about the average performance of a product category may be unavailable, as is the case of most German long-term and pension saving products, or not fully appropriate for an assessment of what the client actually get, as is the case with Belgium's *Assurance Groupe* products. Costs data are even more difficult to obtain: for many of the product categories we analyse, cost information is too scarce to assess the impact of costs on performance.

Long-time followers of BETTER FINANCE's work on pensions might remember that past editions of the report also included Bulgarian pensions products and may be surprised to see that we analyse no product category in Bulgaria in this report. In the case of Bulgaria, despite BETTER FINANCE's multiple calls to the relevant authorities, essential data necessary to calculate the real net returns of Bulgarian pension savings remain unavailable, forcing us to renounce including any Bulgarian long-term or pension savings product category in our study.

Figure XS.1 – **Countries and number of product categories included in the report**

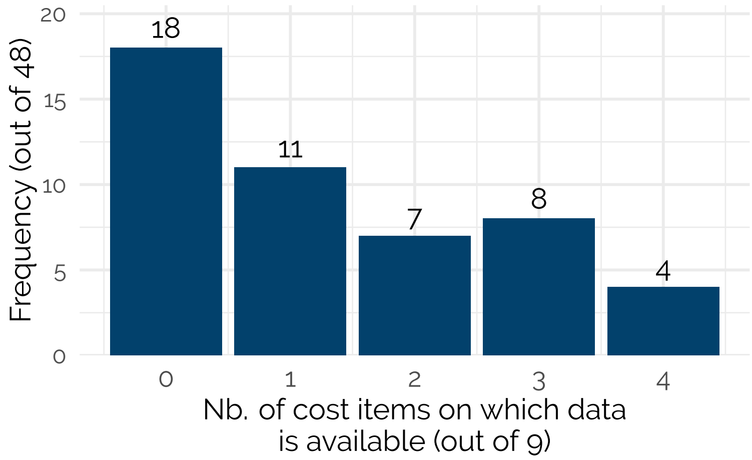


Besides performance data, information on costs is very often patchy and displayed in a way that makes it impossible for investors to compare cost levels across product providers, and for our contributors to aggregate this information at the level of product categories. The reader can appreciate this reality in Figure XS.2: for none of the 48 product categories included in our study could our contributors find data for more than 4 out of the 9 cost items defined in our methodology. Additionally, for more than a third of the product categories in our study, there is simply no cost information available.

For the 18 product categories for which no cost data is available, the lack of information on costs and charges prevents us from evaluating the average effect of charges on investors' returns. Consequently, we are forced to start our analysis with disclosed nominal *net* returns, whereas providers' marketing communications usually communicate on the basis of nominal *gross* returns.

Given the challenges in obtaining fundamental data on the average costs and performance of long-term and pension savings products, which capture a large share

Figure XS.2 – **Availability of cost and charges data for 2023**



of the wealth of European households, we advocate for EU and national authorities to urgently enact and implement the proposed rules on product oversight, governance, and information to investors, as outlined in the recent Retail Investment Strategy (RIS) proposals made by the European Commission (see our policy recommendations on Page xiii). Costs and performance disclosures are key to properly assess the functioning of the European market for pension savings products.

While opacity on cost and charges presents a challenge for many of the product categories we study, it is only fair to acknowledge the few cases in which industry and supervisors made significant efforts to define and implement coherent reporting frameworks, such as that of the Dutch pension funds or the Italian *Commissione di Vigilanza sui Fondi Pensione* (COVIP)'s annual report on pension funds and *Piani Individuali Pensionistici* (PIP).

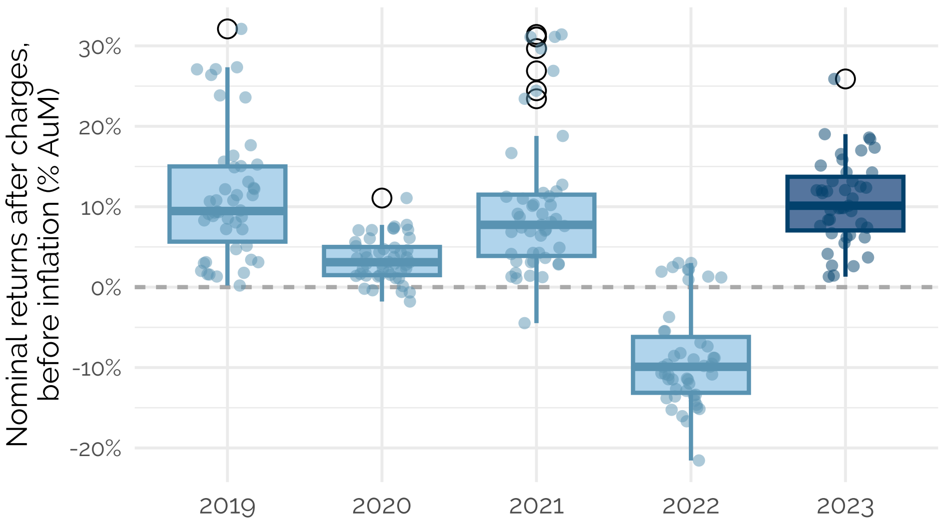
2023: Recovering from the slump

The product categories included in our study generally performed strongly in 2023. All of the 43 product categories for which we could obtain performance data for 2023 had a positive nominal net return. As can be appreciated in Figure XS.3, this performance is in sharp contrast with the previous year, when out of 47 product categories, 38 returned a loss in nominal terms, after charges.[1]

These good results reflect the good performance of, in particular, equity markets between January and December 2023, which recovered strongly after the slump of 2022. Figure XS.4 shows the performance of European capital markets. Using two pan-European market indices as proxies—one for equities and one for bonds, we calculate the cumulative return of a hypothetical portfolio composed of European equity and bonds in equal proportion, with annual rebalancing. The cumulated return, in nominal terms, of this portfolio dropped by 44.8 percentage points between

[1] In box plots such as Figure XS.3, the central box represents the interquartile range (i.e., 50% of the data), the thick central line is the median, the whiskers (vertical lines) indicate where roughly 99% of the data points are located, and the black circles at each end of the whiskers represent outliers.

Figure XS.3 – **Average 1-year return rates of analysed product categories (2019–2023)**



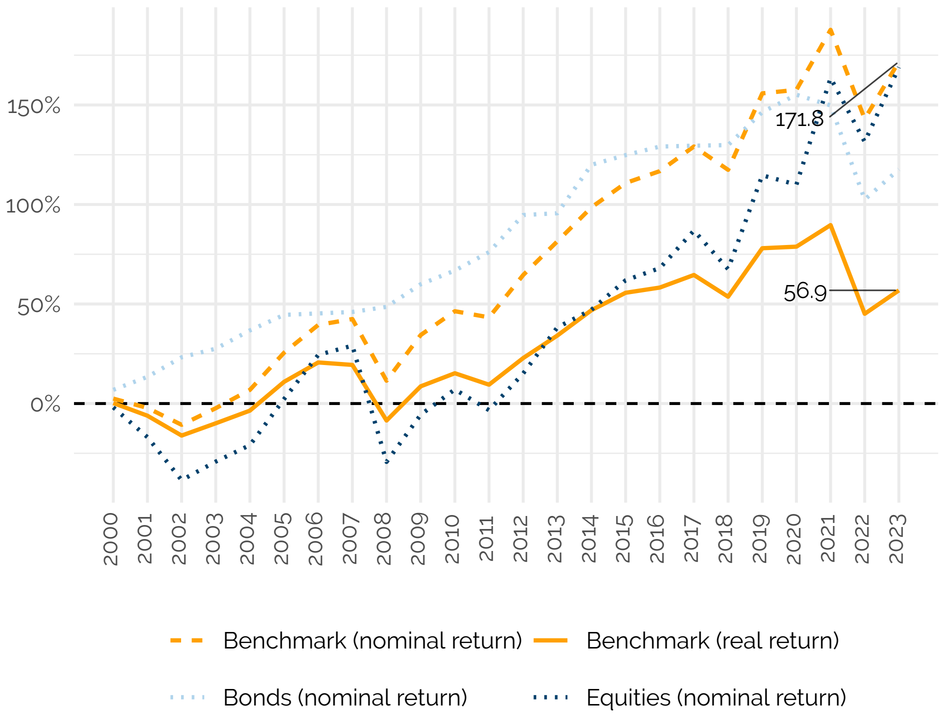
Data: NCAs and sectoral associations (see Country Cases); *Calculations:* BETTER FINANC

end-2021 and end-2022 before rebounding to 171.8% by the end of 2023. After adjusting for the average inflation across the EU, we obtain a 56.9% real net return, +11.8 percentage points (p.p.) from end-2022.

Inflation, in turn, slowed down in most EU countries in 2023, after the peak of 2022. In 8 of the 16 countries of our study, inflation in 2023 was below the annual average over the period 2000–2003. Nevertheless, for most of our sample, inflation remained high, as can be observed in Figure XS.5. Inflation across the Euro Area, stood at 2.93%, still significantly above the close-to-but-below-2% target of the European Central Bank (ECB).

The result of this combination of strong capital market performance and slowing inflation is a reduced gap between nominal net returns and real net returns for 2023: With a median net return standing at 10.1% in nominal terms and 7.4% after inflation, the gap is reduced to 2.8 p.p. (see Figure XS.6), down from 8.6 p.p. in 2022, when the already severly negative median nominal returns (-9.9%) where further depressed by the strongest inflation seen in Europe is decades, yielding a median real net return of -18.5%. These median values, it should be noted, hide markedly contrasting differences: The maximum performance for 2023, in nominal terms and after deduction of charges, stands at +25.9% (Poland's Employee Capital Plans), while the poorest performance with +1.3% (ironically, that of Italian PIP "with profits" contracts) narrowly avoids returning a loss in real terms thanks to the low level of inflation in Italy (+0.46%).

Figure XS.4 – **Cumulated performance of European capital markets (2000–2023)**



Pan-European Pension Product (PEPP): First full year of return data

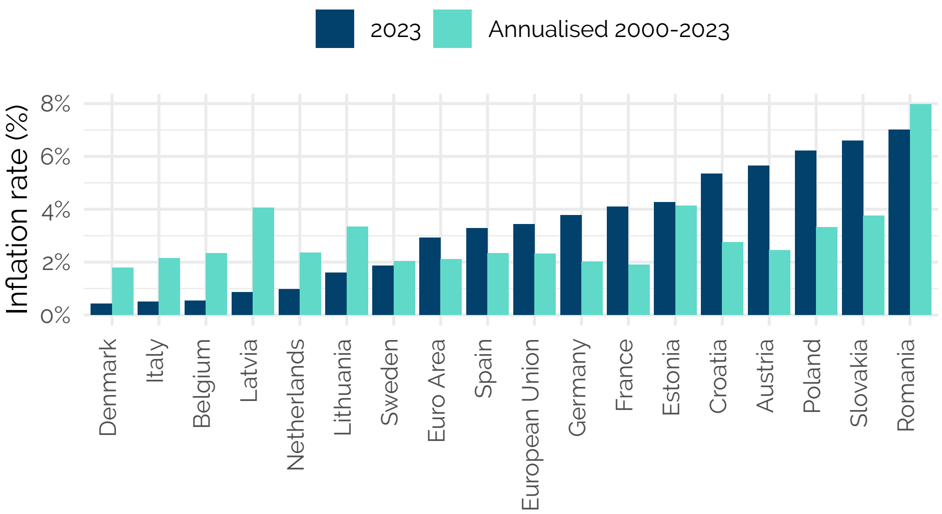
We wish to highlight the good performance of the first PEPP to be included in our study: with a nominal return before charges and inflation standing at +15% and charges amounting to 0.72% of assets under management (AuM), the Slovak PEPP yielded a net return of +14.3% in nominal terms and 7.2% in real terms, largely outperforming its capital markets benchmard (11.8% and 4.9% in nominal and real terms, respectively). Find more information in the Slovak country case in part II of this report.

These data show that the PEPP is indeed a promising personal pension product. The Slovak case shows that it is indeed possible to offer a PEPP under the conditions set by the current PEPP regulation, including the "1% fee cap", that is, the limiting of fees to 1% of accumulated capital per annuum for the Basic PEPP.

BETTER FINANCE will keep monitoring its development not only in Slovakia, but also in Poland—another of the country cases of this report, where PEPP was introduced in the course of the year 2023—and other countries.

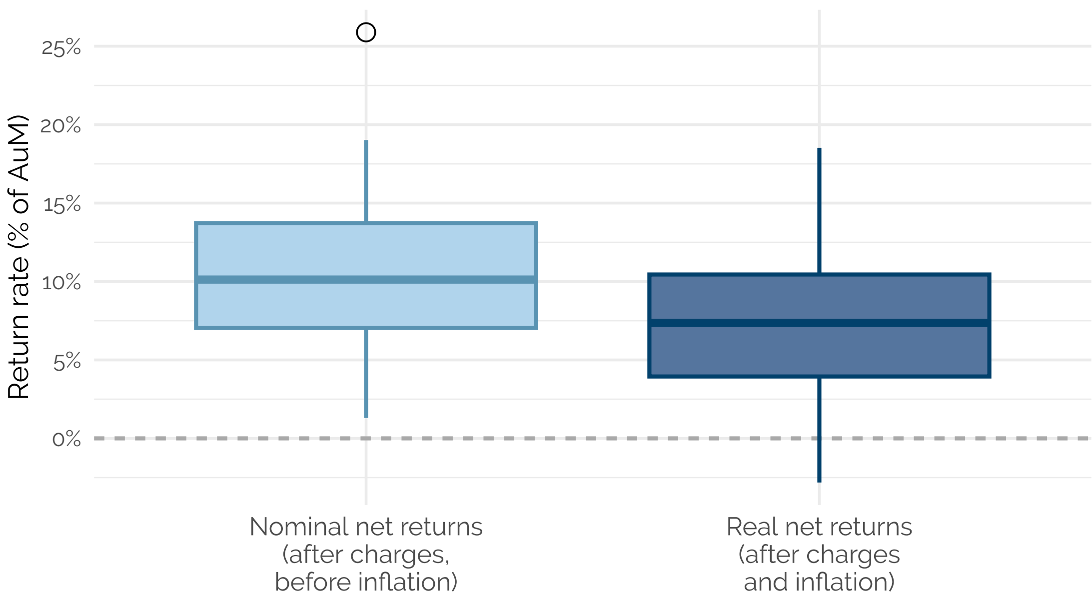
In the meantime, we urge Member State governments to offer the PEPP the same treatment, as regards taxation, subsidies and transferability of accrued pension benefits, that existing national personal pension products enjoy (see our policy recommendation on this topic on Page xvii).

Figure XS.5 – Inflation 2023 vs. 2000–2023 annual average



Data: Eurostat (HICP monthly index); *Calculations:* BETTER FINANCE.

Figure XS.6 – Average 1-year nominal vs. real return in 2023 (after charges, % of AuM)

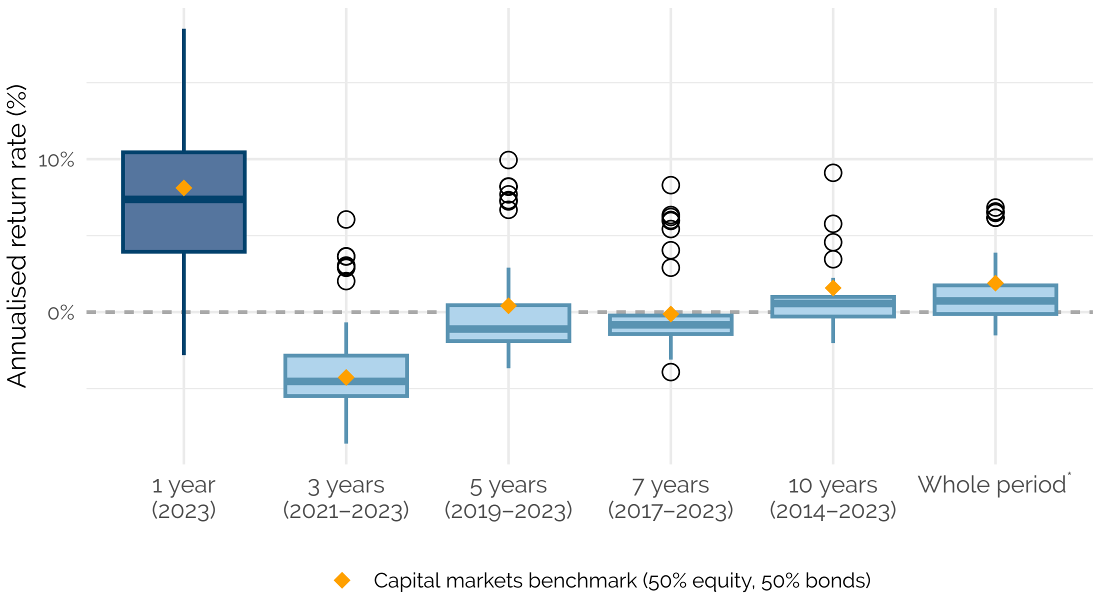


Calculations: BETTER FINANCE

The long-term view on long-term savings

Naturally, one should not assess the performance of long-term and pension savings products based on the results obtained in one bad year but rather take a long-term view. That is why our ambition in this report is to gather data about costs and performance for a period of up to 24 years (2000–2023).

Figure XS.7 – Average annualised real net returns over varying holding periods



Calculations: BETTER FINANCE; * Up to 24 years, the reporting period varies across products

Figure XS.7 displays the distribution of average performances after charges and inflation of the long-term and pension saving products analysed in our report, over varying holding periods from 1 year (2023) to the whole period for which data could be found ("whole period", up to 24 years). We immediately observe that the capital markets slump of 2022 still weighs down on performance over shorter periods (3, 5 and even 7 years), with annualised rates after charges and inflation negative for a large majority of product categories. Over 7 years (2017–2023), the negative performance of 2022 comes atop that of the year 2018, with the result that only a few outliers manage to yield a positive real net return over that period.

Market volatility, whether upwards or downwards, is cancelled out over longer periods (the standard devaition falls from 4.9 p.p. for 1 year to 2 p.p. for 10 years, see Table XS.1), allowing us to more accurately assess the returns offered by the various product categories. Over 10 years and over whole reporting periods (up to 24 years), we see that the most of the interquartile range (the boxes in Figure XS.7) lies in positive territory. This may seem reassuring, until one notes that over 7 years, 10 years and whole periods, the annualised real performance of our capital markets benchmark (50% equity–50% bonds, rebalanced annually), shown with a yellow diamond in the figure, lies in the top quartile of the returns of product categories (above the upper bound of the box), meaning that 75% of the product categories fail to beat the benchmark.

Table XS.1 – **Summary statistics of real performance over varying holding periods**

Holding period	Nb. of product cat.	Median	Mean	Standard Devia-tion	Best perfor-mance	Worst perfor-mance
1 year	43	7.4%	7.3%	4.9pp.	18.5%	-2.8%
3 years	47	-4.5%	-3.6%	3.4pp.	6.1%	-8.6%
5 years	46	-1.1%	0.2%	3.5pp.	9.9%	-3.7%
7 years	46	-0.8%	0.0%	2.8pp.	8.3%	-3.9%
10 years	40	0.6%	0.7%	2.0pp.	9.1%	-2.0%
Whole period*	48	0.8%	1.3%	2.3pp.	7.2%	-1.5%

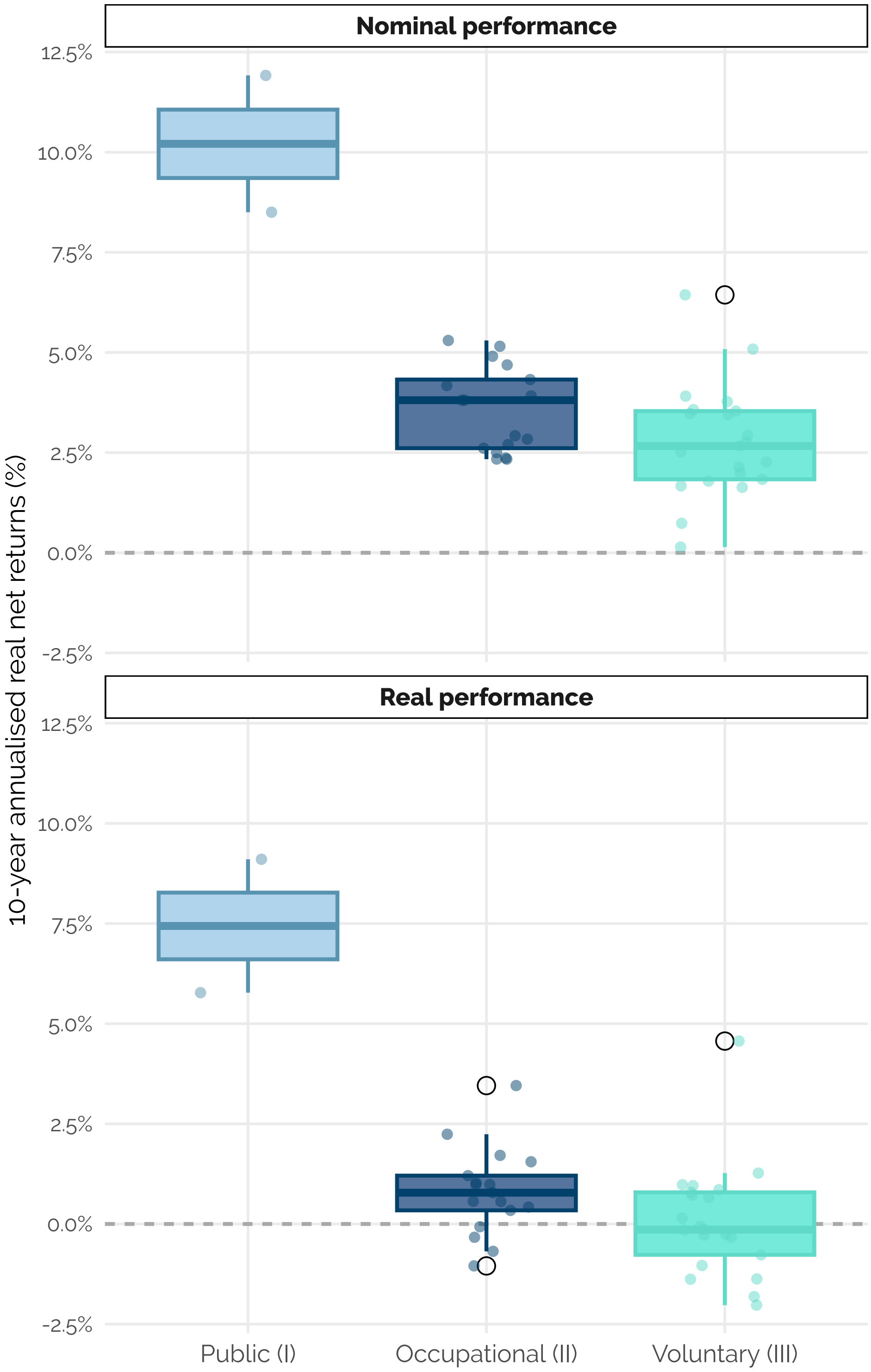
Calculations: BETTER FINANCE
* Whole period varies across products (up to 24 years).

Observing the distribution of performance levels across pension system pillars, we also note that occupational pension schemes in Pillar II generally outperform voluntary products within Pillar III. Figure XS.8 illustrates the distribution of 10-year performance per pillar.

Swedish Premium pensions, which show very strong performance compared to the rest of the analysed product categories, are classified as Pillar I but although they are funded, earnings-based pensions that bear strong resemblance to occupational pension schemes (Pillar II). Leaving these extreme positive outliers aside, we observe that median 10-year performance of Pillar II products (central line of the middle box) is above the upper limit of the interquartile range of Pillar III performances (upper bound of the right-hand box), meaning that 75% of Pillar III products have a performance below the median performance of Pillar II products.

It is beyond the scope of this report to explore the significance of the trend, although future research should investigate the factors that may explain it, including differences in asset allocation, management costs, distribution costs, and the potential effect of auto-enrolment schemes. Additional cost data would be particularly valuable to consistently analyse whether the observed divergence in performance might arise from higher costs associated with Pillar III products. We hope that such data becomes available if the EU legislator follows the much-welcomed proposals regarding cost disclosures under the Markets in Financial Instruments Directive (MiFID) and Insurance Distribution Directive (IDD), crucial elements of the European Commission's proposals for the Retail Investment Strategy (RIS).

Figure XS.8 – **Average 10-year annualised performance per Pillar**



Calculations: BETTER FINANCE, returns are shown after charges and inflation.

Policy recommendations

Policy recommendation 1 — Supervisory reporting and statistics

Step up efforts to collect and disclose data on long-term and pension savings products, both at the national and EU level (ESAs's cost and past performance reports) to empower European citizens as retail investors.

The contributors to this report can testify of the difficult to obtain even basic, aggregated data about long-term and pension products in many EU countries. If a team of expert contributors, with knowledge and experience in the field, find it challenging, how can we expect EU citizens to make any use of these data to assess the performance of their own pension products in relation to the market? Making available full historical data sets of both aggregated and provider-level data would enable non-profit organisations like BETTER FINANCE to provide an independent, consumer-friendly analysis of this market. But national competent authorities (NCAs) could also step up their efforts to create consumer-friendly reports and comparison tools.

Harmonised frameworks for reporting from product providers to NCAs and pension scheme participants already exist for various of the product categories we analyse in this report. These commendable efforts should be assessed through a peer-review process to be organised by the European supervisory agencies (ESAs) in order to identify best practices, but also discard misleading disclosure practices that prevent retail investors to obtain a clear picture of the cost and performance of the products on offer. As part of these efforts to better report on the costs and performance of retail investment products, BETTER FINANCE calls on the ESAs to keep improving their annual costs and performance reports. Currently, the data and coverage of these reports are incomplete and based on commercial databases or surveys. The European Securities Markets Authority (ESMA), the EIOPA and—in the future—the European Banking Authority (EBA) should be able to rely on regular reporting of supervisory data from NCAs, which themselves should have the necessary powers to require regular reporting of data on the costs and performance of saving and investment products in their respective areas of competence.

Going further, the EU legislator should draw inspiration from these examples and incorporate into EU law - specifically, theMiFID and IDD legislation for Pillar III products, currently under review as part of the Retail Investment Strategy (RIS), or the next revision of the IORP II directive on occupational pensions - requirements for NCAs to adequately report figures on a quarterly or monthly basis. This should include the constant updating and public reporting of AuM and net AuM, unit value, asset allocation, as well as the number of participants for all supervised vehicles in the area of long-term and pension savings.

Policy recommendation 2 — Conflicts of interest in scheme management and product distribution

Harmonise and reinforce rules to curb the conflicts of interests in the distribution of long-term and pension saving products, and improve the governance of collective long-term pension schemes.

Conflicts of interest plague the management and distribution of long-term and pension saving products in Europe. The sales commissions-based distribution system of voluntary long-term and pension saving products (Pillar III) directs retail investors towards fee-laden and often underperforming products. Our report showcases various product categories with high average fees and poor long-term returns that so-called "advisors" are paid to recommend to consumers, against the best interest of the latter.

BETTER FINANCE has consistently opposed this system, and strongly supported the European Commission's proposal to partially ban so-called "inducements" as part of the RIS. We believe that the inducements-based distribution system hurts retail investors through higher charges, the illusion of "free" investment advice and a selection bias in distributors' recommendations, all of which result in lower returns and inadequate retirement income for European citizens (BETTER FINANCE, 2023b, pp. 4–13). The financial industry failure to acknowledge the problem and its intense lobbying efforts to maintain a damaging status quo resulted in the utterly disappointing provisional positions of the Council and, especially, the European Parliament (BETTER FINANCE et al., 2024), which should not be expected to improve outcomes for consumers in any meaningful way. Nevertheless, ignoring the problem will hardly make it disappear, and so we urge all involved policy-makers, supervisors, but also willing representatives of the indsutry, to keep working towards the generalisation of high-quality bias-free financial advice that EU citizens can rely for their retail investments.

In occupational pension schemes (Pillar II), the issue of conflicts of interest takes on a different form. In those schemes, it is crucial that the board, which takes decisions on behalf of the scheme's members, includes independent members representing the interests of beneficial owners.

Policy recommendation 3 — Information to (prospective) investors

Provide simple, intelligible, and comparable information on cost and performance of long-term and pension saving products.

Obtaining information on long-term and pension vehicles, as well as monitoring them, should not be difficult for non-professional savers. This implies also reinstating standardised actual cost and past performance disclosure, and in real terms alongside the less relevant nominal ones.

The proposed revisions to the EU's MiFID and IDD legislation, along with the amendments to the PRIIPs regulation, offer the opportunity to finally provide investors with the information they actually need to compare the costs of products. BETTER FINANCE strongly supports, in particular, the provision of annual statements to holders of investment funds' shares distributed under MiFID and to life insurance policyholders distributed under IDD, including the provision of information on the cost of distribution and the possibility to obtain a detailed breakdown of all charges.

Although we welcome the innovations introduced to the format of Key Information Documents (KIDs) by the proposed amendments to the PRIIPs regulation, we still call for a thorough review of this legislation to drastically improve the understandability and comparability of the information provided in the KID. We strongly believe that providers of packaged retail and insurance-based investment products (PRIIPs) should include the actual most recent costs of their products in the KID.

PRIIPs providers should also be required to provide 10 years of past performance data together with the benchmark that is used as investment objective by the product provider. While past performance is not indicative of future performance, it is a good indicator of whether a PRIIP has ever made money or not for the investor, and of an asset manager or insurance company's ability to meet its investment objectives, and to generate returns for the client. Furthermore, it is comparable across product providers and timelines, as it does not rely on assumptions and hypothetical scenarios. The past performance of various products shows how their respective providers navigated through a similar set of real-world circumstances. Finally, displaying past performance in comparison with the product's stated benchmark enables the prospective investor to clearly see whether the provider has been able to make good on their commitment to meet its target.

While we are generally disappointed with the current state of the legislative negotiations on the EU's RIS, we urge the co-legislators to adopt these proposals on disclosures. For more information about our recommendations regarding information to investors and prospective investors, see BETTER FINANCE (2023b, pp. 17–22).

Readers may also refer to BETTER FINANCE's response to the consultation conducted by EIOPA on the review of the Directive on institutions for occupational retirement provision (IORPs) (BETTER FINANCE, 2023a). In occupational pension schemes too, managers should provide pension scheme participants with the information necessary to keep track of their pension benefits and effectively plan their savings and investments to ensure adequate levels of retirement income.

Finally, we urge EU and member state authorities to step up efforts towards the implementation of comprehensive individual pension tracking systems, following the recommendation of the High-Level Forum on the Future of the Capital Markets Union (HLF CMU). These constitute crucial empowering tools, enabling individuals to keep track of their accumulated pension rights across employers and across borders.

Policy recommendation 4 — Sustainability

Provide clear, intelligible information on the sustainability of European long-term and pension savings and investments.

An increasing number of retail investors expresses a desire to invest in financial products that consider sustainability criteria and pursue environmental, social and governance (ESG) objectives (2° Investing Initiative [2DII], 2020). Despite significant progress in recent years, much remains to be done to provide retail investors with an investing environment that accommodates both their financial and sustainability preferences.

First, EU policymakers should increase their efforts to develop a clear, precise, and standardised taxonomy of economic activities. This taxonomy should be grounded in scientific analyses and address all three major aspects of sustainability: environmental, social and governance (ESG). These efforts should also include the development of a well-designed EU-wide Ecolabel for retail investment products that avoids the pitfalls of existing national labels.

EU policy-makers should also address the short-termism of the financial industry by reinforcing the consistent linkage between sustainability and long-term value creation. It must be clearly emphasised that exemplarity with regard to investor protection rules first and ensuring decent returns for individual investors is compatible with investing in a way that respects environment and society. To this end, clear and intelligible ESG disclosures should be combined with financial disclosures, preferably integrated into one document providing savers and investors with a holistic picture of the products they buy.

Finally, EU and national policymakers should require sustainability and ESG knowledge and training for board members in long-term and pension savings vehicles, as well as for financial advisors and sales personnel distributing such products. Regarding the latter, BETTER FINANCE supports the European Parliament's proposal, within the framework of the RIS to impose on financial advisors and sales personnel a yearly training requirement on sustainable investing (see BETTER FINANCE, 2023b, pp. 12–13).

Policy recommendation 5 — Asset allocation

End the fixed-income bias in the asset allocation of long-term savings.

Prudential rules, designed to protect investors against the risk of excessive risk-taking leading to financial losses, require pension fund managers and life insurance providers to allocate a significant portion of participants' and policyholders' funds into fixed-income assets, particularly sovereign debt from EU Member States.

However, in doing so, these rules excessively restrict the possibility for long-term and pension savers to take advantage of investment opportunities in equity markets, which, while more volatile, also offer higher yields in the long term.

Regulations governing long-term and pension savings should not discriminate against long-term equity investments. Specifically, life-cycling strategies that adjust risk to the investment horizon of the saver should enable managers to invest a substantial portion of younger investors' contributions or premiums in equity market instruments (as is the case of Sweden's Premium pensions, in particular the AP7 Såfa fund).

Policy recommendation 6 — Taxation

Stop penalising taxation of long-term and pension products.

Taxation on pensions, whether on contributions, returns, or payouts, should be based on real values rather than nominal ones. Taxes should be applied to values adjusted for inflation, using the harmonised index of consumer prices (HICP). To recoup the value of pension pots, at least occupational schemes (Pillar II) should apply an "EEE" regime. Pillar II contributions should be deductible from the income base tax.

Policy recommendation 7 — Pan-European Pension Product (PEPP)

Create a friendly environment for the PEPP

This year's report, for the first time, includes cost and performance data on PEPP, as implemented in Slovakia. As previously mentioned, these data are encouraging. Nevertheless, we note that the current environment is not conducive to the take up of this product, despite its intrinsic qualities from the point of view of retail investors:

- As noted by EIOPA:

  > [t]he higher costs of products considered "competitors" to PEPP may diminish its appeal to potential providers. [...] Offering a cheaper enquotecompetitor product might raise concerns about the risk of product cannibalisation, potentially resulting in a loss of sales and revenue from existing products4 (EIOPA, 2024).

  Shielded from competition by the opacity of costs and performance disclosures, and the dominant inducements-based distribution system that biases "enquote" towards high-fee products, incumbent providers have little incentives to add a low-cost product to their range of personal pension products.

- Member State governments have generally failed to ensure that PEPP competes on a level playing field with existing personal pension products: rules on tax rebates and subsidies applicable to equivalent personal pension products have only in a few cases been extended to the PEPP, and transferability of accrued personal pension benefits from existing products to PEPP is only possible in a handful of Member States (EIOPA Occupational Pensions Stakeholder Group [OPSG], 2024).

BETTER FINANCE urges policy-makers not to give in to industry pressures to delete the 1% fee cap for the Basic PEPP. Instead,

- Member States should amend their respective legislations to ensure that PEPP receives the same treatment as any other personal pension product marketed in their jurisdiction.
- EU and Member State authorities must further explore the suggestions put forward by EIOPA in its recent paper to expand the target market for PEPP with a view to offer potential PEPP providers the perspective of greater economies of scale.

Policy recommendation 8 — Auto-enrolment

Introduce auto-enrolment in occupational pensions.

The active labour force should be automatically enrolled in a default pension fund, with the option to withdraw or switch provider at no additional cost. Romania, Sweden, Slovakia and other serve as best practice examples: This auto-enrolment ensures that working individuals start saving early and consistently for their retirement, reducing the risk of insufficient income in retirement. This was also a recommendation of the HLF CMU.

In this regard, we consider with interest EIOPA's suggestion, in its paper from September 11, 2024 to enable the use of PEPP as an occupational pension product, in which employers could then automatically enrol their workforce (EIOPA, 2024).

Policy recommendation 9 — Suspensions

Allow savers to defer contributions to pensions without penalties.

Savers should be allowed to suspend payments into a pension savings or life insurance plan without incurring a penalty. In an era characterised by uncertainty, it can never be assumed that an individual will always have an income sufficient to cover their immediate needs as well as pay their premium or set contribution towards their pension plan.

When an individual, for whatever reason, cannot, for a short period of time, contribute to their pension product, they should not be faced with the choice between foregoing their pension plan or paying a penalty. Instead, they should be able to suspend payments and resume as soon as they have a new income stream.

Policy recommendation 10 — Insurance guarantee schemes

Urgently establish harmonised insurance guarantee schemes in the EU.

EU citizens are partially covered against the default of product manufacturers through

Directive 2014/49/EU on deposit guarantee schemes (DGSs) and Directive 97/9/EC on investor compensation schemes (ICSs). However, many pension savers across the EU lack an appropriate protection for insurance-based investment products (IBIPs), a shortcoming of the EU's protection regime that is particularly problematic as IBIPs (such as life insurance) are predominant in some pensions systems in the EU (e.g., in France).

BETTER FINANCE calls on the EU legislator to revamp the project for a Regulation on insurance guarantee schemes (IGSs), which should mimic the rules of the DGS Directive, and urgently harmonise protection against defaults at a minimum level across the EU.

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Country Case 5

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 obligatoire), 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). 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 : +29% pour les fonds en euros (à capital garanti) encore dominants sur les 24 dernières années, mais -23% pour les contrats en unités de compte qui sont davantage promus et se développent plus rapidement, malgré des performances très positives des actions et des obligations. Avec une allocation d'actifs plutôt plus dynamique, les plans d'épargne-retraite entreprise ont eu un rendement réel moyen de +0.4% en 24 ans entre 2000 et 2023 (+9.1% en cumulé). Les produits individuels dédiés spécifiquement à l'épargne retraite (PER, produits dédiés aux employés publics, etc.) sont en croissance mais encore moins développés, ont des performances plus opaques et souvent plus mauvaises que l'assurance vie. Les trois dernières années ont été terribles pour les petits épargnants, et au-delà pour tous les épargnants qui sont principalement investis dans des produits packagés à revenu fixe (comptes d'épargne, fonds obligataires et mixtes, assurance-vie à capital garanti), pour lesquels les rendements nets nominaux n'ont pas été à la hauteur de l'inflation résurgente, ce qui a entraîné des pertes massives de pouvoir d'achat. En outre, la plupart de leurs revenus d'investissement nominaux ont été imposés, ce qui a encore aggravé les pertes réelles déjà lourdes des épargnants français.

Les épargnants pour la retraite ont été nettement appauvris ces dernières années.

Summary

The French pension system continues to rely heavily on the mandatory pay-as-you-go (PAYG) Pillar I and mandatory 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 gross domestic product (GDP) in 2021 (excluding life insurance and real estate). 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: +29% over the last 24 years for the still dominant capital guaranteed ones, but -23% for the more promoted and faster growing unit-linked ones, despite very positive listed stocks and bonds returns. Despite a rather more dynamic asset allocation, corporate pension plans had an average annual real net return of +0.4% for the 24 years between 2000 and 2023 (+9.1% cumulative). The personal products specifically dedicated to pensions (PER, Public employee schemes, etc.) are growing but are still much smaller, and their performances are less transparent and often poorer than those of life insurance. The last three years have been terrible to the smaller pension savers, and beyond to all savers who are mostly invested in packaged fixed income products (savings accounts, bond and mixed funds, capital guaranteed life insurance), for which nominal net returns did not match by far the upsurging inflation, resulting in massive losses in purchasing power. In addition, most of their nominal investment income was taxed, adding to the already heavy real losses of French savers.

French pension savers have been made much poorer these last few years.

Introduction: The French pension system

Over a 24-year period, from the end of 1999 to the end of 2023, 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 defined contribution (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	2023
Life insurance - UL	Voluntary (III)	2000	2023
Insurance-based pension savings products	Mixed (II/III)	2011	2022
Public employee pension schemes	Voluntary (III)	2003	2023
Corporate DC plans	Occupational (II)	2000	2023

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	Public employee pension schemes	Corporate DC plans
1 year (2023)	-1.4%	2.0%	-0.4%	3.4%
3 years (2021–2023)	-2.7%	-3.9%	-4.5%	-2.8%
5 years (2019–2023)	-1.5%	0.0%	-3.0%	0.0%
7 years (2017–2023)	-1.0%	-1.1%	-2.4%	-0.6%
10 years (2014–2023)	-0.2%	0.1%	-1.8%	0.3%
Whole period	1.1%	-1.1%	-1.5%	0.4%

Data: ACPR, France Assureurs, AFG, Prefon, UMR, ACPR, France assureurs, Eurostat; *Calculations:* BETTER FINANCE. *Note:* Return data of insurance-based pension savings products for 2023 have not yet available at the time of publication.

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 defined benefit (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 voluntary retirement savings plan, also privately managed, to which participation is optional, set up 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[a]
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/DC	DC
Quick facts		
A relatively high old-age dependency ratio of 34.3% (2021)[b]		
An average pre-retirement income replacement ratio of 48% (2020)[2]		

[a] Including life insurance contracts that are not pension products *per se* but are mostly used in France for retirement purposes;
[b] Organisation for Economic Co-operation and Development (OECD) data.

Pillar I — Mandatory State pensions

The French state pension system (Pillar I) is divided 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 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, by the correction coefficient,[2] 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).[3].

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.[4]

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).

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

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

[3] *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

[4] 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% for private sector workers.

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 PER or "Pension Savings Plan" divided into:

1. Occupational PERs, which are:
    - 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.[5]
2. 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 undertakings for collective investment in transferable securities (UCITSs) or alternative investment funds (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 EUR20 billion over the average life of the PER contract.[6]

In 2024, the French Government issued a mandatory minimum allocation of contri-

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

[6] faider.org, June 6, 2019

butions to the majority[7] of Individual PERs into private assets (for example 8% for the default option for a decumulation time horizon of 20 years or above). One reason for this constraint mentioned in the new French Law is that private equity offers to savers a higher risk/return "couple" than other asset classes. Based on a recent report from the French trade association France Invest, the largest French saver representative organization FAIDER warned that this statement is not validated by the facts: for the last 9 years to 2023, private asset products sold to individuals would have returned much less than listed equity products.[8]

Long-term and pension savings vehicles in France

Table FR.4 – Financial assets of French households at the end of 2023

	% of total	2022/2021
Currency and bank deposits	33.9%	-3.9%
Investment funds*	4.9%	3.2%
Life insurance & pension funds	32.1%	-3.3%
Direct investments (direct holdings of bonds and stocks)	29.1%	8.6%

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

Figure FR.1 details the AuM for life insurance (mostly used for retirement) and public employee pension schemes.[9]

Second pillar

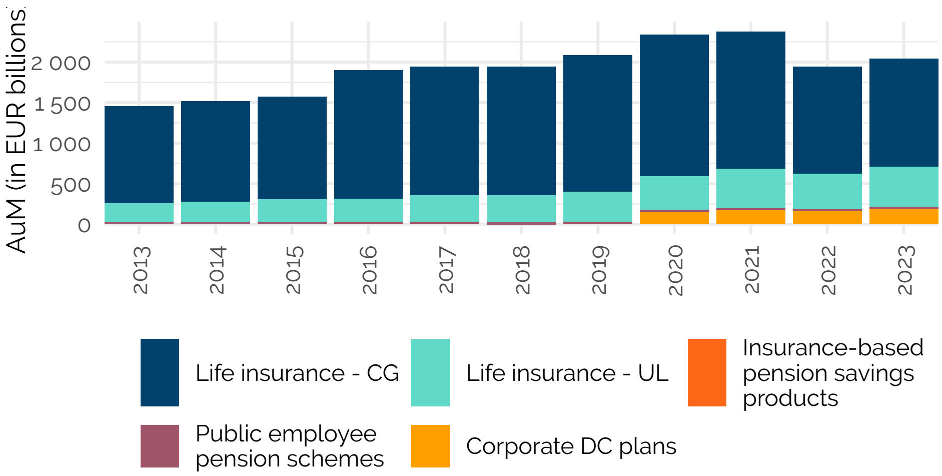
Collective occupational pension products are limited in size in France, despite the recent development of the DC long term and pension corporate plans.

Collective occupational insurance-based pension saving products

In total, mathematical reserves stood at EUR 113.8 billion end of 2023 (France Assureurs, 2024). For insurance-regulated corporate DC plans under "Article 83" of the French tax code (PERE), mathematical reserves stood at EUR 62.4 billion at the end of 2023. 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 Contrôle Prudentiel et de Résolution* (*Autorité de Controle Prudentiel et de Résolution* (ACPR)). For insurance-regulated DB plans ("Article 39" of the French tax code), mathematical reserves stood at EUR 33.2 billion at the end of 2023.

[7] For the default option of the PER and for all other delegated management options.
[8] faider.org, 22 June 2024.
[9] As of yet, data are not available for corporate DC plans and insurance-based pension savings products.

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



Data: BdF, ACPR, France Assureurs, GVfM, AFG, Prefon, UMR, ACPR, France assureurs; *Calculations:* BETTER FINANCE; *Note:* AuM of Corporate long-term and pension savings not shown in the graph due to lack of historical data.

Corporate long-term and pension savings plans

The total assets of French DC corporate savings plans (*Plan d'Epargne Entreprise* (PEE) + PERCO + collective PER)[10] increased by 16% in 2023 to EUR 187.8 billion. The number of members in those plans increased to 12.5 million people in 2023.

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, PERCO have begun to be converted into the new "collective PER". Assets under management amounted to EUR 30 billion at the end of 2023 (+17%% over 2022). Close to 4 million employees had a PERCO or collective PER at the end of 2023 and 222 232 companies propose this type of plans to their employees.

PERCO and collective corporate PER are quite similar to the United States (US) Corporate pension plans ("401k") in their design. However, they are generally not invested in general purpose mutual funds like UCITSs, but mostly in specifically dedicated French-domiciled AIFs (Alternative Investment funds) 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.

[10] PEE is a corporate savings plan where savings are typically blocked for a minimum of five years.

From 2014 to 2023, contributions to unit-linked contracts rose more than those to *contrats en euros* (capital guaranteed contracts, misleadingly called "with profit policies" in the UK) and their share in total mathematical reserves increased from 17% to 29% (see Table FR.5).[11] This increase can be mostly attributed to net inflows (contributions minus benefits). Unit-linked contracts accounted for 13% of premiums to life insurance in France in 2012 and 43% in 2023.[12]

Table FR.5 – Mathematical provisions of French life insurance (EUR bln.)

	Unit-linked contracts	Capital-guaranteed contracts	All life contracts
2016	284	1 586	1 871
2017	328	1 590	1 919
2018	328	1 589	1 917
2019	372	1 684	2 056
2020	416	1 747	2 163
2021	488	1 694	2 182
2022	437	1 318	1 755
2023	494	1 337	1 831
Change 2023/2022	12.9%	1.5%	4.3%

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 2023, those contracts amounted to only EUR 8.9 billion of mathematical provisions,[13] probably at least partly due to the ultra-low interest rates until recently, making it challenging to 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, individual PERs reached EUR 57.7 billion in assets by end of 2023 (+25.5% versus 2022).

***Plans d'Epargne Retraite Populaire* (PERPs):** PERPs were launched in 2004 as insurance-regulated personal pension plans. Thanks to higher contributions and paid benefits

[11] *Source:* ACPR.
[12] *Source:* ACPR, 2024.
[13] *Source:* France Assureurs, 2024.

remaining low, mathematical provisions in PERP personal pension plans increased from EUR 7.5 billion in 2011 to EUR 20.9 billion in 2020. New PERP contracts are not allowed since October 2020, and PERP provisions were down to EUR 17.3 billion in 2023. 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 since 2019, 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 9.4% to EUR 30.6 billion in 2023.[14] There were 1.363 million outstanding contracts at the end of 2019 (+2.0%). The *contrats Madelin* were 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. Self-employed then turned to PERs.

***Contrats Madelin agricole*:** Mathematical provisions of *contrats Madelin agricole* (plans for persons working in the agricultural sector) decreased by 11% in 2023 to EUR 4.3 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 PERs, 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 annual evolution of the value of these "points" has been lower or much lower than inflation since many years;
- 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 French Law still exempts three of the 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.

[14] *Source:* France Assureurs.
[15] *Corem* eventually set up an independent subscribing and governing saver association in 2022, but there is no mention at all about it in the governance section of its 2023 annual report.

***Préfon*: ** *Préfon* is a deferred annuity plan open to all current and former public employees and their spouses that had 373 000 participants at the end of 2023. It had EUR 14.1 billion in AuM (market value) at the end of 2023, down from EUR 13.5 billion at the end of 2022 (Préfon-Retraite, 2024).

***Corem*: ** *Corem* is also a deferred annuity plan open to everyone but so far mainly subscribed to by civil servants. It had 322 567 participants at the end of 2023 (down from 397 515 in 2016). Its assets under management went from EUR 10.6 billion (market value) at the end of 2021 to EUR 10.7 billion at the end of 2023.[16]

***Complémentaire Retraite des Hospitaliers* (CRH):** CRH, a deferred annuity plan [17] open to all public employees from the public health sector and their partners, had about 350 000 participants in 2023. Its AuM (market value) amount to EUR 3.3 billion in 2023.[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 and often inconsistent in France, including from Public Authorities.

Investment funds

According to the Autorité des Marchés Financiers (AMF, 2024), overall annual fees for equity funds were 1.35% on assets, and 1.15% overall in 2023, and they would have gone down slightly from previous years. However, these averages are not size-weighted, which introduces a severe bias. For example, the mere increase in the number of low cost index exchange-traded funds (ETFs) (exchange traded funds) would reduce these numbers, although they are very little sold to individuals (see infra). Moreover, they only include French-domiciled funds and leave out other UCITSs funds sold to French individuals. Many funds domiciled in other EU Member States, in particular in Luxembourg, are also sold to French individual investors. Even more important is the fact that the *Autorité des Marchés Financiers* (AMF) data do not take into account the fact that about two thirds of investment funds offered to French retail investors are sold via insurance contracts' "units". Also, they do not include transaction costs.

- For equity funds sold via those, annual size-weighted total charges of the funds themselves (French -domiciled and other funds) reached 1.95% on average in 2023, and 1.67% overall [19]: much more expensive than the equity and overall retail fund markets estimated by AMF;
- But the full "units" cost was even higher: respectively 2.77% and 2.49%, when

[16] Combined participants and assets of *Corem* (EUR 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] Guide d'information CRH PER CGOS 2024

[19] *Source:* France Assureurs; of which 1.44% of ongoing costs and 0.23% of transaction costs. France Assureurs does not provide this breakdown by asset class.

including the annual overall average contract wrapper charge of 0.82% paid by investors in funds held via insurance contract, i.e. the reality is that two thirds of French savers pay more than double the charges communicated by AMF.

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 0.78%, and 0.14% for index funds in 2023. In the US, they are even much lower in 2023: Total Expense Ratios (TERs) are lower still at 0.44% for "active" funds, on average, and 0.11% for index ones (Broadbridge Data and Analytics, 2024).

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

Since 2018, the national supervisor ACPR publishes their annual average charge, based on a sample of 122 insurers. The published average charge decreased from 0.62% of assets in 2022 to 0.59% in 2023,[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

ACPR does not disclose any information on the total charges of unit-linked insurance (and the Trade Association publishes data only since 2022), which cumulates at least two annual asset-based fees: the units' (investment funds) charges plus those of the wrapper contract itself. In relation not the "value for money" exercise initiated in 2023 between the supervisor ACPR and the Trade organization/ France Assureurs, the latter has started to publish data on performance and costs of unit-linked insurance. Contract fees alone account for 0.82% in fees on average per annum on assets.[22] Overall, for unit-linked insurance contracts invested in equity funds, the total average fees are estimated at 2.77% per annum using more granular data of the trade organization for 2023.[23] An independent research firm had higher figures for 2022 (Goodvalueformoney.eu). 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 disclosed aggregate average data on the amount of these additional asset-based fees, but it usually adds 0.30% to 1% every year taken on assets.

These total average fees of up to 3% per year or more do not seem to have gone

[20] *Source:* ACPR, 2024
[21] *Source:* ACPR, 2020 (did not publish more recent data).
[22] France Assureurs, 2024
[23] With a serious limitation, both for cost and for performance data: France Assureurs excludes the index ETFs from these asset classes.

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.[24]

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 PERP for PERs (see above, previous sections). This significantly increases their net charges to pension savers. FAIDER estimates the cost impact for French pension savers to represent a minimum of EUR 20 billion over the life of these personal pension plans.[25] A recent study of the national public advisory committee Comité Consultatif du Secteur Financier (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").[26] 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 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, and provided only as a pre-contractual information, so , in practice, the pension saver has no access to the overall cost of his unit-linked contract, even only per unit.[27] 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

[24] afer.fr, 2019.
[25] faider.org, June 2019.
[26] Comité Consultatif du Secteur Financier (CCSF, 2021).
[27] Arrêté du 24 février 2022 portant renforcement de la transparence sur les frais du plan d'épargne retraite et de l'assurance-vie.

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 PERs.

Taxation

For PERs, PERPs and public employee schemes (Préfon, Corem, CRH, which are now PERs as well), contributions are deductible from taxable income with a minimum of EUR 4 399 and up to 10% of total professional income with a tax deduction ceiling (EUR 35 194 in 2024). For non-salaried workers (former Madelin contracts), the ceiling is higher at EUR 85 780. Withdrawals are fully taxed. Annuities are taxable like pensions with a 10% fixed haircut (with a ceiling of EUR 3 850 in 2021). They are also subject to "social contributions", currently standing at 9.10% (7.4% in 2017).

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% on nominal income.

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 EUR 4 600 for an individual, and below EUR 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 exponential 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

Source: 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 2023, the European equity market (dividends reinvested) returned + 16% after a drop of 12% in 2022 (see **??**). Over the last 24 years (end 1999 to end 2023), it returned a total of +169%. Inflation over the same period was +57%. So, despite two sharp downturns (2000-2002 and 2007-2008) plus other drops in 2011, 2018, 2020 and 2022, European equities delivered positive nominal and real returns over the whole period.

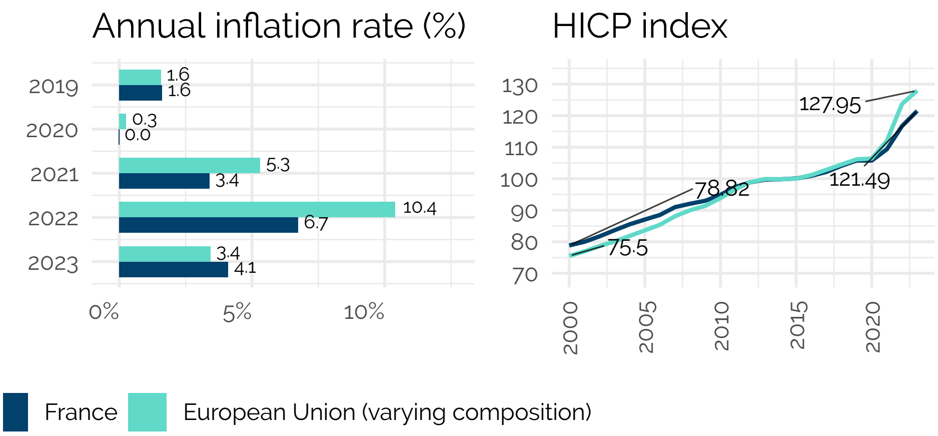
Packaged long-term and pension products in France are also invested in non-French European equities. Therefore, the European equity universe is an appropriate benchmark for their equity returns.

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

Figure FR.2 – Inflation in France

Period 2000–2023

	Annualised	**Cumulated**
France	1.9%	56.9%
European Union (varying composition)	2.3%	73.2%



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 have plunged back deeply into negative territory since 2021: -2.5% that year, even more in 2022 to -4.8%, mainly due to the rise of inflation, and still – 1.9% in 2023while nominal returns rose to +2.6% . 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.[28]

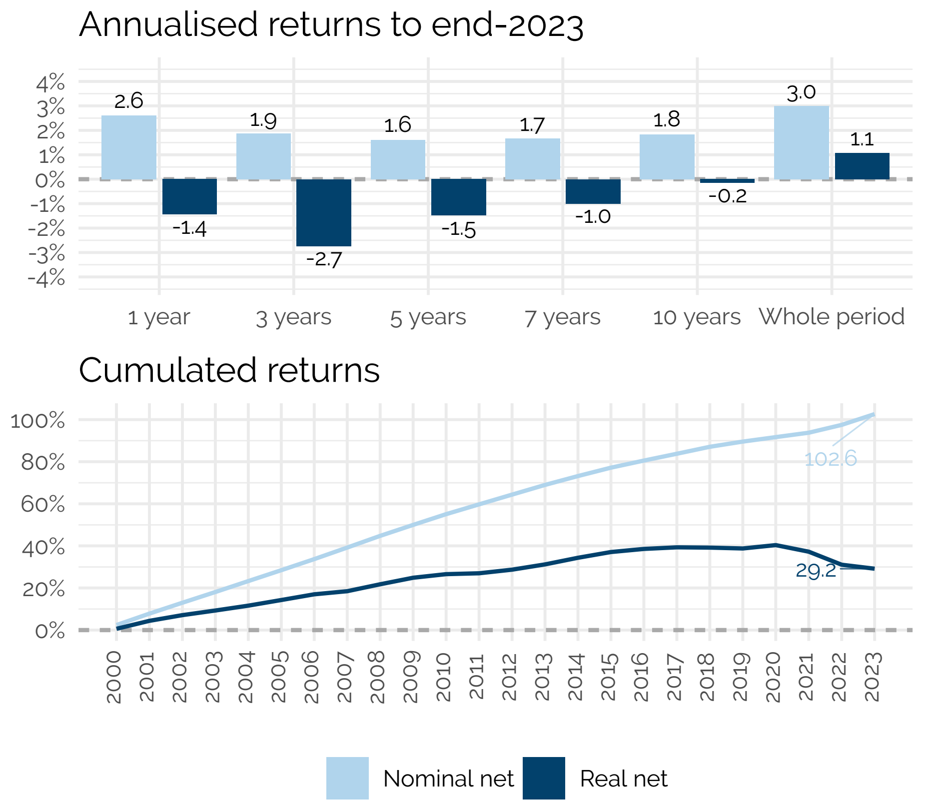
Over a 24-year period, cumulated pre-tax real returns of guaranteed life-insurance contracts were +29%, and varied from a maximum annual performance of +3.8% in 2001 to a negative performance of -4.5% in 2022 (see Figure FR.3).

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

[28] GoodValueforMoney.eu, 2021.

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



Data: ACPR, France Assureurs, Eurostat; *Calculations:* BETTER FINANCE, holding perioc end-2023; *Note:* * Reduced by the average entry fee of 2.76% for the year 2000.

must be returned to the life insured within 8 years of their inception. They are then included in the annual return. French 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.[29] Indeed, the outstanding amounts of these reserves stood at 1.9% of total mathematical reserves at the end of 2013 and have increased ever since then to reach 5.4% in 2022. It dropped for the first time in 2023 to 4.9% of total provisions.[30]

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, because of the rise in social contribu-

[29] "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.

[30] *Source:* ACPR, 2024.

tions 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, and since 2021, as the real income before tax was negative (loss of purchasing power), taxing nominal income had the effect of deepening the real loss for life insurance savers further, i.e. taxing real losses.

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%
2023	2.6%	-1.4%	-2.1%	-1.9%

Data: France Assureurs (up to 2018), GVfM since 2019; *Calculations:* BETTER FINANCE.
* for redemptions below € 4 600 per annum.

These average returns have masked important differences depending on distribution networks and governance up to 2022: for standard contracts distributed by banks, the 2020 average nominal return was less than 1.08%,whereas the return for contracts subscribed by independent associations was 1.56%.[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

[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.

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

		Return		Tax rate	
	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%
2023	*4.1%*	*2.6%*	*-1.4%*	24.7%	-44.4%

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.

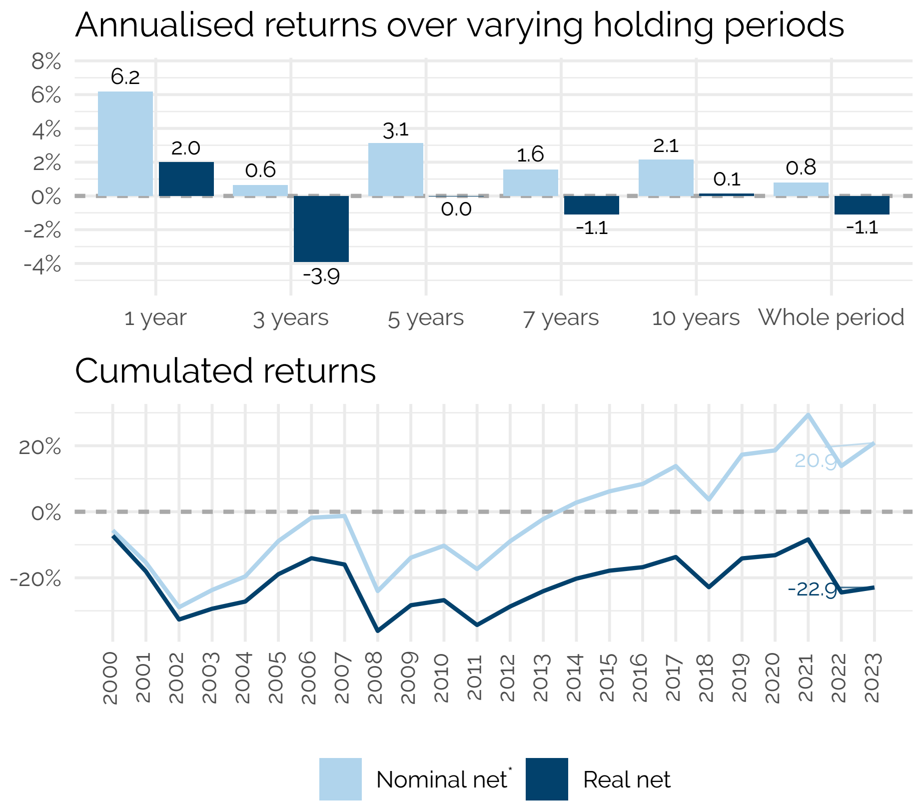
distributed by banks represent about 60% of the French capital guaranteed life insurance market, this returns gap constituted an opportunity cost of about EUR6 billion for 2020 alone for savers getting their capital-guaranteed life insurance contracts from their bank instead of from independent savers' associations. In 2023, this long term trend stopped as bank insurers eventually made some use of their profit sharing reserve, and many insurers offered boosted returns on new premia to better capture the upswing in bond interest rates. In the recent years, many insurers have also offered higher returns to savers investing a minimum part in units instead of in capital-guaranteed options.

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.5).

Over a 24-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.4 – Returns of French unit-linked life insurance contracts (% of AuM, before tax)



Data: France Assureurs, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023; *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. Contract fees have therefore been added back whenever they were not taken into account.

An average saver has thus received a cumulated net real pre-tax return of 29% for this 24-year period of investment on guaranteed contracts, and a negative one of -23% on unit-linked contracts. On a yearly basis, the rates of returns would be +1.1% and -1.1% respectively. It is worth noting that, although unit-linked contracts are riskier for subscribers, they also provided cumulated returns that were much lower than those of the guaranteed contracts. Such a lower—and negative—real performance over 24 years is primarily due to:

- much higher fees (see the fees and charges section above): about four to 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 ETFs (only 3% of total unit-linked assets in 2023 according to the Trade body), or institutional, or *clean* share classes of actively managed funds.[33] Independent research determined that over the mid and long-term, high charges hurt net performance on average. This in turn may be 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.5 shows that the pre-tax real performance evolution of unit-linked contracts is well correlated to that of capital markets, but massively below those over time , making unit-linked a high-risk and low-return offer over the last 24 years.

Insurance-based pension saving products (IBPPs)

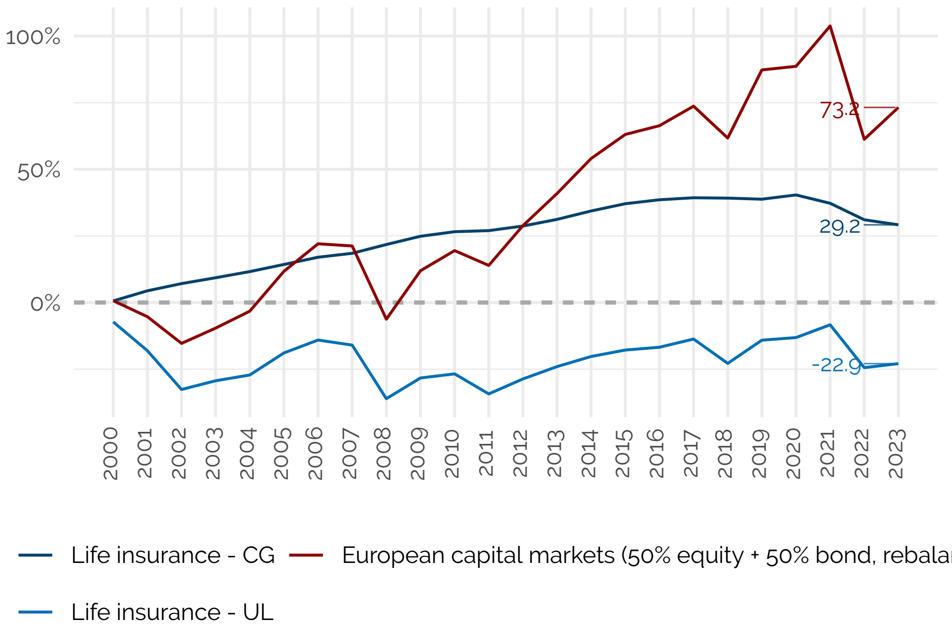
Individual PER (PERin)

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. We could find no overall performance data for unit-linked PERs (the vast majority).

[32] *Source:* OEE.

[33] 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.

Figure FR.5 – **Long-term life insurance real returns vs. capital markets**



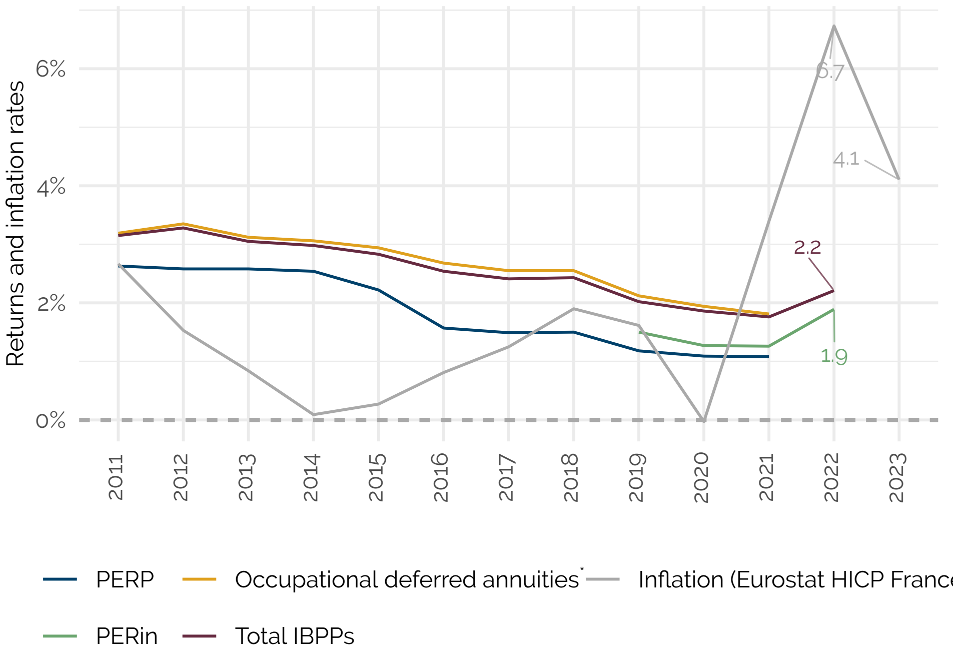
Data: France Assureurs, GVfM, Eurostat; *Calculations:* BETTER FINANCE;
Details regarding the calculations of the European capital markets benchmark are provid
introductory chapter of this report.

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).

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

Figure FR.6 – **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

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 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.[34] 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.

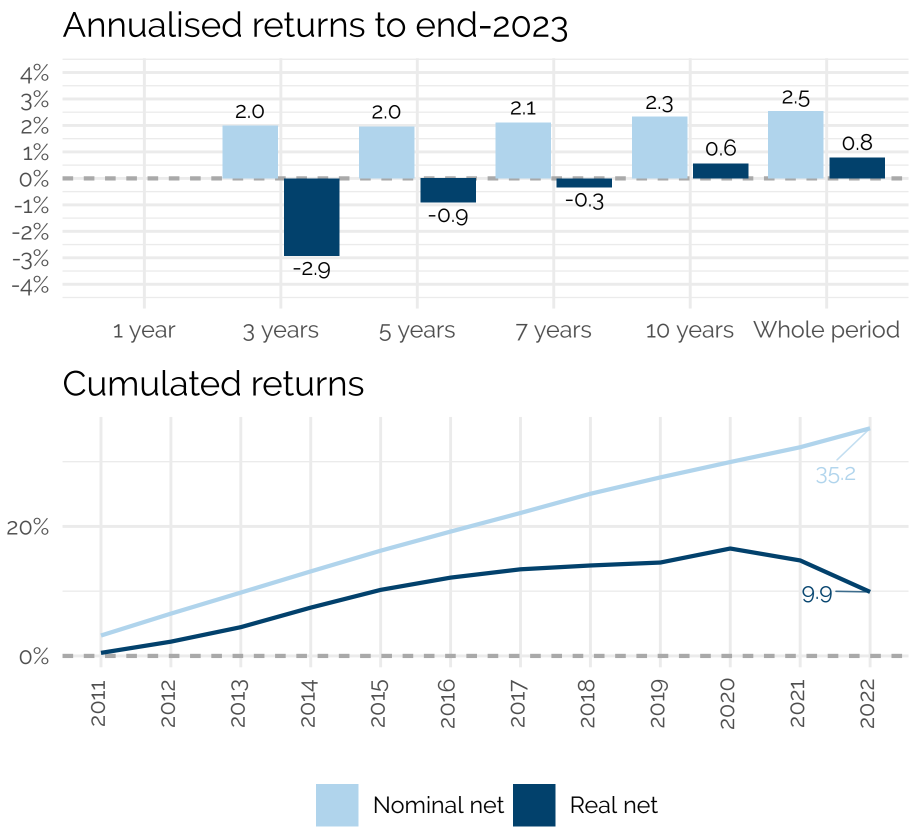
Then, these schemes disclose the pension rights in "points", not in euros or in units. The evolution of the value of the points does not permit to compute the annual return to participants on their pension savings, which is very different from the investment returns of the product's portfolio. This data can only help compute the real evolution of the pension rights over time, or, in other words, the evolution of the purchasing power of the annuities paid to the participants. BETTER FINANCE had to do this computation, as it is not a disclosed - though essential – information from the product providers.

Préfon

Préfon published an accounting return (net of fees) on its investment portfolio of +2.18% (excluding real estate and private equity) in 2023 versus +3.05% in 2022. However, as mentioned above, the accounting return does not take into account the

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

Figure FR.7 – Returns of French insurance-based pension saving products (IBPPs) (before tax, % of AuM)



Data: ACPR, France assureurs, ACPR, Eurostat; *Calculations:* BETTER FINANCE, holding to end-2023.

changes in the market value of assets (the market value of the bonds-laden portfolio dropped by 20.6% in 2022, and recovered partially in 2023). Préfon's investment portfolio is still heavily tilted towards fixed income (80% of total in 2023, and equity weighing only 11%, in accounting, not market value terms). This seems an inadequate asset allocation for the long-time horizon of the pension plan, and an improvable reporting as the accounting value has little relevance to assess its performance. The portfolio return in 2023 was +9% according to Préfon , but it does not specify if it was gross or net of charges.

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 EUR 290 million of their own funds (as of 2013-12-31) to help Préfon balance its assets and liabilities.[35] At the end of 2016, this contribution from the insurers amounted to EUR 333 million (Association PREFON, 2022) despite the massive cuts in pension rights for those who retire after age 60 decided in 2014 and 2017 (see Figure FR.8).

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 136.1% in 2022, 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 2023, 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 12% (+6% nominal increase versus a +20% inflation).

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.8).[36] Préfon participants who contributed in 2002 and who will retire at the age of 60 have lost 23% of the real value of their pensions (before tax)[37]. The advertised objective of Préfon to maintain the purchasing power of pensions has not been fulfilled since 2002

[35] *Les Echos*, 27 December 2010. This information was not disclosed by Préfon to the participants.

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

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

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. [38], except for the first time in 2023, but only in the annual report in a section called "technical aspects".

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 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.8.

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).

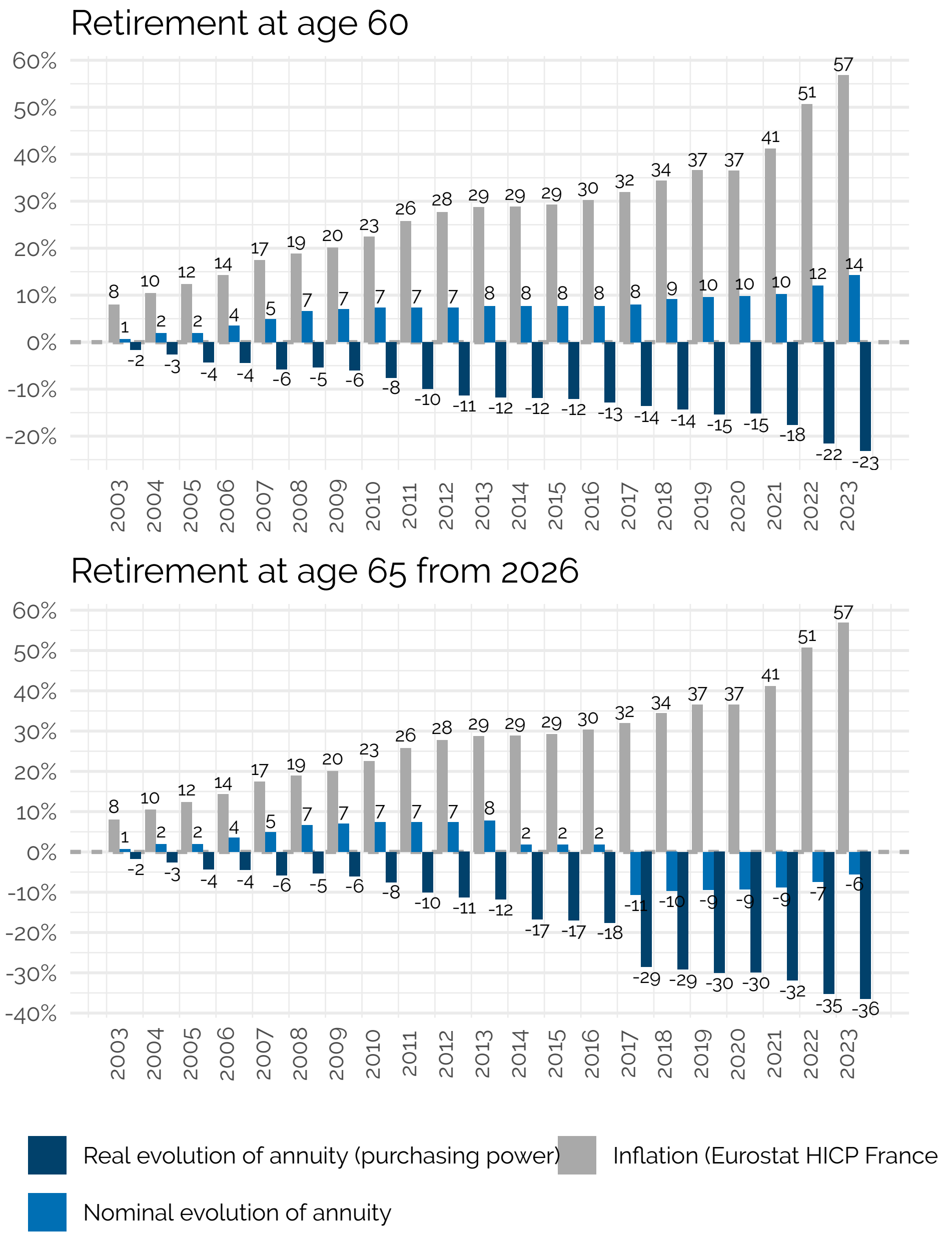
An alternative approach mentioned by Préfon since its 2023 annual report, is to use the new valuation of transfers or redemptions of accumulated pension rights in capital. But these redemptions in capital are allowed only in limited cases since 2010, and are very rare. For valuations done since 2019, those are based on annual revaluation coefficients computed on contributions. But they are computed on contributions net of the 3.9% commissions charged until 2021. Nevertheless, Préfon now acknowledges the value of pension rights does not keep up at all with inflation despite this being its stated objective. And 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 2023 + 1.98% revaluation versus + 9% for the portfolio return).

Corem

Union Mutualiste Retraite (UMR), the provider of 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 2023 was +5.01% up from+3.88% in 2022. 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 to replenish reserves. It is therefore impossible to compute a collective real rate of return.

[38] ARCAF, 2019.

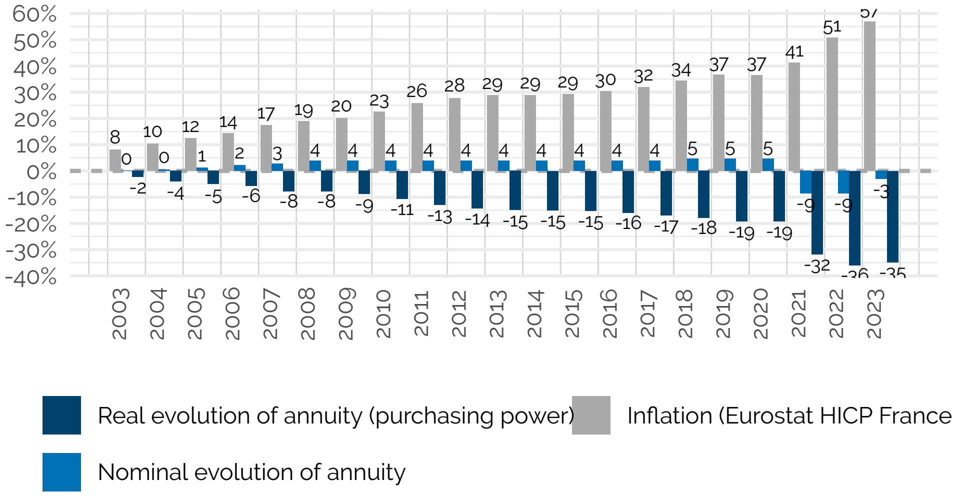
Figure FR.8 – Préfon annuities real value: Compounded evolution



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

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.9). 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 2022-01-01 will be reduced by 12.6%. These figures are before tax. This key and catastrophic performance information was not clearly disclosed to the public and to new participants.

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



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

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.

The financial situation has been very difficult as its reserve gap (difference between its assets and the present value of its pension liabilities) reached EUR 2.9 billion at the end of 2014, as measured using French common prudential rules at that time.[39] 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)

[39] 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 covered 107.5% of its liabilities at the end of 2015.

to compute the present value of its liabilities, helping it to reduce its reserve gap to EUR 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. 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. Thanks to the massive cut in pension rights as of 1/1/2022, the coverage ratio has jumped to +144%, end of 2023 at the expense of participants.

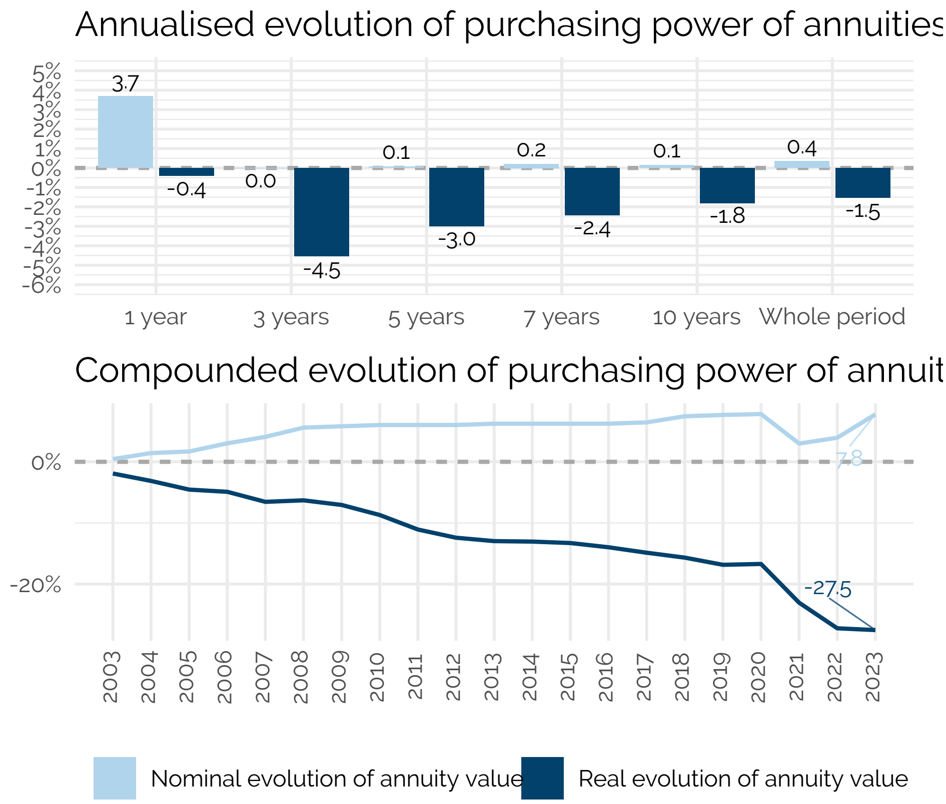
The distribution of new Corem contracts has resumed in 2019, despite the continuously escalating losses inflicted to its participants. In 2023, despite complaints to the ACPR, the product is still actively distributed and without any visible and intelligible warning about its catastrophic performances and about its massive recent cut in its pension rights. End of 2023, pension rights were revalued nominally by 6% , but that has only stabilized for one year the real loss to participants since its inception in 2022, now amounting to 35%.

CRH

CRH does not publicly disclose any annual report or financial data. Even its precontractual 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 five years (end 2018 to end 2023), CRH annuities' nominal value has increased only by 4.2% overall, against an inflation of 16.7%; representing a loss in the real value of the pension rights of participants of 11% (10% loss for Préfon participants and 21% loss for those of Corem over the same time). This crucial warning on historical real returns is not disclosed to participants or to prospects. In 2023, its assets were 86% in fixed income, and 14% in equity.

Overall, BETTER FINANCE estimates the loss of purchasing power over the last twenty years (2002-2022) of participants to the French Public Employee Pension Schemes (Préfon + Corem) to be at -27.0% (-1.6% per annum, see Figure FR.10), based on the relative asset portfolio size of Préfon and Corem, and assuming optimistically that Préfon participants retire as early as age 60 and not later.

Figure FR.10 – Evolution of the purchasing power of French public employee pension schemes annuities (before tax)



Data: Prefon, UMR, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-20
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 *Association française de la gestion financière* (AFG), the French asset management industry association, we combine information provided by SIX on the performance of each category of funds (FCPEs) with data on their total outstanding relative weight to estimate the overall returns of corporate savings (PEEs, PERCOs and the new collective PERs).[40]

Real returns of corporate DC-based plans before tax over a 24-year period, from the end of 1999 to the end of 2023, were overall positive: the yearly average real performance before tax of the aggregate of all funds was +0,4%, which makes French DC plans the second-best performing pension savings product after capital-guaranteed

[40] 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" and other diversified assets represented 62% of all FCPE assets at the end of 2023.

Table FR.9 – Performance of French DC corporate plans — PEE (% of AuM, before tax), 24 years to 2023

	Equity	Bond	Money market	Diversified	All funds
Cumulated nominal	78.0%	66.7%	34.0%	71.7%	70.9%
Annualised nominal	2.4%	2.2%	1.2%	2.3%	2.3%
Cumulated real	13.4%	6.3%	-14.6%	9.4%	9.0%
Annualised real	0.5%	0.3%	-0.7%	0.4%	0.4%

Data: AFG; *Calculations:* BETTER FINANCE.

life insurance contracts (before tax). This regards PEEs (EUR 158 billion of assets) and PERCOs and collective PERs (EUR 30 billion).

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 +13.8%). However, equity funds, which account for about 24% of total outstanding assets (excluding company stock),underperformed equity markets by more than half over the last 24 years: +78% in nominal terms versus +169 % for European equities; [41]
- negatively influenced predominantly by the negative return and surprisingly heavy weight of money market funds (-14.6% cumulated real return and 26% of assets, more than equities!).
- Also, DC Bond funds (around 17% of total assets) returned +67% in nominal terms over the period versus +118% for the European bond market (see **??**).

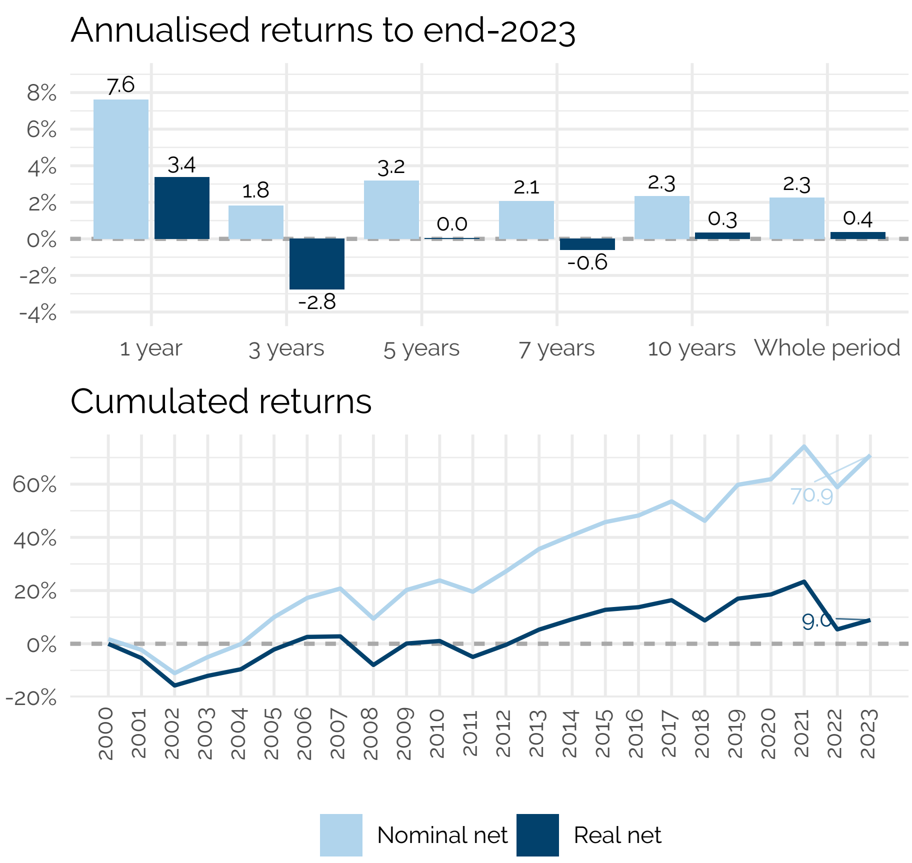
A factor for this underperformance of DC equity and bond funds relative to capital markets could be the level of fees charged. Unlike corporate DC pension plans ("401k") in the US, the French ones do not invest in general purpose mutual funds, but in special purpose AIFs called FCPEs, specifically dedicated to these plans. Consequently, French savers are faced with an additional offering of investment funds (about 1100 FCPEs in addition to the about 3500 UCITSs 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 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).

[41] STOXX All Europe Total Market TR index in euros.

As mentioned above in the costs and charges section of this chapter, 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.11 – Returns of French corporate DC plans (before tax, % of AuM)



Data: AFG, NA, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023.

A limitation of such computations is that performance indices provided by SIX only relate to diversified 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 companies ("company stock"), accounting for 38% (EUR 70.7 billion end of 2023) of all corporate savings plans.

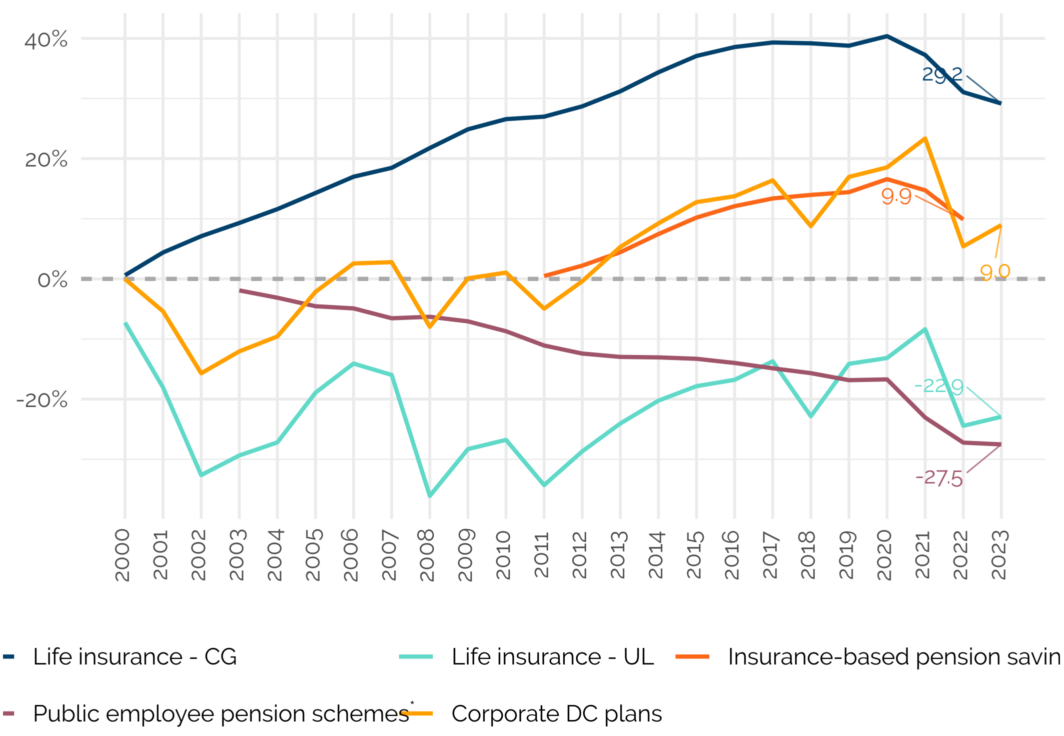
Return of regular identical investments over 24 years

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 2023. Many pension savers will tend to invest regularly every year or every month. AFG computed the annualised returns from 2000 to 2023 for the same amount invested every year over the last 24 years. This generated a somewhat lower before-tax real return of 6.6% instead of 9.1%. This return becomes less volatile with time, as it is spread over many years instead of only one.

After-tax returns are often higher

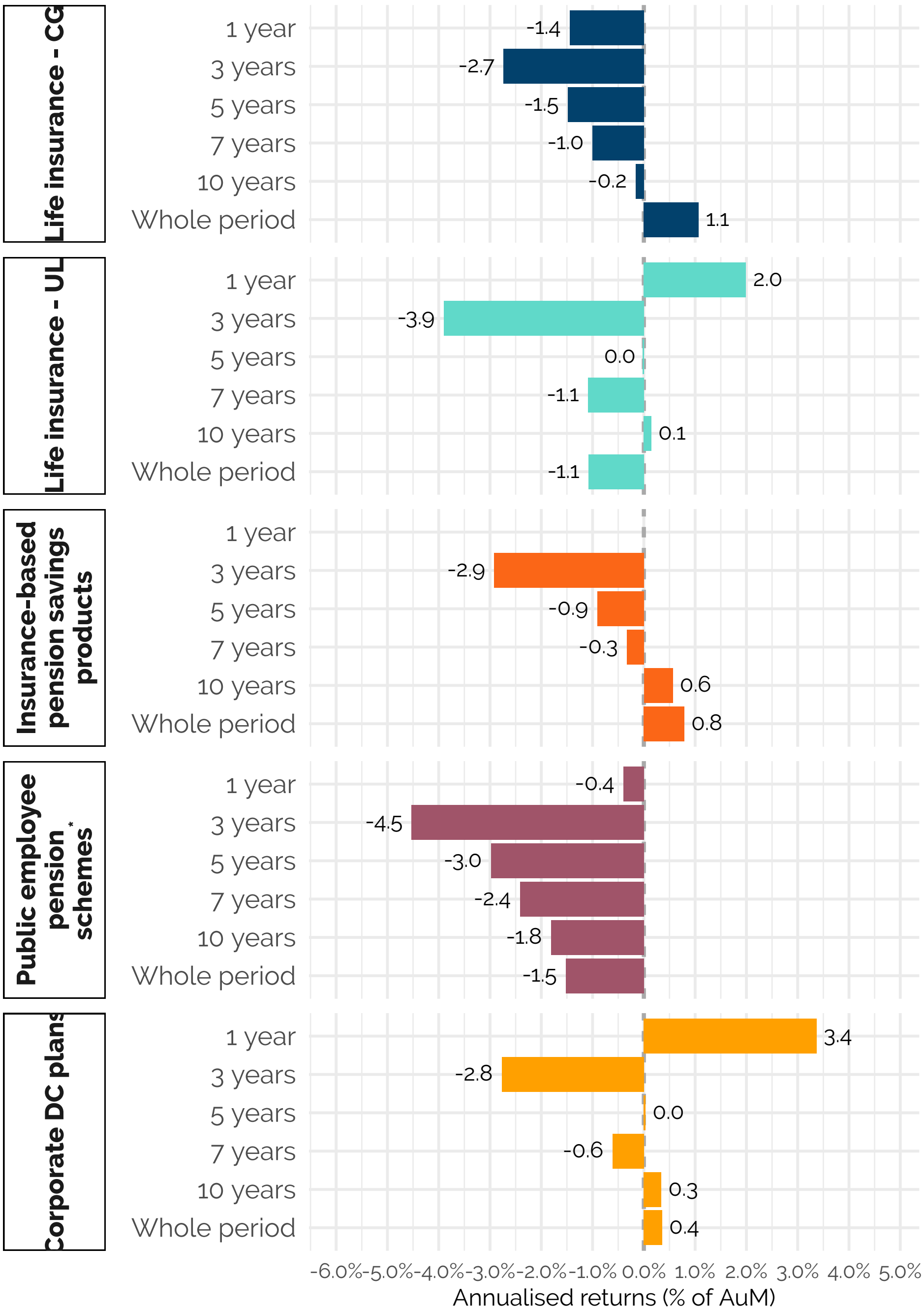
Finally, after-tax returns of French corporate long-term savings plans are difficult to compute globally, but they can often be very close to—or higher than—before-tax ones since their taxation is the most favourable of all long-term and pension savings products in France (redemptions are exempt from 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.12 – Cumulated returns of French long-term and pension vehicles (2000–2023, % of AuM, before tax)



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

Figure FR.13 – Annualised returns of French long-term and pension vehicles over varying holding periods (% of AuM, before tax)



Data: ACPR, France Assureurs, AFG, Prefon, UMR, ACPR, France assureurs, NA, Eurostat; *Calculations:* BETTER FINANCE, holding periods to end-2023; * 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 rebounded in 2023 from the severe real losses in 2022, as both stock and bond markets also rebounded. But "financial repression" at all- (as simply measured by the positive difference between inflation and money policy interest rates) was still there - although not as high - in 2023, and it remains to be seen if it will really disappear in 2024 and I the years to come. In other terms, what will go down most: inflation or interest rates offered to individual savers ? Over the long term though, charges and selection biases (due mostly to conflicts of interests in the retail distribution, taxation of nominal long term investment income, but also 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. Indeed, in 2023, real losses after tax kept accumulating for savers in bank savings accounts, in capital guaranteed insurance and in most Public employee PERs.

The outlook for 2024 and beyond is not as gloomy as for 2022, but unfortunately still not positive in real terms. Indeed, 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) are unlikely to get better in front of the massive public debt accumulated since the COVID epidemics. And recent statistics as well as public policies do not point to a reduction in overall charges borne by European long term and pension savers.

Worse, the lack of transparency and clarity on real returns and overall charges increases. Let's hope the creation this year of the Observatory of returns and costs of financial savings ("Observatoire des produits d'épargne financière" – OPEF) by the French Government will help to improve the transparency of performance and costs.

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