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Public thematic report

RETIREMENT SAVINGS

Saving for retirement allows you to save during your working life so that you have the resources to supplement the sums paid by compulsory pension schemes. In the years leading up to the Pacte Act of 22 February 2019, the French supplementary pension landscape was marked by a low level of subscriptions and contributions, despite a favourable tax regime. The law has boosted collection of funds by simplifying and standardising products, which has clarified the retirement savings landscape for members: a single generic product is now offered, the Retirement Savings Plan. The law also aimed to direct investments more towards financing the productive economy.
The Court's assessment shows that the tax deductions available for retirement savings represent an estimated cost to the public purse of at least €1.8 billion in 2022 (excluding compulsory group retirement savings), despite the fact that its objectives remain ambiguous, ranging from preparing for retirement to financial savings. In this respect, the Court notes that the scheme is not widely available among the general public and is concentrated on wealthy and elderly beneficiaries. Lastly, the specific impact of retirement savings on the financing of the economy remains weak, as it is not clearly differentiated from life insurance in terms of long-term investments.

Retirement savings, simplified by the Pacte Act

Prior to 2019, the retirement savings system was the result of the accumulation of disparate products, each aimed at different categories of the population and differing in terms of the associated benefits. The Pacte Act has simplified this landscape for members, by now offering just one generic product, the Retirement Savings Plan, available in three different versions: the individual PER (PERIN) and the compulsory PER (PEROB). This standardisation has clarified and simplified retirement savings, whether offered on an individual basis or as part of a company's employee savings scheme. In principle, the widespread introduction of "managed savings" means that all contracts are managed in such a way as to reduce the level of investment risk as the retirement age approaches. The amounts saved can be paid out in the form of an annuity or a lump sum, as the investor chooses.

Has the Pacte Act encouraged the development of retirement savings, and at what cost to public finances?

After running out of steam in the 2010s, retirement savings schemes have received new impetus since 2019, to the credit of the Pacte Act. Supported by an attractive tax regime, the retirement savings sector collected annual contributions of €18.5 billion in 2022, with €292.7 billion in assets at the end of 2023 and more than 16 million contracts. As France has a compulsory pay-as-you-go pension system, the importance of funded pensions remains modest: in 2022, pension savings accounted for just 5.1 % of pension contributions and 2.3 % of benefits paid. Around 13 % of employed people have a company pension savings plan (PER) and 10 % have an individual product, although it is possible to have both. The retirement savings scheme also represents a high cost for the State (at least €1.8bn each year), given the associated tax benefits.

Has the Pacte Act encouraged a wider access to retirement savings among the French population?

Data on the distribution of retirement savings in the population is either sparse or non-existent. Based on government publications (notably from the Treasury, France Stratégie, Drees and INSEE), it is nevertheless possible to characterise the distribution of retirement savings in the population. The breakdown of the 5.536 million members of individual schemes and the 10.5 million members of company group contracts shows that these schemes tend to be reserved for wealthier socio-professional categories, older savers and taxpayers with high rates of tax. Similarly, the option of carrying forward the unused portion of the deduction limit to the following three years and benefiting from the spouse's limit opens up a wide range of possibilities for taxpayers seeking to optimise their tax situation. Retirement savings, while making it possible to supplement the retirement of those who benefit from low replacement rates, remains first and foremost an investment and savings instrument, whose advantageous tax treatment enables wealthy and relatively elderly savers to benefit from tax advantages.

Does the development of retirement savings encourage productive investment?

A few years after the adoption of the Pacte Act, one of the aims of which was to encourage investment in the productive economy, retirement savings continue to be part of the wider life insurance framework, which makes a significant contribution to secure investments, through the capital guarantee granted for euro funds. The propensity to take risk in equities could be accentuated by a stronger invitation to invest in SMEs/ETIs, as the Green Industry Act of October 2023 encourages. In practice, therefore, the impact of retirement savings on the financing of the economy is not very distinct from the characteristics of life insurance.

The low impact of retirement savings on business equity investment and the concentration of its distribution on wealthy households justify, in a highly constrained budgetary context, a tightening of the tax advantage attached to this product.

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