

REPORTS AND INQUIRIES

Supplementary Pension Schemes in France

Supplementary pension schemes are gaining in popularity in France ; in December 1955 their resources totalled more than 50,000 million francs and their membership over a million-and-a-half.

These schemes have a number of valuable features. Not only do they supply an addition to the old-age pension payable under national social insurance that is largely unaffected by economic and monetary fluctuations ; they also help to reduce labour turnover and encourage productivity by establishing a close link between the future value of pensions and the prosperity of the firm. Moreover, the growth of these schemes is favourable to the national economy, for they make available large amounts of capital for investment and provide extra spending power for certain old-age pensioners.

The study of supplementary pension schemes is complicated by the multiplicity of institutions and funds in existence, varying widely in size, membership, methods and administration. The aim here, therefore, is not to make a detailed analysis of these schemes but rather to bring out their economic importance and, taking for the most part typical schemes and arrangements as examples, to give a general picture of the different formulas employed.

STRUCTURE

The introduction of supplementary pension schemes in France is largely due to the smallness of the pensions payable under the social insurance scheme ; these were instituted in 1930 but will first reach their full rate only for workers who retire in 1960 after having accumulated 30 years' contributions. Even then the total pension cannot exceed 211,200 francs a year.¹

This double restriction, which was felt most acutely by supervisory staffs, led them to set up (under the collective agreements for supervisory staffs signed on 14 March 1947) the first supplementary pension scheme.

This was followed by a large number of other schemes established either under collective or works agreements or by official decree.

¹ Equal to 40 per cent. of the maximum wage used as a basis for calculating contributions and benefit ; this ceiling at the present time is 528,000 francs a year, the level fixed by a decree of 29 September 1955.

Legal Basis of Supplementary Pension Schemes

The great bulk of the supplementary pension schemes now in operation are governed by section 18 of the Social Security Ordinance dated 4 October 1945¹ and the Public Administration Regulations of 8 June 1946, under which the sanction of the Minister of Labour and Social Security is required before a supplementary pension scheme can be established or continued. A few rules were also laid down regarding the granting of benefit. The generality of these rules allows employers and wage earners considerable latitude to negotiate arrangements outside the compulsory insurance scheme ; such arrangements, moreover, are subject to extremely flexible government control.

After some ten years' experience, however, it was found necessary to co-ordinate the work of these funds to some extent in order to safeguard the acquired rights of members who changed occupations and switched from one supplementary scheme to another. This was the aim of the Act of 1 December 1956.²

Types of Scheme

Supplementary pension schemes can be divided into three classes, namely accumulation schemes, assessment schemes and mixed schemes.

The system of accumulation, which is still followed by private insurance companies and the National Life Insurance Fund³, is based on the practice of putting individual savings into reserve and funding them. Although it has unquestionable advantages during periods of stability it has declined in importance owing to the steady fall in the value of money. The face value of pensions has not kept up with wages and prices despite successive adjustments carried out by law since 1939 and the availability on the capital market of "indexed shares" (i.e. shares whose value is tied to the output of the concern) which maintain the value of the insured capital.

The national collective agreements for supervisory staffs have introduced the assessment system, on which almost all supplementary schemes are now based. Under this system a pension is paid in proportion to the earnings of the insured person over his career, contributions being calculated on the basis of the actual earnings of the insured persons. In this way the management of the scheme is able to adjust the rate of benefit from year to year so as to keep it in line with the trend of wages. A number of devices are used to offset as far as possible the insecurity inherent in assessment schemes, particularly the impossibility of guaranteeing the future level of pensions.

Insurance companies have worked out two systems which are a combination of the accumulation and assessment formulas. Under one of these part of the contributions is set aside to finance life annuities in the future and part is used to establish a collective fund out of which life annuities are paid immediately. In the event of depreciation of the currency it is possible to calculate actuarially the amount by which the share of contributions reserved for existing pensioners must be increased. In order to keep the scheme working smoothly, and above all to be able

¹ *Journal officiel de la République française*, 6 Oct. 1945.

² *Ibid.*, 2 Dec. 1956.

³ This Fund combines the former National Old-Age Insurance Fund and the National Widows' and Orphans' Insurance Fund and forms part of the Deposit and Consignment Office.

to pay the standard pension to older workers immediately on their retirement, it may be necessary to require members over a certain age to pay a number of back contributions. In the event of a marked, prolonged monetary depreciation this type of scheme finds it impossible to keep up with the fall in the value of money and the advantages of accumulating reserves are nullified. Under the second system a relatively small proportion of the contributions is allocated to an assessment scheme while the remainder of the income is earmarked for the payment of immediate or future life annuities. This system reduces the burden represented by former wage earners who are already retired. As most of the cost of the pensions is borne by the funded reserve the danger of a fall in the value of the pension through monetary inflation is still present even though offset to some extent by the assessment system; the latter, however, can only meet part of the benefits due for past services. This second system is relatively expensive since a double contribution has to be paid, the first towards the funded reserve and the second, which is usually smaller, towards an assessment fund.

Funds and Institutions

The decree of 8 June 1946 draws an initial distinction between institutions providing specified benefits guaranteed by the company or companies concerned and those whose benefits are subject to adjustment. In the former, liabilities can be accurately ascertained and guaranteed while in the latter benefits are calculated in money of account and may be reduced if resources prove inadequate.

Concerns may run their own schemes themselves or may entrust their management directly or wholly to the National Life Insurance Fund or to private insurance companies. They may also form associations, unions or federations between themselves in order to spread their liabilities or provide greater security.

Side by side with these institutions a number of other bodies have been formed under the Registered Associations Act of 1 July 1901. These bodies take out a retirement insurance policy with a private company, which operates the supplementary pension scheme.

These supplementary pension funds and institutions vary widely in their scope, which is usually left to the discretion of the parties themselves. They may be restricted to the supervisors of a single firm or group of firms or may be open to all the firms in a given occupation or, yet again, to all firms or all wage earners in a given industry or occupation.

A number of company funds have been set up under collective agreements during the past two years. Such funds rank as legal persons and their financial resources are kept distinct from those of the firm itself.

Occupational funds are formed to cover individual occupations. Some, such as the supervisory staffs' provident funds and the autonomous coal mines pension funds¹, are limited to certain clearly defined groups of employees. The development of occupational funds is due to the growth of occupational trade unions and to the desire to establish independent bodies suited to each occupation's structure and resources.

Inter-occupational funds are open to any firm wishing to join them. They are usually private schemes and have the largest membership owing to the desire to spread liabilities as widely as possible.

¹ See p. 388 below.

GENERAL REVIEW OF SELECTED PENSION SCHEMES

*Assessment Schemes**Company Funds.*

An example of company funds based on the assessment system is provided by the bank funds. Their basic scheme laid down by the collective agreement of 20 August 1947 represents a minimum standard and the 24 funds now in existence usually provide a number of additional benefits. Of these 21 are company funds while the remaining three are made up of the staffs of various minor concerns. The total membership of all these funds is 101,300 contributors and 27,200 pensioners. Contributions during 1955 totalled roughly 8,000 million francs and benefits 7,800 million francs. Many banks have retired a substantial number of their employees before their time and this has led to a fall in the ratio of employees still at work to pensioners, with the result that some funds, such as that run by the Comptoir national d'escompte in Paris, have had to vote an increase in the rate of contributions above the maximum allowed by the regulations; alternatively the bank itself has had to grant a subsidy.

Another company fund is that operated by the Régie Renault (motor cars); it is open to other concerns of the same kind and for this reason is more widely known as the Inter-Company Pension Fund (C.R.I.).¹ Under this scheme a supplementary pension is payable in proportion to the members' actual earnings, the minimum pension being 14,000 francs a month. The fund is financed by a contribution at the initial rate of 1 per cent. payable by the member and 1.5 per cent. by the Régie levied on the part of the wage below the social security ceiling. This rate of contribution may be adjusted after ten years. The total membership on 31 December 1956 was around 75,000 while the number of pensioners was 2,000. Contributions received during 1956 amounted approximately to 935,760,000 francs while benefit totalled 266,608,000 francs.

Occupational Schemes.

A decree of 12 December 1951² set up a supplementary pension scheme for certain categories of established and temporary employees of the State, départements and communes, whose incomes exceed the social security ceiling. This scheme had 13,888 contributors and 1,017 pensioners in December 1955. Only a quarter of the contribution rate was levied, yielding 80 million francs and the amount paid out in pensions totalled 46 million francs.

The metallurgical, engineering, electrical and allied trades also have their own pension scheme. This scheme was established in 1894 as a pension scheme financed by the employers on behalf of the workers in the French iron and steel industry. It operated on the accumulation system until 1947, when two assessment schemes were introduced, one for supervisory staffs and the other for the remaining employees. In order to operate the latter scheme, the Metallurgical, Engineering, Electrical and Allied Trades Pension and Provident Institution (I.R.P.S.I.M.M.E.C.)³ was set up. By 31 December 1955, 350 firms

¹ Caisse de retraite interentreprises.

² *Journal officiel de la République française*, 12 Dec. 1951.

³ Institution de retraite et de prévoyance des salariés des industries métallurgiques, mécaniques, électriques et connexes.

belonged to this scheme, with a total membership of 76,600 and 13,400 pensioners. The income from contributions totalled 1,707,500,000 francs and outgoings amounted to 1,123,078,000 francs.

Two pension schemes have been established for the mining industry ; one of them covers the salaried employees and the other the engineers. Membership of the Autonomous Mining Employees' Pension Fund (C.A.R.E.M.)¹ is compulsory for permanent employees, supervisors, mining technicians, etc. On 31 December 1955 this fund had 33,500 contributing members and 19,000 pensioners, of whom 38 per cent. were widows. Contributions totalled 2,450 million francs and benefits 2,292 million francs. Membership of the Autonomous Mining Engineers' Pension Fund (C.A.R.I.M.)² is compulsory for mining managers and engineers. This fund had 4,151 members and 2,032 pensioners (including 870 widows) on 31 December 1955. The total benefit paid amounted to 1,186 million francs, while the income from contributions totalled 1,136 million francs.

Since September 1947 the staffs of social security agencies and family allowances funds have had their own pension fund³, to which the employees of various other agencies of the same kind are affiliated. The bulk of these employees are on the staff of the social insurance funds set up in 1930, so that their length of service is still short. The minimum rate of pension payable to the first members of the scheme to retire is equal to three-quarters of the initial salary of an established clerical employee. On 31 December 1955 the fund had 61,511 registered members, of whom 62.5 per cent. were women, and 4,137 pensioners and 765 widows in receipt of benefit. Contributions for the year 1955 totalled 1,959,607,000 francs, while benefits amounted to 1,851,597,000 francs.

Workshop supervisors, foremen and allied staffs in the metal trades have a pension scheme similar to that of the supervisory staffs (see below). It is run by a number of separate agencies bound by contract to the Metal Trades Workshop Supervisors', Foremen's and Allied Staffs' Pension Institute (I.R.C.A.C.I.M.).⁴ On 31 December 1955 the number of contributors to the 12 schemes affiliated to the Institute was 25,720, while the pensioners totalled 2,312. Contributions amounted to 510,631,000 francs and benefits paid amounted to 191,592,000 francs.

Inter-Occupational Schemes.

The supplementary pension scheme for supervisory staffs was set up under the national collective agreements for supervisory staffs, signed on 14 March 1947 ; under this scheme a supplementary pension is payable to supervisory staffs in the sections of industry and commerce represented on the French National Employers' Council. At the present time the scheme is run by over 68 member funds of the General Association of Supervisory Staffs' Pension Institutions (A.G.I.R.C.).⁵ This Association supervises the running of its member schemes, equalises their liabilities, and fixes the reference salary, together with the value of the points used in calculating the pension and the weighting, if any,

¹ Caisse autonome de retraite des employés des mines.

² Caisse autonome de retraite des ingénieurs des mines.

³ Caisse de prévoyance du personnel des organismes sociaux et similaires (C.P.P.O.S.S.).

⁴ Institution de retraite des chefs d'atelier, contremaîtres et assimilés des industries des métaux.

⁵ Association générale des institutions de retraite des cadres.

to be employed. The scheme covered 83,244 firms on 31 December 1955, with 452,853 active contributors and 107,922 beneficiaries, including 62,186 pensioners, 45,548 widows and 188 orphans. The income from contributions during 1955 totalled 34,228 million francs, while benefits over the same period totalled 27,677 million francs.

Another inter-occupational fund is the General Association of Assessment Schemes (A.G.R.R.).¹ It was founded in 1951 and is similar to the supervisory staffs' scheme; its headquarters is in Paris and it has five subsidiary associations which act as regional sections. On 31 December 1955 the A.G.R.R. had 59,600 members (100,000 on 31 December 1956), of whom over half were employed in the paper and cellulose industries, etc. The number of pensioners in 1955 totalled 8,700 (14,000 in December 1956). Contributions amounted to 945,850,000 francs and benefits to 544,252,000 francs.

A third fund of the same type is the South-eastern Inter-Occupational Assessment Pension Fund (C.I.R.R.S.E.).² This fund, which was set up in July 1950, comprised 255 firms in 1955. There were 12,500 members and 2,113 pensioners, of whom 1,404 were former members of the scheme and 709 were widows. Contributions totalled 175,759,000 francs and pensions 105,438,000 francs.

Finally, the Inter-Occupational Assessment Pension Fund for Industry and Commerce (C.I.R.R.I.C.)³, established in 1953 at Lille, comprised 468 firms and had a total membership of 14,348 by 31 December 1955. The number of pensioners at the same date was 2,522 (1,656 former members of the scheme and 866 survivors). Only 80 per cent. of the contribution rate was levied and this yielded 194,936,000 francs, while the total benefits paid out during the same year were 155,457,000 francs.

Mixed Schemes

Company Schemes.

The pension fund for non-supervisory staffs of the National Aircraft Engine Design and Manufacturing Company (S.N.E.C.M.A.)⁴, which was founded in 1954, covers all employees of the Company who are not members of the supervisory staffs' scheme. The employees' contributions are paid without deduction to an insurance company by which they are funded, while the employers' contribution for each year is used to finance an assessment scheme from which the pension payable is brought up to a given level. On 31 December 1955 the Fund had 6,600 members and 400 pensioners. Income from contributions totalled 133,236,000 francs, while benefit paid amounted to 23,512,000 francs.

Occupational Schemes.

The pension scheme for the staffs of insurance companies, which was set up under the collective agreement of 15 April 1955, is administered by the insurance companies under the supervision of the Insurance Staffs' Pension and Provident Fund (C.R.E.P.P.S.A.).⁵

¹ Association générale des retraites par répartition.

² Caisse interprofessionnelle de retraites par répartition du sud-est.

³ Caisse interprofessionnelle de retraites par répartition de l'industrie et du commerce.

⁴ Caisse de retraite du personnel non-cadre de la Société nationale d'étude et de construction de moteurs d'avions.

⁵ Caisse de retraites et de prévoyance du personnel des sociétés d'assurance.

The scheme was made retroactive to 1 April 1947 and membership is compulsory for all employees of companies and agencies belonging to the Federation of Insurance Companies. The old-age pension scheme is run on the assessment system, although a proportion of the contributions are funded under a group insurance policy taken out by the C.R.E.P.P.S.A. with the insurance companies. This fund had 26,200 contributors and 4,300 pensioners on 31 December 1955. The income from contributions amounted to 1,279 million francs and benefit to 1,078,128,000 francs.

Inter-Occupational Schemes.

Mixed inter-occupational schemes had approximately 131,900 contributors and 17,000 pensioners on 31 December 1955. Total contributions in 1955 amounted to 5,890 million francs and benefit to 2,472 million francs. Examples are the Inter-Occupational Provident Scheme (R.I.P.)¹ and the National Friendly and Provident Association (A.N.E.P.)², which are run on the accumulation system. The General Employees' Pension Institution (I.G.R.S.)³ and the General Inter-Occupational Employees' Pension Fund (C.G.I.S.)⁴ are mixed schemes using both the accumulation and assessment systems.

The first of these schemes, the R.I.P., which was set up in July 1949, is a non-profit-making organisation open to membership by individuals. Retirement policies are taken out with insurance companies. Any person who joins after the age of 49 is required to pay a number of back contributions. In 1953 the R.I.P. had 9,352 members, who had paid 281,111,397 francs in contributions, and 310 pensioners. In 1954-55 membership had reached 17,121 and the total contributions amounted to 631,508,000 francs.

The A.N.E.P., which was founded in October 1950 under the Registered Associations Act of 1 July 1901, has taken out a group policy for its member firms with an insurance company. The Association is open to employers or firms and to persons other than wage earners who subscribe to the group policies and are allowed to choose between a number of different contribution rates. The A.N.E.P. had 371 member firms with 16,000 contributors on 31 December 1955 (20,000 in 1956) and 9,059 pensioners (1954). Income totalled 600 million francs and outgoings under the group scheme were 148 million francs over the same period, while deferred annuities amounted to 103 millions francs in 1955.

Founded in January 1952 for an indefinite period the C.G.I.S.—the third of the funds mentioned above—provides its members with an annual pension subject to readjustment and in certain cases with a life annuity under a pension policy taken out with a private insurance company. Members are given a choice of contribution rates. On 31 December 1955 the fund comprised 543 firms and 9,331 contributors and was paying benefit to 733 pensioners and 230 widows. Membership of the fund reached 13,000 in July 1956 and it is now estimated to total 60,000 since the staffs of dispensing chemists decided to join. Contributions received during 1956 totalled 134,942,000 francs, while benefit paid amounted to 39,641,000 francs.

Finally, the I.G.R.S., which was founded in 1949, had 270 member

¹ Régime interprofessionnel de prévoyance.

² Association nationale d'entraide et de prévoyance.

³ Institution générale de retraites pour salariés.

⁴ Caisse générale interprofessionnelle de retraites pour salariés.

firms, 20,000 contributors and 2,200 pensioners in 1955. Income from contributions in 1955 amounted to 171,299,000 francs and benefit to 93,243,000 francs.

OPERATION

Membership

A pension fund is usually joined by the employer who becomes responsible to the fund for the affiliation of the relevant section of his staff and for the payment of contributions. The employer supplies the fund with a list of the employees (i.e. the members) giving details of their jobs, age, incomes, family responsibilities, date of joining the firm and (where applicable) whether they will be replaced on their retirement; he also provides a list of retired employees and of their spouses or orphans (if any) likely to be entitled to survivors' pensions. On the basis of this information the fund then works out the firms' "weighting"¹, i.e. it calculates the number of previous years' service to be taken into account and the liabilities that would be incurred in relation to the firm's contributions.

The board of a fund has full power to refuse or accept admission either outright or subject to certain qualifications (e.g. restrictions on the rights to be granted in respect of previous service or payment of an extra premium in some schemes). The contract of membership is for an indefinite period²; generally speaking, it is initially concluded for a number of years and is renewed for an equal period failing notice to the contrary. Notice of cancellation must be served between two and six months before expiry of this period. Like withdrawal, notice of cancellation means that the members' rights lapse; it can only be given with the approval of the majority of the contributing members together with a majority of the pensioners.

If a member firm goes bankrupt or is wound up by court order, it is automatically expelled from the scheme, although the members or their dependants retain any rights they may have acquired at the time of expulsion.

Entitlement

Entitlement to a supplementary pension usually depends on three conditions, namely the member's age, the obligation to stop work and the need to complete a qualifying period. These provisions do not apply to employees who are already in retirement, whose earlier service is reckoned in accordance with a special procedure.

Age of Retirement.

The usual age of retirement is 65, although members suffering from a disability recognised by the national social insurance scheme can be paid the same rate of pension at 60 as if they had retired at 65. The retirement age for the staffs of the social security agencies and for bank clerks is 60. The bank scheme also gives employers the right to retire employees under the age of 60 provided they have 30 years' service.

¹ This and subsequent points only apply to certain inter-occupational schemes, since certain operations such as the weighting of firms are only carried out by funds comprising a number of firms and not by those set up by collective agreement and in which membership is compulsory, nor by certain other funds with a limited membership.

² Particularly in the compulsory schemes, the coal mine schemes (C.A.R.I.M., C.A.R.E.M.), the C.P.P.O.S.S., etc.

The age limit is also 60 for office staff and engineers in the mining industry who may, moreover, retire even earlier if, for example, they have worked underground. Members may also retire on pension up to ten years earlier on request, in which case the pension is reduced in proportion to the number of years remaining; this reduction is calculated on the basis of a coefficient ranging from 0.40 if a person retires ten years earlier to 0.93 if he does so one year earlier. If he remains at work beyond the normal retirement age his pension is increased by 1.05 per cent. for the first year's service after that age and by 1.25 or even 1.40 per cent. (as in the C.P.P.O.S.S.) after five years.

Obligation to Stop Work.

A member may be required to stop work before he can draw his pension, so that if he remains at work after the normal age, payment of the pension is postponed. If he re-enters employment after he has started to draw his pension the fund may decide to suspend it while he remains at work. Some funds, however, allow pensioners to continue to draw benefit in addition to their earnings from temporary or part-time jobs.

Qualifying Period.

The number of years' service required for entitlement to a supplementary pension is usually 15. The supervisory staffs' and commercial travellers' schemes require ten years' service before the age of 65. The same is true of the scheme for the press, printing and allied trades. On the other hand a qualifying period of 30 years is required in banking, social security agencies, coal mining, etc. Military service and spells of sick leave or disability recognised by the national social insurance scheme are reckoned as periods of service. Usually the rules lay down the scale for reckoning periods of employment before the scheme came into force or before the member joined, although any service in excess of 30 years is not counted. An employee who leaves his firm without completing the qualifying period risks forfeiting all his rights under an assessment scheme. If he has failed to serve the qualifying period in any of several funds, he may even have no rights at all despite the fact that he has been a member of each of them for a fairly long period. The Public Administration Regulations of 8 June 1946 stipulate that in any event members are entitled to their contributions and that schemes must return these contributions in the form of either a lump sum or an equivalent annuity. Under this provision the employers' contributions take the form of a long-service bonus, since only employees who have served for a prescribed period become entitled to them. Nevertheless, a large number of agreements have been negotiated to facilitate transfers from one scheme to another so that employees who have belonged to different funds can count all their years of membership in calculating the qualifying period and the rate of pension payable.

Nature of Benefits

In addition to the main pension, supplementary schemes usually grant a certain number of additional benefits such as higher rates of pension for members who have brought up not less than three children and relief allowances to those whose circumstances warrant them (to former members' survivors who are not entitled to benefit, etc.).

If at the time when a member becomes entitled to benefit his rate of pension is lower than a certain sum or a certain number of points the fund replaces the pension by a lump sum.

Method of Calculating Pensions

Under one method pensions are calculated as a percentage of members' incomes at the end of their careers ; these incomes are reviewed at fixed intervals having regard to changes in the reference income (average earnings of members of the fund, maximum wage for labourer, etc.). In a very small number of schemes, this percentage is exactly the same as will be adopted by the national social security scheme when the full pension becomes payable.¹ In other words, the pension paid at the present time is brought up to the level that the social security pension will have reached by 1960. Usually, the rate of pension is somewhat higher.

In other schemes, e.g. the supervisory staffs' scheme, the level of the supplementary pension is equal to the product of two factors : the total number of retirement points accumulated by the member during his career and the value assigned to each point for the year by the board of the fund (by the A.G.I.R.C. in the case of the supervisory staffs' scheme).

Under the supervisory staffs' scheme, for example, the number of points accumulated by a member since 1 April 1947 (when the scheme came into force) is equal during any given year to the quotient of the contributions he has paid divided by the hourly rate of pay used as a reference. The purpose of using this rate is to ensure that the number of retirement points allotted to a member each year is unaffected by any fluctuations in the general level of wages. Periods before 1 April 1947 are reckoned in accordance with a standard scale although any service in excess of 30 years is not counted. The methods of calculation employed by the other funds are merely variations of that used by the supervisory staffs' scheme.

The value of each point (which is also used in calculating the rate of pension) is fixed each year or half year by the board of the fund. Under the supervisory staffs' scheme, the value of the points fixed by the A.G.I.R.C. is equal to the ratio between the income in francs for the preceding financial year and the annual average liabilities in points anticipated over a future period of a number of years (not exceeding ten).

FINANCE

The incomes of pension funds are usually derived from the contributions of staff and employers together with the yield from securities, investments, gifts, legacies and, in some schemes, admission fees. The rate of contribution paid to a provident institution is usually freely fixed by the members themselves. Calculation of the contribution depends on three factors—the basic wage, the section or sections of the wage on which the contribution is levied and the rate of contribution.

(a) In all schemes the wage on which these calculations are based is the gross annual income declared each year by the employer to the income tax authorities.

¹ See note 1, p. 384 above.

(b) Nevertheless, the contribution is not levied uniformly on this income. In a number of schemes similar to the supervisory staffs' scheme, contributions are only levied on that portion of the member's earnings between the social security ceiling (at the present time 528,000 francs) and an upper limit which in the supervisory staffs' scheme is four times as high (2,112,000 francs)¹ and in the I.R.C.A.C.I.M. scheme, three times as high (1,584,000 francs).

In other schemes catering for wage earners the contribution is levied on the income as a whole, either without any restriction as in the C.P.P.O.S.S. and C.G.I.S. schemes, or subject to an upper limit equal to or higher than the social security ceiling.

(c) The rate of contribution is usually fixed by collective or works agreements, or else by the rules of the funds themselves, as a proportion of income. Funds can be divided into two classes according to whether they charge a flat rate contribution to all their members or a variable contribution which they negotiate with each member firm. In the former case all the members of the fund are on the same footing while in the latter there are several classes of contributors, who have a choice between a number of different rates. They are also entitled to change from one class to another but usually only if they agree to pay a higher rate.

The division of contributions between employers and employees varies from one fund to another. In some funds all contributions are for the time being paid by the employer, e.g. the funds of the Simca and Peugeot motor works.

In other institutions contributions are split between employers and employees, whether in equal parts as in the C.P.P.O.S.S. and S.N.E.C.M.A. schemes, or on some other basis.

In the second type of scheme the contribution rate is not uniform for all members, and is left to the discretion of the firm and employees concerned, subject to a minimum rate of 2 per cent. The choice depends on the firm's financial position and the size of the supplementary pension desired. Different rates may be paid on different portions of each member's earnings or by different sections of the staff provided that all the employees belonging to the same section of the firm pay at the same rate.

During the early years of these schemes a number of funds are empowered to levy only part of the prescribed contribution. The reason for this is that, though the rate of contribution is usually fixed having regard to the time when the scheme's outgoings will reach their peak, only a proportion of the contributions need be levied in any given year, i.e. in order to produce the income required for that particular year. The proportion of contributions to be levied is usually fixed at the beginning of each financial year by the board of the fund but it is not usually allowed to fall below 25 per cent.

If a part of the contractual contribution is not levied, the rate is later increased by the amount that was waived in previous years. This means postponing the payment not of specified sums in francs but of a percentage of wages, and these will not be the same at the time the rate is reimposed; this helps to offset to some extent any fall in the value of the reserves. Abatement of part of the contributions has no effect on the points allocated to the members or on the pensions paid to the retired members, which are calculated on the assumption that contributions are being paid at the full rate. To quote two examples of this system, the I.P.A.C.T.E. scheme is at present only levying 25

¹ This upper limit was raised on 1 January 1957 to 2,580,000 francs.

per cent. of its authorised contributions and the C.R.I. approximately 30 per cent.

A proportion of the income received by these pension schemes comes from the investment of their funds. In the assessment schemes the existence of these funds is due to the fact that the incidence of liabilities is not even. As the schemes, in order to meet the steady increase in their liabilities, are compelled to levy from the start the contributions that will be needed when income and outgoings are in balance, and only to pay pensions at the corresponding rate in order to avoid their progressive reduction, the result is that they have large funds available which, combined with their reserves ¹, produce additional income in the shape of interest on investments.

Under section 54 of the decree of 8 June 1946 not more than half the assets of such schemes may be invested in stock other than state or state guaranteed bonds. There are also a number of restrictions on the use of these funds by the member firm concerned.

SAFEGUARDS

A number of legal, technical and financial safeguards are required of provident institutions. The legal safeguards are designed to protect the rights acquired by the workers and the technical and financial safeguards to ensure that the schemes are run in such a way that they can meet their liabilities.

Legal Safeguards

The first purpose of the legal safeguards is to ensure that the rules and regulations of pension schemes are submitted for scrutiny before permission to operate is given. Such permission may be withheld whenever the proposed scale of benefits would impair the financial stability of the firm or firms concerned. It may be withdrawn in the event of any irregularities in the running of the scheme or of any financial unsoundness, or if, owing to a change in the economic situation, the scale of benefits would be so heavy as to impair the financial stability of the firms concerned.

The legislation further stipulates that the members of each scheme must be allowed a share in its management and particularly in the running of the board, half of whose members must be representatives of the wage earners, salaried employees and pensioners belonging to the scheme. All institutions of this kind are required to make a financial statement once a year to the appropriate authorities (the Ministry of Labour or the Ministry of Finance, as the case may be), which can thus keep a check on the running of the schemes and require a certain ratio to be maintained between their resources and liabilities. Moreover, schemes which pay pensions or lump sums to members or their survivors must submit a balance sheet at five-yearly intervals proving that their financial position is such that they can meet their liabilities. The Government has not yet issued the decree specifying the conditions to be fulfilled by these institutions with regard to their membership, assessment of their liabilities, etc., without which supervision along these lines is sometimes difficult. If a scheme goes into liquidation the funds

¹ See pp. 397-398 below.

needed to maintain the pensions already being paid or in process of being acquired must be handed over to the National Life Insurance Fund or to an independent mutual benefit fund.

Technical Safeguards

Technical safeguards are the measures required to balance the income and expenditure of a scheme over the years and to enable it to meet its liabilities. They also help to spread the liabilities over a certain length of time and to make the payment of benefit less liable to disturbance. These safeguards are based on a statistical assessment of the factors capable of affecting the equilibrium of a scheme, viz : the number of members and their distribution by age groups, the allocation of the capital resources and the stability of each of these factors over time. The safeguards fall into two classes according to whether their aim is to enlarge the membership as much as possible or to maintain and expand the income in order to meet the progressive increase in liabilities.

(a) The stability and reliability of a scheme depends on its membership and the greater the number of contributors and the more widely they are spread throughout different occupations, the more fully the risks due to fluctuations within each firm or occupation can be offset. From this standpoint inter-occupational schemes offer greater stability than occupational schemes and *a fortiori* than a company scheme. It is generally reckoned that a company scheme cannot be sound unless the firm employs at least 2,000 wage earners. The law imposes no minimum membership and among the funds supervised by the Ministry of Labour there are 121 with fewer than 1,000 members each ; indeed, two of them have only one member, ten have two members and four others only three. Mechanisation and the introduction of automation reduce the human element in industry and lead to a fall in the number of production workers, and a number of funds try to overcome this uncertainty about the size of their future membership by inserting clauses making membership compulsory. Such clauses are quite common in company and occupational schemes. Other clauses usually restrict the freedom of member firms by requiring them to have a minimum number of employees before they join. Penalties can be imposed on any employer who refuses to affiliate all the members of his staff designated in the contract or who withdraws from a scheme prematurely. In either case the funds have the power to demand immediate payment of the contributions due from the firm concerned, to cancel any rights acquired and to exact payment of a forfeit. The cancellation of acquired rights affects not only the recipients of pensions but also contributors as well—at a time when it may be too late for them to build up sufficient entitlement elsewhere ; accordingly, withdrawal must first be agreed on in all cases by a majority of pensioners and contributors. When retired members of the scheme have acquired rights through service with a number of firms, they continue to draw benefit, but it is reduced in proportion to their service with the firm withdrawing from the scheme.

In the event of withdrawal the firm concerned is compelled to pay a forfeit although in some schemes this is waived unless during the year preceding the withdrawal the ratio between benefits and contributions was lower with respect to the firm concerned than for the members of the scheme as a whole. The forfeit (F) is usually calculated as a proportion of the total contributions due during the preceding year (C) and the ratio of pensioners to contributors in the scheme (R) and in the

firm itself (R_n). The commonest formula is $F = C \frac{R}{R_n}$. The forfeit may not usually be lower than C or higher than $2C$.

The efforts made by different schemes to enlarge their membership are apt to give rise to competition which favours the growth of those that offer the most attractive conditions and neglect the need for security.

(b) The balance between the income and expenditure of a scheme depends upon the demographic position and trend among its members, which can be measured in two ways: by comparing the number of pensioners with the number of contributors and by calculating the average age of the membership as a whole.

The ratio of contributors to pensioners is usually very high at the start since there are few retired members during the early years of a scheme. The general economic position in the country also has a certain influence since, during boom periods, membership usually rises sharply in the firms belonging to the scheme. At any given time the ratio of contributors to pensioners varies widely from one scheme to another. Thus, in the C.R.I., in which the member firms are exceptionally young and thriving, this ratio is 30:1, whereas in the general run of firms it ranges between 10:1 and 4:1; among civil servants it is 2.27:1, among local government servants 1.87:1 and on the French National Railways 0.95:1.

The average age of the members is also an important factor in judging the demographic position of a scheme. This age also tends to increase and the general demographic trend in the country is a pointer to the future trend within the scheme itself. It is also a guide to the rate of recruitment among the member firms and makes it possible to forecast the trend and volume of contributions, just as the age of pensioners is a pointer to variations in the funds' liabilities. By offering their members higher pensions the funds encourage them to go on working after the normal retirement age and in this way the funds are able to defer the moment when their pensions become payable.

Other procedures, such as reckoning past services, make it possible to stabilise the level of benefits, since by taking such earlier service into account the membership is placed on the same footing as it would have reached if the scheme had been in operation for a number of years.

The practice of under-valuing pension points in relation to the current resources of a scheme has the same purpose. Schemes take care not to distribute the whole of their income from contributions during their early years since this could cause a good deal of disillusionment as the demographic position steadily becomes less favourable. Virtually all schemes are based on the assumption that premiums or contributions will be kept steady, and that benefit will be reduced if liabilities exceed a given level. Owing, however, to the unpopularity of such a step, schemes normally prefer to build up their ordinary resources by drawing on their reserves or increasing contributions.

It is also possible to avoid reducing benefit by drawing on reserve funds; this process must be spread over a number of years and in the meantime the yield from the investment of the reserves provides a certain amount of extra income. These reserves are divided into three types according to their purpose, viz: contingency reserves, safety reserves and guarantee reserves. The first type is designed to cushion the impact on the value of pensions of any annual variations in the scheme's resources or liabilities. Depending on the scheme, all or part of the surplus of income over expenditure is paid into this reserve. It

may not fall below a certain level (e.g. 20 per cent. of the total contributions for the previous year) or exceed a prescribed maximum, which is usually double the total contributions during the same year.

The safety reserve provides the fund with enough working capital to maintain the payment of benefit in all circumstances. Usually a special allocation is made for this purpose and the safety reserve may not, as a rule, exceed one year's contributions.

Lastly, the guarantee reserve, which is given an initial allocation plus a share of the yield from the investment of funds, is used to make up any losses suffered by the scheme in the investment of its reserves.

CONCLUSIONS

Owing to the liberal attitude of the law and the tolerance shown by the authorities there has been a tremendous growth in the number of supplementary pension schemes, which differ widely in structure and stability. Successive devaluations of the currency, by forcing them to come to the help of their pensioners and to guarantee all their members a pension that can be adjusted to circumstances, have led most schemes to base themselves either wholly or partly on the assessment system. Thus, the future development of the supplementary pension schemes depends on all the uncertainties inherent in the assessment system. However, as this article shows, this system is never applied in its entirety and the schemes usually compute their presumed income for a number of years ahead and allocate it en bloc to meet their liabilities over the same period; in this way, the resources acquired during the early years are transferred to the later years, at least until liabilities and income are brought into balance. This balance, however, which is only achieved after a considerable period, depends on a number of factors, some of which cannot be controlled or forecast by any insurance scheme (e.g. which firms or occupations will expand or contract, the general economic trend, the impact of automation, etc.). The bulk of the schemes are therefore compelled to build up reserves and can accordingly be regarded as mixed schemes; they only differ among themselves in the rules they follow in allocating their resources to accumulation and assessment. These rules are empirical and are often governed by short-term considerations. This accounts for the marked divergencies between the procedures employed by the schemes and the competition between them, resulting in attempts to outbid each other, which are particularly dangerous because they tend to sacrifice long-term security to short-term gain. There is a need for some general regulation to give contributors certain minimum safeguards, e.g. against changes in the general economic situation or in the occupation or firms on which the scheme is based, against loss of rights through transfer from one scheme to another and against promises without guarantees and liabilities without reserves.

These safeguards can only be achieved by strengthening and regulating the measures taken individually by certain schemes to enlarge their membership and to give it as wide a base as possible within a particular occupation or group of occupations.

Other measures designed to spread the risk over as large a membership as possible can also have a vital influence on the stability and duration of pension schemes. If they are to be effective, however, they call for a certain standardisation in calculating liabilities and the resources available to meet them, in deciding the nature and level of the reserves to be formed, etc.

Moreover, there should be some co-ordination between schemes in order to safeguard members' rights whenever they change jobs, occupations or schemes.

It should be possible to achieve these aims under the existing regulations while at the same time respecting the independence of the schemes and the preferences of their members, without which the desire to save would be impaired. If the Government were to issue the two decrees foreshadowed respectively in the Public Administration Regulations of 6 August 1946 and the Act of 1 December 1956 and dealing with the safeguards required of pension schemes and the co-ordination of their operations, it would be possible to a large extent to overcome the shortcomings that are now apparent without hampering the growth of these schemes.

Any broadening of the basis of supplementary pension schemes should not, however, be looked upon as the first step towards introducing them generally and making membership compulsory. If this were done, liabilities would have to be kept down to a level that could be borne by all types of firm and this would make it impossible to cater for the needs and circumstances of individual persons or occupations, who would only look elsewhere for their supplementary pensions with the result that the problem would remain unsolved.

Moreover, standardisation in the running of the schemes or in the assessment of their liabilities and resources should not be aimed at achieving complete uniformity nor lead to the establishment of a single scheme, which might well result in state control and even in the absorption of supplementary schemes by the general social security scheme.

Subject to these qualifications, the chief aim of the regulations now in force, which is to facilitate the expansion of supplementary pension schemes, should be coupled with an effort to put the schemes on a sound footing and to protect their members. Any tidying up in this field, whether carried out by collective agreement or by government order, must set out to give contributors and pensioners a perfectly clear idea of the liabilities contracted by their schemes and their limitations. In other words the schemes must be compelled to give the facts, i.e. to make their operations public, irrespective of their legal status. To this end, a certain amount of co-ordination between the supervising authorities will be necessary in order to lay down a clear-cut policy. These authorities could work out a number of statutory provisions regarding the publication of the profit and loss account and balance sheet, the statement of investments, forecasts of future liabilities and resources and an explanation of how these figures are arrived at. If proper control is exercised over these operations, as well as over the schemes' rules and regulations, i.e. if approval is withheld or withdrawn, it should be possible to put an end to certain ill-advised practices. The authorities could also work out detailed regulations for the guidance of the appropriate departments, e.g. by banning certain practices (in order to prevent abuses), laying down minimum standards regarding the schemes' obligations (guarantees) and giving technical advice (model schemes), having regard to the special circumstances in which supplementary pension schemes have come into existence and developed.

This conclusion appears to be shared by the authorities, who are preparing to overhaul the machinery of these schemes while at the same time leaving considerable latitude to their members.