Long-Term and Pension Savings

The Real Return

2020 Edition

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

Pension Savings: The Real Return

2020 Edition

A Research Report by BETTER FINANCE

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Acronyms

AIF	Alternative Investment Fund
AMC	Annual Management Charges
AuM	Assets under Management
BE	Belgium
BG	Bulgaria
Bln	Billion
BPETR	'Barclay's Pan-European High Yield Total Return' Index
CAC 40	'Cotation Assistée en Continu 40' Index
CMU	Capital Markets Union
DAX 30	'Deutsche Aktieindex 30' Index
DB	Defined Benefit plan
DC	Defined Contribution plan
DE	Germany
DG	Directorate General of the Commission of the European Union
DK	Denmark
DWP	United Kingdom's Governmental Agency Department for Work and Pensions
EBA	European Banking Authority
EE	Estonia
EEE	Exempt-Exempt-Exempt Regime
EET	Exempt-Exempt-Tax Regime
ETF	Exchange-Traded Fund
EIOPA	European Insurance and Occupational Pensions Authority
ES	Spain
ESAs	European Supervisory Authorities
ESMA	European Securities and Markets Authority
EU	European Union
EURIBOR	Euro InterBank Offered Rate
EX	Executive Summary
FR	France
FSMA	Financial Services and Market Authority (Belgium)
FSUG	Financial Services Users Group - European Commission's Expert Group
FTSE 100	The Financial Times Stock Exchange 100 Index
FW	Foreword
GDP	Gross Domestic Product
HICP	Harmonised Indices of Consumer Prices
IBEX 35	Índice Bursátil Español 35 Index
IKZE	'Indywidualne konto zabezpieczenia emerytalnego' – Polish specific Individual pension savings account
IRA	United States specific Individual Retirement Account

IT	Italy
JPM	J&P Morgan Indices
KIID	Key Investor Information Document
LV	Latvia
NAV	Net Asset Value
Mln	Million
MSCI	Morgan Stanley Capital International Indices
NL	Netherlands
OECD	The Organisation for Economic Co-Operation and Development
OFT	United Kingdom's Office for Fair Trading
PAYG	Pay-As-You-Go Principle
PIP	Italian specific 'Individual Investment Plan'
PL	Poland
PRIIP(s)	Packaged Retail and Insurance-Based Investment Products
RO	Romania
S&P	Standard & Poor Indexes
SE	Sweden
SK	Slovakia
SME	Small and Medium-sized Enterprise
SPIVA Scorecard	Standard & Poor Dow Jones' Indices Research Report on Active Management performances
TEE	Tax-Exempt-Exempt Regime
TCR/TER	Total Cost Ratio/ Total Expense Ratio
UCITS	Undertakings for the Collective Investment of Transferable Securities
UK	United Kingdom

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Country Case: France

Résumé

Le système francais de retraite continue à reposer majoritairement sur les regimes d'assurance vieillesse de base et complementaire par répartition (Pilliers I et II), avec un taux moyen de remplacement du revenu d'activité de 60.1%, et une valeur totale des actifs représentant 5,7% du PIB en 2019.[137] Malgré une allocation d'actifs plutôt dynamique, les plans d'épargne-retraite entreprise ont eu un rendement annualisé réel de +0.4% en 20 ans (+7.8% en cumulé). L'assurance vie – le produit individuel de loin le plus utilisé pour l'épargne retraite par les Français – a eu une performance très contrastée : +39% (+1,8% en moyenne annuelle) pour les fonds en euros (à capital garanti) encore dominants, mais -24% (-1.4%) pour les contrats en unités de compte qui sont davantage promus et se développent plus rapidement. Les produits individuels dédiés spécifiquement à l'épargne retraite (PERP, Préfon, Corem, etc.) sont beaucoup moins développés, et ont des performances plus opaques et le plus souvent plus mauvaises. A l'exception des fonds obligataires, tous les produits d'épargne à long terme de taux ont ngendré des pertes réells pour les épargnants français en 2019.

Summary

The French pension system continues to rely heavily on the "pay as you go" mandatory Pillar I and Pillar II income streams, with an average pre-retirement income replacement ratio of 60.1%,[138] and a total value of assets of 5.7% of the French GDP in 2019. Despite a rather dynamic asset allocation, corporate pension plans have a 20-year average annual real net return of +0.4% (+7.8% cumulative). Life insurance products - by far the most widely used personal product for pension purposes by French savers - had very contrasted long term pre-tax real returns: +39% (+1.8% annual average) for the still dominant capital guaranteed ones, but -24% (-1.4%) for the more promoted and faster growing unit-linked ones. The personal products specifically dedicated to pensions (PERP, Préfon, Corem, etc.) are much smaller, and their performances are less transparent and most often poorer. Except bond investment funds, all fixed income long term savings products generated real losses for French savers in 2019.

Introduction

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

- Pillar I – the public pension, a defined benefit (DB) Pay-As-You-Go (PAYG) scheme, which is managed by the State and comprises the basic pension insurance;

[137] https://www.statista.com/statistics/960085/pension-assets-to-gdp-ratio-by-country/
[138] In 2018, gross - https://data.oecd.org/pension/gross-pension-replacement-rates.htm.

- **Pillar II** – the occupational retirement provision (complementary component), also DB and privately managed and funded by both employer and employee contributions, to which participation and contribution rates are mandatory;
- **Pillar III** – composed of the voluntary retirement savings plan, also privately managed, to which participation is optional, and which can be set up by the employer (voluntary occupational plans) or by providers for the pension saver on his own (voluntary personal plans).

Introductory table: French Pension System Overview		
Pillar I	**Pillar II**	**Pillar III**
Mandatory State Pension	Mandatory Private Pension	Voluntary Personal Pension
Basic pension insurance	Supplement of the 50% pre-retirement income target of Pillar I	Divided into different retirement savings financial producst
Divided into several 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 defined contribution
DB PAYG	DB PAYG	DC
Quick facts		
A relatively high old-age dependency ratio of 33%		
An average pre-retirement income replacement ratio of 73.6% (2018)		

Sources: DREES, World Bank, 2019

Summary return table - Average real net returns of French pension savings (before tax)					
	1 year	3 years	7 years	10 years	
Average real net returns	2019	2017-2019	2013-2019	2010-2019	whole reporting period
Life insurance - CG	-0.28%	0.06%	1.08%	1.06%	1.66%
Life-insurance - UL	11.85%	1.13%	2.61%	1.74%	-0.80%
Corporate plans	7.67%	0.96%	2.34%	1.58%	0.78%
Public employee PS**	-1.53%	-1.91%	-1.19%	-1.62%	-1.44%

*Source: Tables FR3, FR5, FR7; CG = capital guaranteed; UL = unit-linked; PS = pension schemes; ** return proxy measurement*

Pillar I

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

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

Each pension regime is further organised into two sub-components: (1) *The base pension insurance*, which incorporates both the non-contributory pillar 0 and the defined benefit 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.[139]

The full pension entitlement from Pillar I is calculated by multiplying the mean annual gross income,[140] by the correction coefficient,[141] 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).[142]

[139] The standard retirement age for the basic allowance and for the full pension entitlement starts at 60 and 65 years, respectively (for those born before 1951) and grows by 5-months for each later year of birth until 1954. This is to say, all persons born after 1 January 1954 have a standard retirement age of 62 years (for the minimum allowance) and 67 years old (for full entitlement) – see https://droit-finances.commentcamarche.com/contents/1163-age-de-depart-a-la-retraite-en-2018.
[140] Which is the average of the highest 25 annual gross salaries.
[141] The correction coefficient, in fact, referred to as a *rate* which can represent a maximum of 50% of the social security income limit.
[142] CNAV, "Elements de calcul de la pension" https://www.statistiques-recherches.cnav.fr/les-elements-de-calcul-de-la-pension.html.

Pillar II – occupational pensions

The French Pillar II is a mandatory defined benefit, PAYG and privately managed pension scheme, designed to supplement the 50% pre-retirement income target of Pillar I.[143]

The 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 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 employees receiving a salary.

Pillar III – voluntary occupational and personal plans

The third pillar of the French pension system is composed of the voluntary pension plans, divided into different retirement savings financial products, which can be sub-categorised into several groups, depending on whether they are occupational or personal, i.e.:

A. Voluntary occupational pension plans are:
   - Corporate plans, for private sector employees at large, which are set up by employers either through DC pension funds (*PERCO*) or through insurance-regulated plans (PERE);
   - Professional or sector-specific personal plans, such as the *Contrats Madelin (for self-employed), Madelin Agricole* (for the agricultural sector) or the *CRH* (for Public Health sector,) Préfon (mainly accessible to public employees), *Fonpel, Carel-Mudel* and *RMC*[144].

B. Personal pension products unrelated to occupation
   - PERP (People's Retirement Saving Plans), mainly sub-divided into contracts with capital guarantee and contracts linked to units in collective investment schemes (UCITS or AIFs), and Corem.

Voluntary pension products are tax-incentivised in order to support participation in the third pillar and are mostly defined contribution.

Life insurance contracts and bank accounts still represent the two largest blocks of financial savings products in portfolios held by French households. Total outstanding life insurance contracts and pension savings reached €2084 billion in 2019:

[143] 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%.
[144] The *Fonpel*, *Carel-Mudel* and *RMC* are special pension vehicles and not covered by this report.

Table FR1. Financial assets of French households at the end of 2019		
	% of total financial savings	2019/2018
Currency and bank deposits	30.7%	2.7%
Investment funds	4.2%	-15.9%
Life insurance & pension funds	38.9%	-2.8%
Direct investments (direct holdings of bonds and shares)	26.2%	4.5%
Total	**100.0%**	

Source: Banque de France

The 2019 reform of French pension savings

The "PACTE" Law of 22 May 2019 reformed French pension savings. In summary, existing Pillar III products mentioned above and below will be progressively phased out from October 2019 on in favour of a new product called "Plan d'épargne retraite" (PER) or Pension Saving Plan. Basically:

- The collective non mandatory PER will succeed to the PERCO
- The mandatory PER will succeed to the PERE
- The individual PER will succeed to the PERP, Madelin, Préfon, Corem, etc.

The PER is to be be offered both by insurers and by asset management companies, and payout option will be free to choose between annuities and capital withdrawals. All PERs will be 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 development. French savers organization FAIDER estimates that this will cost pension savers at the very least € 20 billion over the average life of the PER contract[145].

The new French Pension savings Plan (PER) default option

Interesting innovation: the one and only default option for the accumulation phase is one simple "life cycle" one:

The share of low investment risk assets is at a minimum:

- 20% of total assets of the plan starting 10 years from the liquidation date envisaged by the Plan participant;
- 50% starting 5 years from then;
- 70% starting 2 years from then.

Pension Vehicles

Life insurance contracts

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

From 2013 to 2019, contributions to unit-linked contracts rose more than those to *"contrats en euros"* (capital guaranteed contracts – or misleadingly called "with profit policies" in the UK)) and their share in total mathematical reserves increased from 17% to 23%[146]. This increase is due partially to capital

[145] Faider.org, 6 June 2019

[146] BETTER FINANCE estimate, as, as of August 17, 2020, neither the French regulator nor the French Insurance Trade Association had released their key figures for the year 2019, which they published in July the previous years.

gains, but more from net inflows (contributions minus benefits). Unit-linked contracts accounted for 30% of net inflows to life insurance in France in 2013 and 27% in 2019.

Table FR2. Life insurance mathematical provisions (in € billion)								
	2013	2014	2015	2016	2017	2018	2019	2019/2018
Capital-guaranteed contracts	1,195	1,235	1,269	1,282	1,280	1,298	1,340	3.2%
Unit-linked contracts	239	259	282	309	352	341	400	17.3%
All contracts	**1,433**	**1,494**	1,549	**1,591**	**1,632**	**1,639**	**1,740**	**6.0%**

Sources: FFA, BETTER FINANCE estimates for the 2020 split between the two contract categories

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 aims to incite savers to accept a higher level of risk in the short-term for potential better long-term return, for example by investing more on equity markets. By the end of 2018, those contracts amounted to only €2.5 billion of mathematical provisions,[147] probably at least partly due to the ultra low interest rates, making it challenging to generate a decent return. Since 2016, insurers are allowed to transfer unrealized capital gains from their general assets covering capital guaranteed contracts to the *Eurocroissance* contracts to boost returns.

Personal deferred annuity plans

"People pension savings plan" (PERP[148])

PERPs were launched in 2004 as insurance-regulated personal pension plans. Thanks to higher contributions and paid benefits remaining low, mathematical provisions in PERP personal pension plans increased from €7.5 billion in 2011 to €19.1 billion in 2018. However, the share of the PERP as part of the overall savings of French households remains very small.

The number of subscribers increased slowly from 2011 to 2018 from 2.1 to 2.5 million, (+18%), and -1% % in 2018 alone due to an exceptional ban on tax deductibility.

"Contrats Madelin" (for self-employed individuals)

Mathematical provisions related to "*contrats retraite Madelin*" increased by 2.2 % in 2018 to 36.7 billion.[149] There were 1.287 million outstanding contracts at the end of 2018 (+2.9%). The "*contrats Madelin*" are widely used by self-employed individuals because the PAYG system is less generous (and contributions lower) than for employees.

"Contrats Madelin agricole"

Mathematical provisions of "*contrats Madelin agricole*" (plan for persons working in the agricultural sector) increased by 4.4% in 2018, to €5.6 billion. 321,000 farmers had an open contract at the end of 2018.

[147] Source : FFA
[148] *"Plan d'épargne retraite populaire".* Figures source: FFA, French Federation of Insurance.
[149] Source: Federation Francaise de l'Assurance (FFA)

Personal pension products exempted from governance rules

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, have the right to propose resolutions to the general assembly. However French Law exempts the three biggest ones (Préfon, Corem and CRH) from all these governance rules protecting pension savers' rights. They could also transform themselves into PERs as soon as 2019 without requiring the approval of their particpants as for any other pnsion savings product.

Préfon

Préfon is a deferred annuity plan open to all current and former public employees and their spouses, had 398,600 participants at the end of 2019 (+1,7%% from 2018). Its assets under management reached € 17,3 billion (market value) at the end of 2019, up from €15,6 billion at the end of 2018.

Corem

Corem is also a deferred annuity plan open to everyone but so far mainly subscribed to by civil servants, had 385,581 participants at the end of 2019 (down from 397,515 in 2016). Its assets under management grew from € 7.6 billion at the end of 2012 to € 11.1 billion (market value) at the end of 2019[150].

CRH

CRH (*"Complementaire Retraite des Hospitaliers"),* a deferred annuity plan[151] open to all public employees from the public health sector and their spouses, had 353,000 participants in 2019. Its technical reserves amount to €3.3 billion in 2018.[152] We could not find more precise publicly available information.

Collective deferred annuities

In total, mathematical reserves grew very little, from €118.8 billion to 119.1 billion, from the end of 2017 to the end of 2018.

For insurance-regulated corporate defined contribution plans under "Article 83" of the French tax code ("PER Entreprises" or PERE), mathematical reserves stood at €59.6 billion at the end of 2019.

For insurance-regulated defined benefit plans ("Article 39" of the French tax code), mathematical reserves stood at €39.3 billion at the end of 2018.

[150] Combined participants and assets of Corem and "R1", closed pension plan managed by the same provider (UMR).
[151]Rights acquired before mid 2008 do not provide annuities guaranteed for life, but only for 10 to 15 years.
[152] Règlement intérieur CRH 2020 article 18.

Corporate long-term savings plans

The total assets of French defined contribution corporate savings plans (PEE[153] + PERCO+ collective PER) increased by 15% in 2019 to € 144,8 billion, helped by the buoyant stock market. The number of members in those plans increased to 10.6 million people in 2018.

The *"Plan d'Epargne Retraite Collectif"* (PERCO), exclusively dedicated to pension investments, is still less "mature" than other pension plans as it started in 2004 but continues to grow quite rapidly. Since October 2019, PERCOs have begun to be converted into the new "collective "PERs". Assets under management amounted to € 20 billion at the end of 2019 (+20% over 2018). 3.1- million employees had a PERCO at the end of 2019 and 264,000 companies propose this type of plan to their employees.

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

Charges: opaque, high and rising

Available data on average annual charges for savings products are scarce in France. Overall annual fees for French equity funds were 1.88% on assets, and 1.96% for European equity ones in 2018. But they were unusually low that year due to the impact of the stock market downturn on performance fees. In 2017 the average fees were respectively 2.10% and 2.14%[154]. For equity funds offered via unit-linked contracts, they reached 2,03% on average in 2020[155]. These charges alone appear high: the average ongoing fund charge for all UK domiciled active funds (both equity funds and all other funds) was only 0.92 % in 2015 (1.38% for retail funds and 0.69% for institutional ones).[156]

For the first time in 2018, the Regulator ACPR published the annual average charge on Insurance capital-guaranteed contracts *("fonds en euros")*: 0.61% of assets[157], but that does not include:

- profit sharing taken by insurers (0,21% in 2018),
- underlying fund fees
- and the impact of entry and exit fees.

However neither ACPR or the Industry trade body disclose any information on the charges of Unit-linked insurance contracts, which cumulate two annual fes: the units' (investment funds) charges and those of the wrapper contract itself. Contract fees alone account for 0.95% in fees on average per annum on assets according to private surveys[158].Overall, for unit-linked insurance contracts invested in

[153] PEE: « *Plan d'épargne entreprise* » is a corporate savings plan where savings are typically blocked for a minimum of five years.
[154] La lettre de l'Observatoire de l'épargne de l'AMF - n° 37 – mars 2020
[155] Good Value for Money, newsletter nr. 40, May 2020
[156] UK Financial Conduct Auhtority – Asset Management Market Study, November 2016 https://www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf
[157] ACPR, 2019
[158] Dossiers de l'épargne n°152, 2014. A more recent evaluation (2020) mentions 0,90% but on the rise as newer contracts tend to charge 1,00%.

equity funds, the total average fees are estimated at 2.93% per annum, 2.08% when invested in bond funds, and 2.88% when invested in multi asset funds[159]. More than half of investment funds held by French households are through these unit-linked insurance contracts.

These average fees are very high: assuming the equity funds performed on average like the French equity market did (see Graph FR3), an investment made at the end of 1999 and held for 20 years would have been charged with more than 50% in accumulated fees (and much more for equity funds held via insurance contracts). They also seem to be rising even more. For example, the biggest life insurance subscribing association announced in 2019 an increase of its units-linked contract annual fees by 35 basis points[160].

There are very few data available on charges for personal and occupational deferred annuity plans, as well as for corporate DC plans. When available, the data tell us that they are on average rather high. For example, Préfon charged 0.54% on assets for asset management plus 3.90% entry fee in 2019. For unit-linked personal pension products, the French government has lifted the 15-year ban on commissions in 2019. This will massively increase their charges. FAIDER estimates the cost impact fro French pension savers to be a minimum of € 20 billion over the life of the PPP contracts.

For the first time, ACPR published the average annual charges for personal and occupational differed annuities in 2018: 0,47% that year. But, like for life insurance, this does not include the profit sharing for the provider (0,24% on average), the underlying fund fees and the impact of entry and exit fees. Exit fees can be very heavy on annuities, typically 1 to 3%.

Taxation

For PERPs and Public Employee schemes (*Préfon, Corem, CRH*), contributions are deductible from taxable income up to 10% of total professional income with a tax deduction ceiling (€31,383 in 2017). For *Madelin* contracts, the ceiling is higher. Annuities are taxable like pensions with a 10% fixed haircut (with a ceiling of € 3,752 in 2017). They are also subject to a social contribution, currently limited to 7.4%. This tax will increase to a 9.1% maximum in 2018. In some cases, capital withdrawals are allowed up to a 20% maximum of total pension rights. In those cases, the current taxation is 7.5% income tax plus social contributions of 15.5% (raised to 17.2% in 2018).

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

The general rise in taxation of savings also impacted life insurance. The law of 29 February 2012 increased the rate of "social contributions" from 13.5% to 15.5%[161]. This new rate applied as of 1 January 2012 to property income and financial capital gains, and from 1 July 2012 onward to interest, dividends and real estate capital gains. As such, the minimum tax rate on life insurance income went up to 23% (7.5% income tax +15.5% social contributions). This rate applies to any divestments of €

[159] Good Value for Money, newsletter nr. 40, May 2020
[160] Afer.fr, 2019
[161] Loi de Finance rectificative du 29 Février 2012 : LOI n° 2012-354 du 14 mars 2012 de finances rectificative pour 2012

4,600 and above per annum for an individual, and € 9,200 for a couple. Below these thresholds, the minimum overall tax rate falls to 15.5%.

The taxation of all long-term financial savings has again been globally increased from 2018 on, with the creation of the “PFU” or “flat tax”. It amounts to 30% except for life insurance contracts after eight years (24.7% in 2018 instead of 23% before). Direct long-term investments in equities will no longer be taxed at a lower rate than short term ones: the negative impact of inflation on long term investment values is no longer taken into account except for real estate investments.

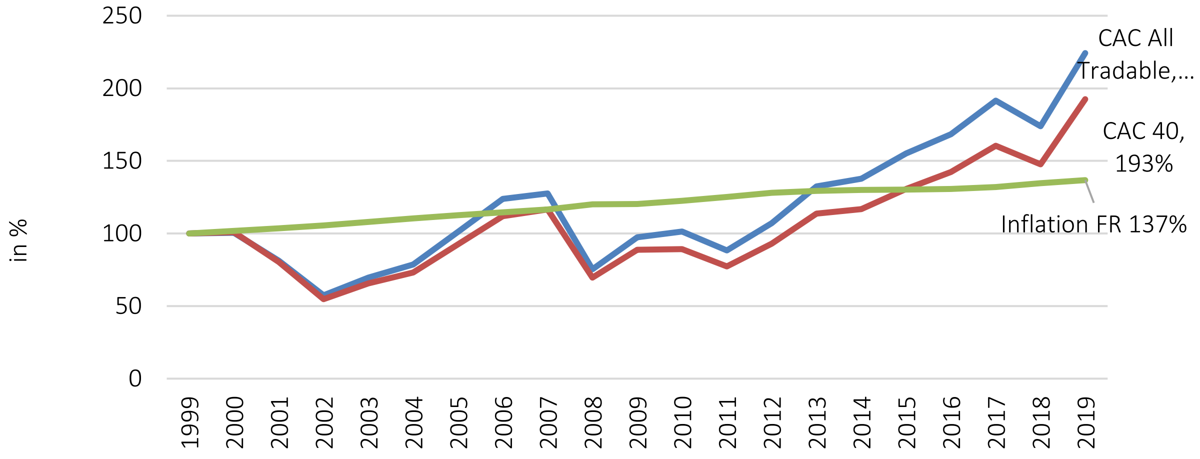
On the other hand, the wealth tax has been abrogated on all financial assets from 2018 on.

Pension Returns[162]

Shares and bonds (direct investment in securities)

In 2019, the French equity market (dividends reinvested) rebounded strongly as most other equity markets: + 29% (CAC all tradable GR index). Over the last 20 years (end 1999 to end 2019), it returned a total of (all shares) +124% % (+4,12% annual average), while large capitalisations (CAC 40 index, dividends reinvested as well) returned less, +92 % (3.33% annual average), demonstrating the very strong over-performance of small and mid-cap equities. Inflation over the same period was 37% (1.58% annual average). So, despite two sharp downturns (2000-2002 and 2007-2008) plus another drop in 2018, French equities delivered positive nominal and real returns over the whole period. However, the real (after inflation) performance of the most liquid stocks started to be positive only since 2015.

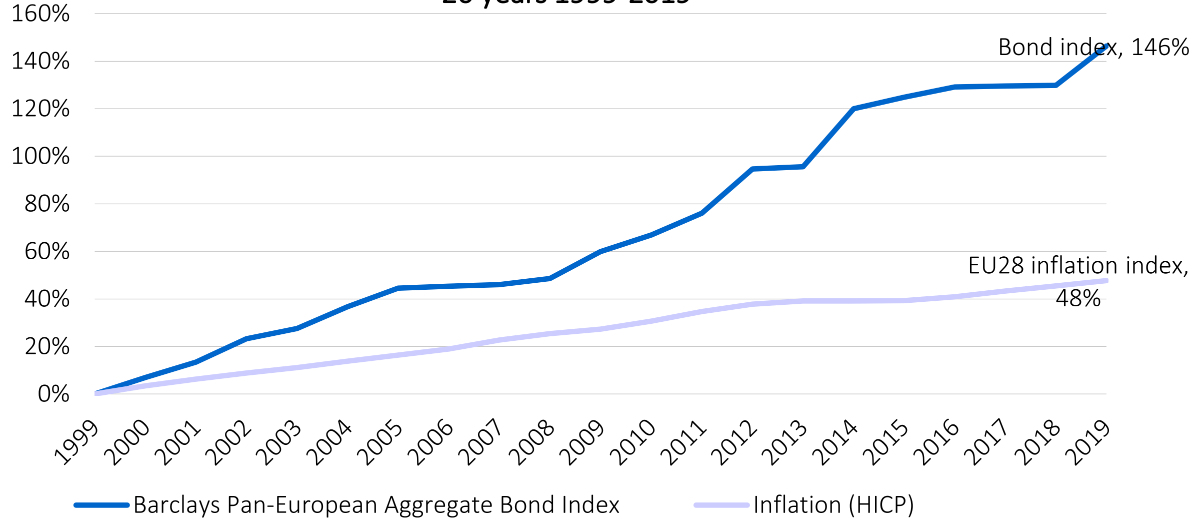
Graph FR3. French Equity market performance: broad market vs. big caps market - 20 years (1999-2019)



Source: Own composition based on Euronext and Eurostat data

[162] Real Returns in the French case are calculated using Eurostat HICP monthly index annual rate of change (December to December)

Graph FR4. Cumulated Performance of Euro Area Bond Index
20 years 1999-2019



<u>Sources</u>: Barclays Pan-European Total Returns & Eurostat HICP EU28 (midx)

The performance of Euro Bond markets increased sharply in 2019, thanks to the quantitative easing policy of the European Central Bank. Overall, capital markets delivered significant positive returns[163] over the last twenty years despite two major downturns in equity markets, in large part thanks to the continuous decline of interest rates and its positive impact on the value of bonds.

Life insurance contracts – capital guaranteed

The <u>after-tax</u> real returns of guaranteed life insurance contracts declined sharply again to another loss of -0.6% in 2019, due to the combined effect of very low interest rates, a resurgence of inflation, and increased taxation since 2018. This is its poorest performance in decades. 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 11 years on average. These contracts – although of a long-term nature – are invested only 8% in equities[164].

Over a 20-year period, cumulated after-tax real returns of guaranteed life-insurance contracts totalled 23%, and varied from a maximum annual performance of +3.1% in 2001 to a negative performance of -0.6% in 2019.

In the most favourable case, where savers do not redeem more than €4,600 per annum and at least eight years after the first subscription (see Taxation section above), real returns after tax are slightly better (-0.5% in 2019 and 29% cumulated over the last 20 years).

These returns do not take into account the changes in the insurers' reserves for profits sharing ("Provisions de participation aux bénéfices), which are legally required and are credited with the capital gains on sales of non fixed income portfolio assets. They have to be returned to the life insured within

[163] Of course, these market returns are without charges and without taxes. The closest retail investment products would be low-cost index funds using the same indices over the same period. As a reference, annual charges on the Lyxor CAC40 ETF index fund are 0.25%, and 0.25 % as well on the Vanguard Euro Government Bond Index Fund.
[164] Source: goodvalueformoney.eu, 2019

8 years of their inception. They are then included in the annual return. This rule is threatened by the French regulators who allowed insurers to book up to 70% of these profit-sharing reserves into their shareholders' funds for prudential purposes in January 2020. The outstanding amounts of these reserves stood at 4.3% of mathematical reserves end of 2018.

Table FR5. The returns of French life insurance contracts – capital guaranteed (%)

	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	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	0.3	-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	1.6
2016	1.9	1.1	0.7	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

*Source: FFA, GVfM, Eurostat (HICP inflation index); * for redemptions below € 4,600 per annum*

Contradictory factors impacted real returns after tax in 2019:

- Nominal returns dropped sharply after flattening the previous year due to a drop in interest rates but also to pressures from the French Supervisor to lower the return allocated to savers. Following capital guaranteed life insurance reporting rules, capital gains or losses are not accounted for in the disclosed returns above.
- Inflation slowed down dramatically, from 2.7% in 2011 to a low of 0.1% in 2014 but rebounded to 1.6% in 2019.
    - In 2012, taxation increased by 200 basis points, as a result of the rise in social contributions from 13.5% to 15.5%. In 2018, social contributions rose again to 17.2%. As taxation is applied to nominal returns, any rise in inflation increases the real tax rate which reached 76% in 2017, as shown in the table below. Since 2018 as the real income bedore tax is negative, taxing nominal income had the effect of mushrooming the real loss for life insurance savers.

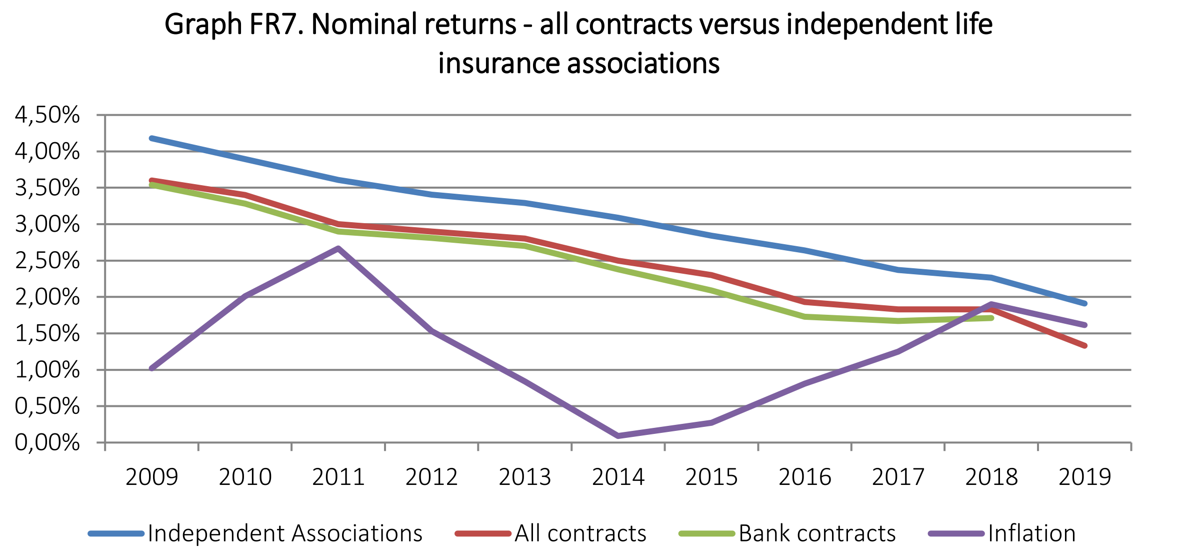
Table FR6. French nominal and effective tax rates on capital guaranteed life insurance returns (%)			
	Inflation	Nominal tax rate	Effective* tax rate
2000	1.8	13.4	21
2001	1.5	13.4	19
2002	2.2	13.4	25
2003	2.4	13.4	29
2004	2.2	13.7	29
2005	1.8	18.5	32
2006	1.7	18.5	32
2007	2.8	18.5	60
2008	1.2	18.5	27
2009	1.0	19.6	28
2010	2.0	19.6	49
2011	2.7	21.0	194
2012	1.5	23.0	49
2013	0.8	23.0	33
2014	0.1	23.0	24
2015	0.3	23.0	26
2016	0.8	23.0	40
2017	1.2	23.0	76
2018	1.9	24.7	-458
2019	1.6	24.7	-118

*Source: Eurostat (HICP index 2015 base), BETTER FINANCE computation; *Effective tax rate = tax / real (net of inflation) income*

These average returns mask important differences depending on distribution networks and governance: for contracts distributed by banks, the 2018 average nominal return was only 1.71%[165], whereas the return of contracts subscribed by independent associations was 2.27%[166]. One reason is higher annual average fees for bank insurers (0,64% versus 0,45% for traditional insurers in 2018). Considering that contracts distributed by banks represent 61% of the French capital guaranteed life insurance market, this return gap constitutes an opportunity cost of €18 billion for the last three years (2016-2018) alone for savers getting their capital-guaranteed life insurance contracts from their bank instead of from independent savers' associations.

[165] Source: ACPR

[166] Source: Faider. Independent associations representing life insurance contracts holders included AGIPI, AMIREP, ANCRE, ASAC-FAPES and GAIPARE in 2019. FAIDER is a member organisation of BETTER FINANCE.



<u>Source</u>: Own composition based on FAIDER, ACPR, FFA data; data for bank contracts not available at the time of writing

Life insurance contracts – unit-linked

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

Over a 20-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).

Table FR8. The returns of French life insurance contracts – unit-linked (%)			
	Diclosed Return	Real return before tax	Real return after tax
2000	-2	-4.6	-4.6
2001	-9.5	-11.7	-11.7
2002	-15.2	-17.8	-17.8
2003	8.4	4.9	4.9
2004	6.4	3.1	3.1
2005	14.4	11.4	11.4
2006	8.8	6.0	5.8
2007	1.5	-2.2	-2.2
2008	-22.3	-23.9	-23.9
2009	14.4	12.2	12.2
2010	5.2	2.1	2.1
2011	-7	-10.3	-10.3
2012	11	8.3	8.3
2013	8.2	6.3	4.6
2014	5.9	4.8	3.7
2015	4.1	2.8	2.1
2016	2.9	1.1	0.7
2017	5.8	3.5	2.4
2018	-8.1	-10.7	-10.7
2019*	14.7	11.8	8.5

Source: FFA, Eurostat (HICP index), own calculations (deduction of the non-deducted fees, and of HICP price index variation from disclosed returns)

** BETTER FINANCE estimate as FFA data wre not available as of 31/08/2020*

All life insurance contracts – 20 years returns (1999-2019)

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 20 years later, one has to subtract the entry costs paid 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[167] of the investment, 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 (FFA), but not for unit-linked one.

Table FR9. Real returns of all life contracts 1999 - 2019		
	20-year return	Average yearly return
Before tax returns		
Capital guaranteed contracts	38.9%	1.7%
Unit-linked contracts	-14.9%	-0.8%
All contracts (avg.)	28.5%	1.3%
After tax returns		
Capital guaranteed contracts	23.0%	1.0%
Unit-linked contracts	-21.5%	-1.2%
All contracts (avg.)	14.4%	0.7%

Source: FFA, own computations (based on the relative weight of both categories in the overall mathematical reserves)

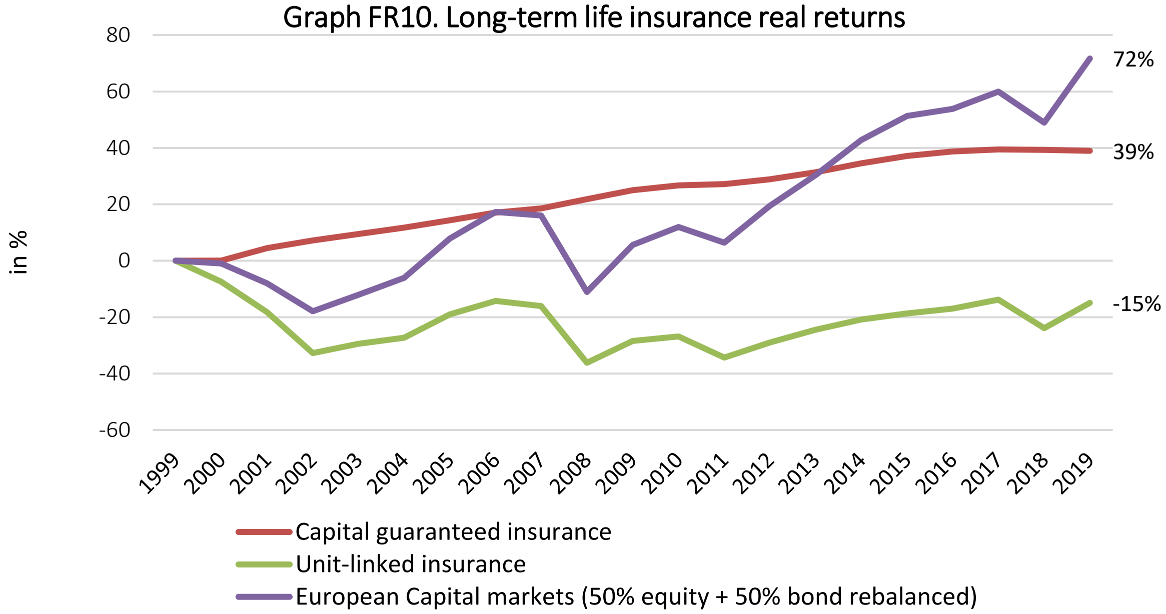
[167] Source: OEE

An average saver has thus gotten a cumulated net real after tax return of 23%[168] for this 20-year period of investment on guaranteed contracts, and a negative one of -21.5% on unit-linked contracts. On a yearly basis, the rates of returns would be 1.0% and -1,2% respectively. It is worth noting that, although unit-linked contracts are riskier for subscribers, they also provided returns that were much lower than those of the guaranteed contracts. Such a lower – and negative - real performance over 20 years is primarily due to:

- much higher fees (see the fees and charges section above),
- and to the fact that mostly expensive funds are offered and promoted and very few if any low cost funds such as index ETFs.

Capital markets as a whole (bonds and equities) provided a positive real performance over the same period (see graphs FR3 and FR4). Graph FR10 below shows that the pre-tax real performance of unit-linked contracts is well correlated to that of capital markets, but massively underperforming those over time (minus 8,661 basis points over the last 20 years), making unit-linked a high-risk and low return offer.

Graph FR10. Long-term life insurance real returns

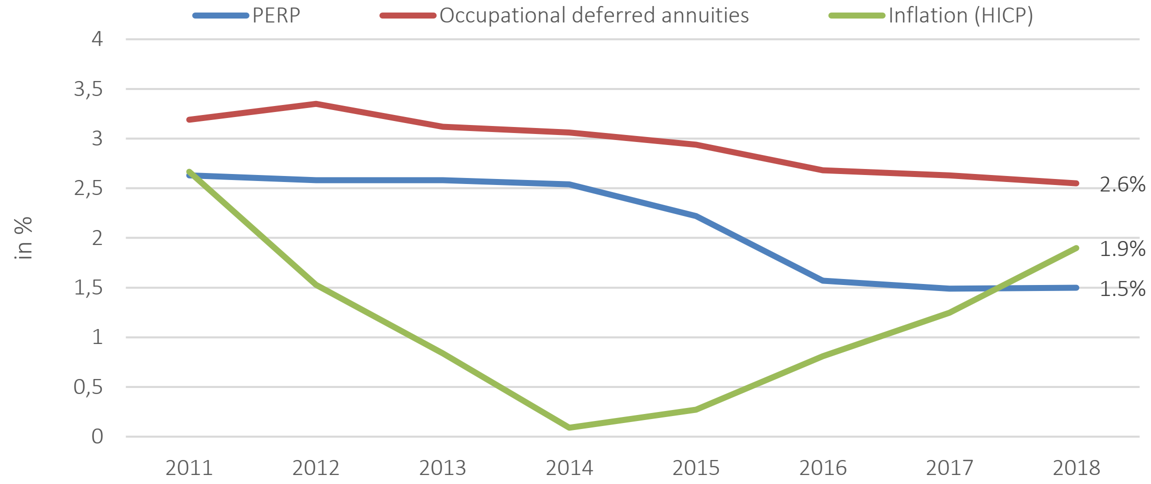


Source: Own composition based on STOXX, Bloomberg, Tables FR6 and FR7.

[168] + % with the most favourable tax treatment, see table FR 3 above

Personal and collective deferred annuities

Graph FR11. Nominal returns of PERP* and occupational deferred annuities** (2011-2018) in %



** Capital guaranteed funds ("fonds en euros") only*
*** Those include PERE, Madelin and Article 39 contracts*
Source: ACPR, 2019

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 below).

It was again impossible to find global long-term return data on PERPs. The insurance industry body (FFA) 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. Based on the disclosed nominal returns of a majority of PERPs collected by the French Supervisor ACPR only from 2011 to 2018 (as of 31/08/2020), the weighted average nominal return of the capital guaranteed PERPs *("fonds en euros")* was only 1.50% in 2018, lower than the return of ordinary capital guaranteed life insurance contracts.

This can be surprising as PERPs enjoy a much longer duration of their liablities, which should allow for a higher allocaton to equities which have performed much better than bonds since 2011. The returns of PERPs should also be boosted by the rule unique to PERPs according to which the commissions (inducements) on units (funds) must be credited to the PERP, and, in practice they are credited to the capital guaranteed fund. On the other hand, PERPs are on average more recent than ordinary life insurance contracts and therefore their bond portfolio generates lower returns.

In addition, these returns do not take entry fees into account, which are probably comparable to those of ordinary life insurance (2.76% on average in 2000).

In 2018, pre-tax real returns of French personal pensions (PERP) are negative on average, as in 2011. They were already negative after tax on average in 2017.

Madelin, PERE and Article 39

The nominal returns of occupational deferred annuities were much higher (2.55% in 2018) 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. For the first time in 2019; the French supervisor ACPR published the average annual cost of 0.47% but that is for all personal and collective diffred annuity oproducts combined.

Unfortunately, it does not currently identify separately the historical returns and costs of the pensions 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") and DB plans ("article 39"). Following the European Commission's request for the European financial Supervisory Authorities to improve the transparency of past performances and fees, it is urgent to collect, analyse and disclose these data.

Deferred annuity plans exempted from governance rules (Préfon, Corem, CRH)

One difficulty in assessing real returns of deferred annuity plans is that up to 2010, it was not mandatory for those plans to disclose investment returns, Préfon being one example. Following action by BETTER FINANCE's French member organisations, a 2010 Law[169] made this a legal requirement from 2011 onward. However, since then Préfon only discloses an accounting return (taking into account only realised gains on sales of assets besides interest and dividend income) and does not disclose an economic return (taking into account the annual evolution of the market value of all assets in the portfolio).

Préfon

Préfon published an accounting return (net of fees) on its investment portfolio for 2019[170] of 2.88% versus 2.80% in 2018. However, as mentioned above, the accounting return does not take into account the changes in the market value of assets (unrealized capital gains stood at € 3.7 billion end of 2019 (21 % of the total market value). In addition, part of the investment return could be set aside in order to replenish reserves. In 2010, the French Supervisor (ACPR) decided that Préfon reserves were not sufficient and forced Préfon's insurers to contribute €290 million of their own funds (as of 31 December 2013) to help Préfon balance its assets and liabilities[171]. At the end of 2016, this contribution from the insurers amounted to €333 million[172] despite the massive cuts in pension rights for those who retire after age 60 decided in 2014 and 2017 (see below Graph FR12).

[169] Law n° 2010-737 of 1 July 2010 - art. 35 (V), which modified Article L441-3 of the French Insurance Code.
[170] Préfon also disclosed a "portfolio performance" of +13.25% for 2019 excluding real estate and private equity.
[171] *"Les Echos"* 27 December 2010. This information was not disclosed by *Préfon* to the participants.
[172] Source : Rapport de gestion Préfon Retraite 2016

In 2017, in relation to the entry inot 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 ration, but – up to now – not enough to allow for increasing the nominal value of pensions (see below).

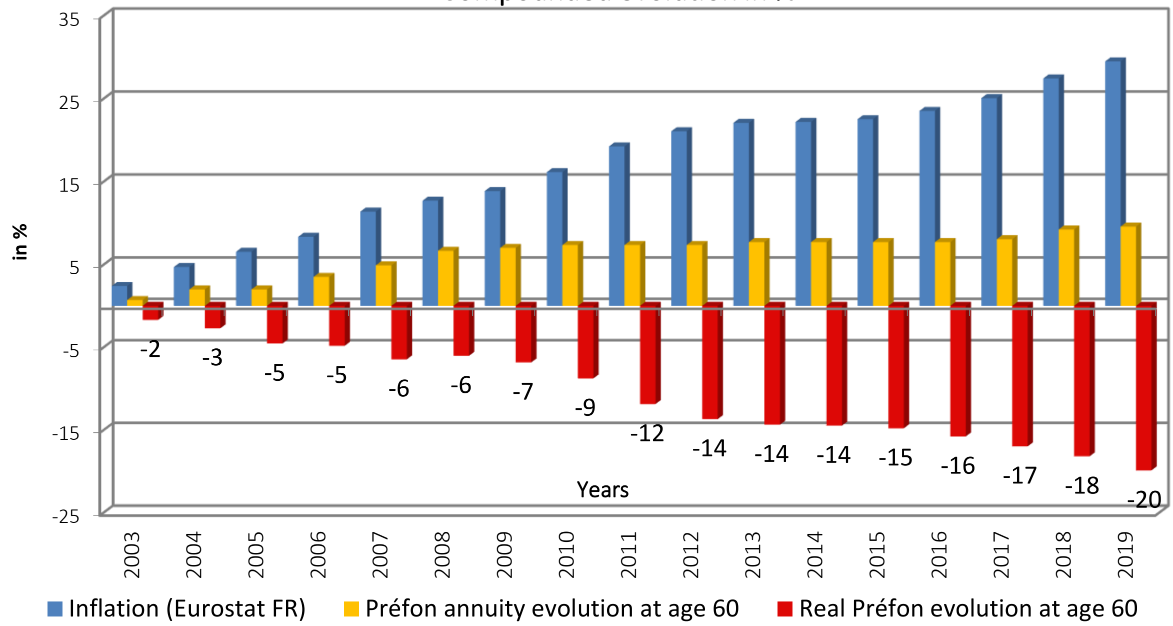
In addition, the value of the participants' accumulated savings is communicated individually to them only since 2012, and unfortunately with more than a one-year delay (this essential information should be released much sooner), and just as an "estimate"[173]. It is therefore impossible to compute a real rate of return individually and for all participants with the data currently made available by the Plan.

Thanks to the change in solvency rules, the ratio of assets to liabilities of Préfon increased from 97.5% in 2016 to 122.5% in 2019, allowing it for the first times in many years to increase the nominal value of its annuities, but still hurting their purchasing power (+1.08% versus +1.90% inflation for 2018, and +0.32% versus +1.61% inflation in 2019).

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 one computed and published by the French association of pension fund participants ARCAF. It has been collecting the annual rate of pension rights' and annuities' increases before tax for several years[174] (see graphs FR12 and FR13). Préfon participants who contributed in 2002 and who will retire at the age of 60 have lost 20% of the real value of their pensions (before tax[175]). The advertized objective of Préfon to maintain the purchasing power of pensions has not been fulfilled since 2002 and Préfon remains silent on the perspectives to reduce this loss of the real value of pensions in the future. This key performance information is not publicly disclosed[176].

[173] Besides, this "transfer value" does not include the 5% transfer fee Préfon charges for any transfer occurring within the first 10 years of the contract.
[174] This key data is not publicly disclosed.
[175] Savings into Préfon (like into PERPs and into Corem) are income tax deductible, but the annuities are fully taxable. Both savings and annuities bear social levies ("prélèvements sociaux").
[176] ARCAF, 2019

Graph FR12 - Préfon annuities real value : retirement at age 60 - Compounded evolution in %

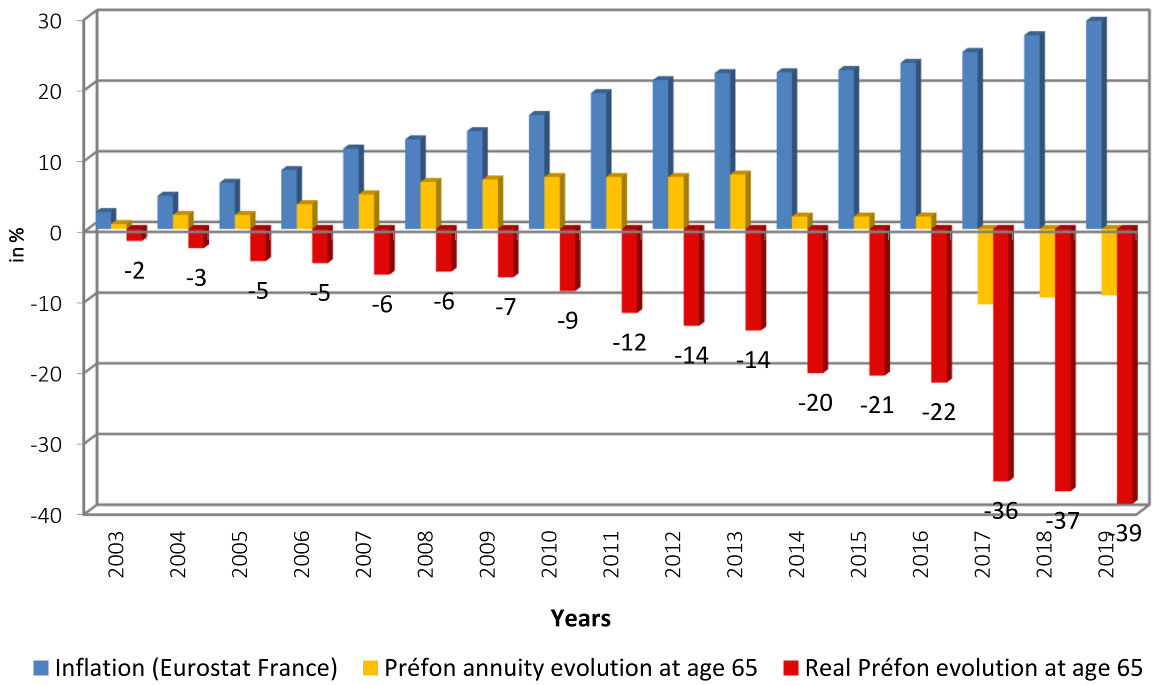


<u>Source</u>: *ARCAF, 2020*

This return indicator, however, does not include the discount rate embedded in the conversion ratio of accumulted 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 fewer and fewer people can retire at age 60 due to the postponement of the legal age to retire with full pension rights. 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, although Préfon has always told its participants at subscription that its pensions could never be reduced in nominal terms. In real terms it is much worse, as shown by the graph below.

Graph FR13 - Préfon annuities real value : retirement at age 65 from 2026 - Compounded evolution in %



Source: ARCAF 2020

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).

Corem

Corem publishes the annual accounting return on its investments but does not specify if these are gross or net of fees. The accounting return for 2019 was +3.74%, slightly down from +3.35 % in 2018. However, this accounting return does not take into account the changes in the market value of assets. In addition, and more importantly, all the investment return of the Corem assets is set aside in order to replenish reserves. It is therefore impossible to compute a collective real rate of return.

The deferred annuity mechanisms of Corem are similar to those of Préfon, with the same difficulties in estimating the real return for the pension saver. Therefore, we also use the evolution of the annuities' values as a proxy return indicator here, as computed by ARCAF (Graph FR14 below). 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 have lost 25% of their real value before tax (purchasing power) over the last 17 years (see graph FR14), as Corem has not increased them for many years, pocketing the return on its portfolio for other purposes. These figures are before tax. This key performance information is not disclosed to the public and to new participants. The reality is even worse as, 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, and the minimum guaranteed return on pension contributions was lowered from 2.3% to 1.5% from 2015 on).

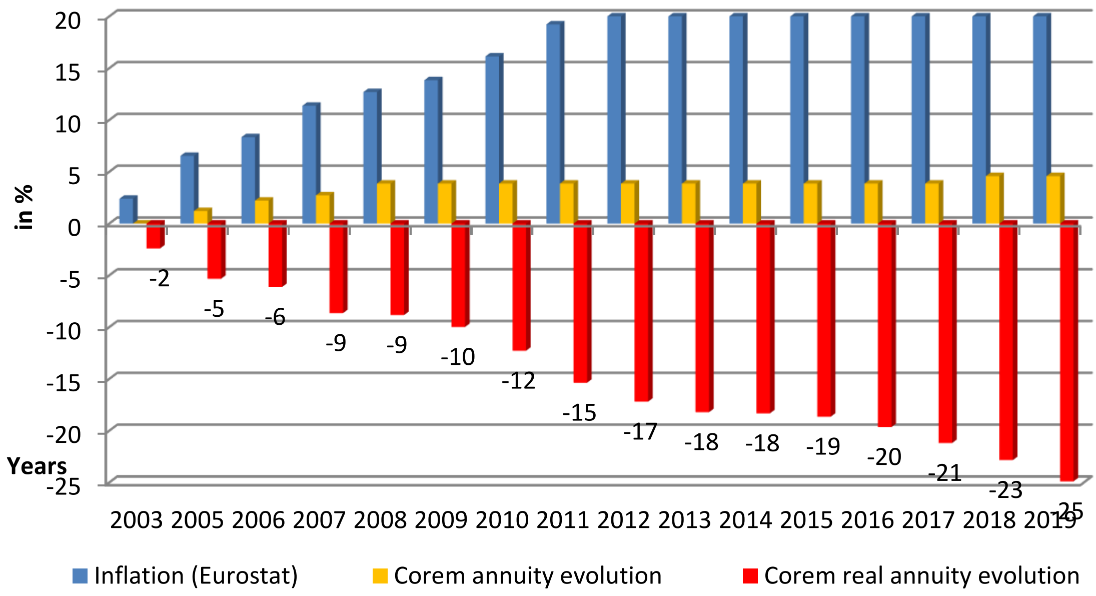
The situation, however, is still difficult as its reserve gap (difference between its assets and the present value of its pension liabilities) reached €2.9 billion at the end of 2014, as measured using French common prudential rules at that time[177]. At the end of 2015, Corem obtained permission from the French Government to use a minimum discount rate of 1.50% (instead of 0.59 % according to the previous rule) to compute the present value of its liabilities, helping it to reduce its reserve gap to €1.3 billion at the end of 2016.

In 2017, the French Government allowed deferred annuity schemes such as Corem to use the market value of assets instead of the accounting (acquisition cost mostly) one, to compute its assets/liabilities coverage ratio. This new rule improved its coverage ratio to 98.2 % at the end of 2018, but it went again in 2019 to 96.5%. 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 allows it to reduce the nominal value of annuities under certain conditions, contrary to the commitment that was provided to particpants when they joined.

The distribution of new Corem contracts has resumed in 2019, despite the continuously escalating losses borne by its participants. In early 2020, Corem's manager warned that the situation created by the Covid19 epidemics could lead to a lowering of even the nominal pension amounts as soon as 2021.

Graph FR14. Corem annuities real value, compounded evolution in %



Source: ARCAF 2020

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

Overall, BETTER FINANCE estimates the loss of purchasing power over the last seventeen years (2002-2019) of participants to the French Public Employee Pension Schemes to be at -21.6% (-1.4% per annum), based on the relative asset portfolio size of Préfon and Corem, and assuming that Préfon participants retire at age 60 and not later.

CRH

CRH does not disclose an annual report or financial data publicly. Even its pre-contractual publications do not disclose past performance. Because of an on-going restructuring that started in 2008, the real returns of this plan are probably low and below inflation. For the last five years (2014-2019), CRH annuities value has increased by 2.1%, against an inflation of 6.0%.

Defined contribution corporate plans

Table FR15. French corporate savings plans - 20 years returns before tax 1999-2019

Fund ("FCPE") category	Equity	Bond	Money market	Diversified	All funds
20Y Nominal return	50.6%	73.8%	30.8%	61.3%	59.8%
Yearly average	2.1%	2.8%	1.4%	2.4%	2.4%
20Y Real return	9.1%	27.4%	-4.4%	17.8%	16.9%
Yearly average	0.4%	1.2%	-0.2%	0.8%	0.8%

Source: AFG/Europerformance

With the help of AFG, the French asset management industry association, we combine information provided by "Europerformance" on the performance of each category of funds with data on their total outstanding relative weight[178] to estimate the overall returns of corporate savings.

Real returns of corporate DC-based (Defined Contribution) plans before tax over an 20-year period, from the end of 1999 to the end of 2019, were overall positive: the yearly average real performance before tax of the aggregate of all funds was 0.8%, which makes French DC plans the second best performing pension savings product after life insurance capital-guaranteed contracts, and way ahead of life insurance unit-linked contracts.

The overall real returns before tax are influenced predominantly by the surprisingly heavy weight and negative return of money market funds (23% of assets; -4.4%), and the positive real return of DC equity funds (with a very strong real return in 2019 of +21.7%), but three times lower than that of bond funds in 2018). Equity funds, which account for about 20% of total outstanding assets (excluding company stock), greatly underperformed equity markets over the last 20 years: +51% in nominal terms versus +115% for European equities for example; see graph GR13 above. Also, DC Bond funds (around 21% of

[178] Data published by AFG relate to "FCPE L214-39". 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 L214-40" 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 L214-40" funds. The "FCPE L214-39" assets represented 62% of all FCPE assets at the end of 2019.

total assets) returned +74% in nominal terms over the period versus +146% for the European bond market (see graph FR2).

Like for unit-linked insurance contracts, a primary factor for this underperformance of DC equity and bond funds could be the level of fees charged.[179] Unlike the US corporate DC pension plans ("401k"), the French ones do not invest in general purpose mutual funds, but in special purpose alternative investment funds (AIFs) called FCPEs, specifially dedicated to these plans. Consequently, French savers are faced with an additional offering of investment funds (about 1900FCPEs in addition to the about 3,500 UCITs funds already domiciled in France),the average size of these AIFs is quite small, and many FCPEs are merely wrappers of other – general purpose – funds, adding a layer of fees. Another factor is that equity FCPEs are not 100% invested in equities.

However, a recent research completed by the French supervisor over 2008 to 2017 using the SIX commercial fund database (which included 686 FCPEs) concluded that investment fund fees inside French DC corporate plans were significantly lower than for general purpose "retail" investment funds: -0.66% for equity, -0.39% for bond , -0.21% for money market , and -0.60% for multi asset funds[180]. In addition, a part of the FCPE fees is paid by the employers not 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 - and to the double layer of fees in the latter case.

A limitation of such computations is that performance indices provided by "Europerformance" 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 concerned company ("company stock"), accounting for 38% (€ 54.7 billion end of 2019) of all corporate savings plans.

Return of regular identical investments over 20 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 up to the end of 2019. Many pension savers will tend to invest regularly every year or every month. With the help of the French trade association AFG, we computed the annualized returns from 2000 to 2019 for the same amount invested every year over the last 20 years. This provides a similar before tax return of 17.1% instead of 16.9%. This return is 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 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, most of these savings come from non-taxable

[179] The average management fees represented between 1.6 and 2% of managed assets for European equity FCPEs on average in 2013/2014 according to the « Observatoire de l 'épargne de l'AMF » (Nr. 14, July 2015) but it is difficult to know whether this includes fees on underlying funds in the case of FCPE funds of funds.
[180] Frais et performances des fonds d'épargne salariale, AMF, December 2019

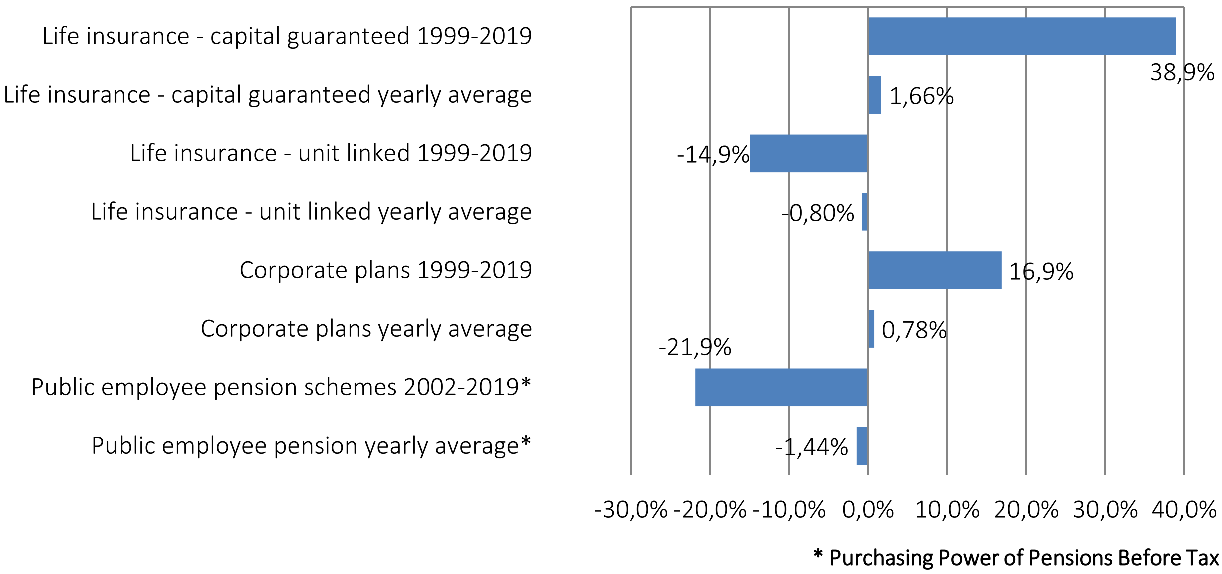
profit-sharing income contributed by employees ("*intéressement*"and "*participation*") and employers' matching contributions.

Conclusions

After a year of negative real returns before tax in 2011, for the main long-term and pension savings product in France, subsequent years were more favourable to pension savers. Against the backdrop of bullish stock markets and lower inflation, unit-linked life insurance contracts showed a positive real performance every year from 2012 to 2017. However, their 20-year performance is still quite negative. The real performance of capital-guaranteed life insurance contracts *("contrats en euros")* has been positive for every year since 2011, but the continued decrease of interest rates, and increases of taxation, have turned it negative since 2018.

Over a 20-year period, from the end of 1999 to the end of 2019, capital-guaranteed life-insurance contracts show on average a positive yearly pre-tax performance of +1.7% in real terms, while the unit-linked contracts show a negative yearly return of -0.8%. Corporate DC plans delivered +0.8% on an annual basis before tax. After-tax returns would typically be higher for those due to a favourable tax treatment.

Graph FR16. French Pension Savings Real Returns before tax, 2000-2019



Source: Tables FR5, FR6, FR8, FR9

Table FR17. Average real net returns of French pension savings (standardised periods)					
Average real net returns	1 year 2019	3 years 2017-2019	7 years 2013-2019	10 years 2010-2019	whole reporting period
Life insurance - CG	-0.28%	0.06%	1.08%	1.06%	1.66%
Life-insurance - UL	11.85%	1.13%	2.61%	1.74%	-0.80%
Corporate plans	7.67%	0.96%	2.34%	1.58%	0.78%
Public employee PS**	-1.53%	-1.91%	-1.19%	-1.62%	-1.44%

Source: Tables FR5, FR6, FR8, FR9

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