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France
The Difficult Path to Consensual Reforms

Didier Blanchet and Florence Legros

After more than ten years of quasi-continuous debate, some difficulties remain in reaching a consensus on how to adapt the French pension system to the expected demographic trends for the first half of this century. Some important steps have been taken, of course, especially for wage earners in the private sector; however, consensus is still lacking about the next steps in this long-term process.

One explanation of these difficulties is that some of the public remain skeptical about the magnitude of the pension problem. At the beginning, these doubts focused on the demographic diagnosis itself. The early 1990s were marked by controversy over the reliability of fertility indicators (cohort versus period measures), which cast doubt on demographers' ability to make reliable projections. This first stage of the pension debate is now more or less over. The view is now widely shared that below–replacement-level fertility is only one factor in the aging of the population, and not the most important one. Most of the process is due to heavier, irreversible trends, such as the graying of baby boom cohorts and the general rise in life expectancy. Disagreement has shifted to the problem of assessing the exact consequences of these demographic trends. At one end of the spectrum, some believe that their impact on pension systems is strongly overstated: They expect that general economic growth will largely offset the

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consequences of demographic changes, especially if it helps lower unemployment. The very good performance of the French economy and the fact that unemployment rates have declined rapidly since 1997 have significantly revived this optimistic view.

At the opposite end, those who are convinced that the pension problem is a real one argue either that economic growth is uncertain, or that it will be of only marginal help in solving pension imbalances. This group remains divided about solutions to this pension problem. Many actors of the French pension system (including trade unions, which are comanagers of most pension schemes) remain strongly opposed to developing the role of saving in retirement preparation. As a result, the only tools they have in hand are raising contribution rates, raising the retirement age, or accepting some relative decline of pensioners' standards of living. These groups can be differentiated according to the relative weights they implicitly or explicitly give to these three instruments. Back at the other end of the spectrum, some advocate the implementation of partial funding on top of existing pay-as-you-go (PAYGO) schemes, but (again) with some variance about the way this should be done: through traditional life insurance contracts, pension funds, employee saving plans, or the accumulation of reserves within existing PAYGO schemes.

The foregoing is, roughly stylized, a general map of existing positions in a field that remains politically very sensitive. We shall now consider the most important aspects of this landscape in more detail, examining the steps that led to its current state. We shall distinguish three main (and partially overlapping) stages of the pension debate. The first began around 1990, with the publication of *Livre Blanc sur les Retraites* (the *White Book on Pensions*), and finally led, in 1993, to the Balladur Reform concerning the general pension regime (which we shall discuss in section 4.1, where we will also recall the basic institutional facts about the organization of the French pension system).

The mid-1990s were then dominated by the debate on the implementation of pension funds. Supporters of pension funds made many propositions over this period; the last proposition (by Deputy Thomas) was adopted by Parliament in 1997. Section 4.2 summarizes the process that led to the adoption of this law, which nevertheless remained stillborn—political change in 1997 led to its abrogation. The new majority preferred to launch a new round of collaboration on pension reform, the first step of which was the Charpin Report, presented in the spring of 1999. Section 4.3 discusses the various developments concerning this report, which failed to promote a new consensus on pension problems. It instead revived the opposition between those with pessimistic and optimistic views of the consequences of aging, and revealed the extent to which the question of retirement age remains controversial. This also discusses how the question of partial funding remains open after the abrogation of the Thomas law and the publication of the Charpin Report.

4.1 Reform within PAYGO Schemes: From the Governmental *Livre Blanc* to the Balladur Reform

4.1.1 Institutional Background: The Main Characteristics of the French Pension System in the Early 1990s

Let us first recall the major institutional facts about the organization of the French pension system. One characteristic is its almost exclusive reliance on PAYGO financing: French pension schemes did not accumulate more than marginal provisions, covering no more than a few months' worth of benefits. Another characteristic of the system is its relative complexity, due to the fact that it has not been possible, after World War II, to impose a normalized system to all existing socioprofessional groups, the interests of which were partly divergent. This element complicates the implementation of nationwide reform, as it will be discussed below.

One final characteristic of the system is that it globally offers a good average replacement rate, at a retirement age that is probably among the lowest in all developed countries. The net replacement rate is about 80 percent at the average wage, and varies from almost 100 percent at very low wages to 60 percent for higher wages (Charpin 1999). The male total labor-force participation rate in the fifty-five to sixty-four age bracket was 40 percent in 1999, corresponding to a median age at exit from the labor force of about fifty-nine years (Blanchet and Pelé 1999). This is partly the result of the introduction, in 1983, of retirement at age sixty (which was a political priority of the socialist government after François Mitterrand's election in 1981), but also of the development (by all successive governments) of paths to early retirement through either specific preretirement schemes or specific dispositions of unemployment insurance for older workers.

We shall not give here a full description of this system's complexity. The main point is that the French population is divided into three major groups (table 4.1):

- Wage earners from the private sector (about 68 percent of the labor force), who have a relatively homogeneous two-pillar scheme. The first pillar is the general regime (*Caisse Nationale d'Assurance Vieillesse des Travailleurs Salariés,* or CNAVTS). The second pillar consists of two complementary schemes: the *Association pour le Régime de Retraite complémentaire de Salariés* (ARRCO; for all workers) and the *Association Générale des Institutions de Retraite des Cadres* (AGIRC; for executives only).
- Wage earners belonging to the public sector or to large national firms, who have specific schemes that usually are more generous than the system for private-sector workers. This group represents about 21 percent of the labor force.

Table 4.1 **Characteristics of the Main Pension Regimes**

Pension Schemes	Contributors (thousands)	Demographic Ratio,[a] 1998	Benefits Paid, 1998 (billions of francs)	Benefits Paid, 1998 (% of GDP)	Effective Contribution Rate,[b] 1996
Wage earners, private sector					
CNAVTS (general regime)	14,249	1.7	349.5	4.08	17.0
ARRCO	14,000	1.7	163.1	1.90	10.0
AGIRC	3,030	2.4	83.9	0.98	24.7
Wage earners, public sector					
Civil servants' scheme	2,428	1.9	167.9	1.96	51.7
CNRACL (local administrations' pension scheme)	1,597	3.3	42.0	0.49	33.1
SNCF (railways)	175	0.9	16.8	0.20	38.5
IEG (electricity and gas)	149	1.7	28.8	0.34	63.6
Self-employed					
Farmers	725	0.4	49.9	0.58	n.a.
Organic	608	0.9	19.8	0.23	n.a.
Cancava	481	1.0	15.7	0.18	n.a.
CNAVPL	427	3.6	14.7	0.17	n.a.
Carmf	118	5.0	n.a.	n.a.	16.7

Source: Direction de la Sécurité Social (1999).

Notes: n.a. = not available. See text for explanation of other abbreviations.

[a]Contributors/pensioners, excluding widows and orphans.

[b]Ratio of total contributions (employers' + employees') to the wage bill.

- Self-employed workers, who also have specific schemes. These used to be less generous than the general scheme and ARRCO-AGIRC, and only progressively adjusted to the rules applying to the other schemes. This group represents about 11 percent of the labor force.

All these schemes are comanaged by social partners (trade unions and representatives of firms), with strong control of the basic schemes by the Ministry of Social Affairs.

Given that it comprises the largest part of the population, the general regime is the one for which we give details of the rules for computing pension levels. Workers (and their employers) contribute the fraction of wages below the social security ceiling (which is roughly equal to the average wage). Then they receive a pension proportional both to the number of years they have contributed to the scheme and to a reference wage. Before the 1993 reform, whose consequences will be detailed later, this reference wage formerly was the average gross wage of the ten best years of the pensioner's career (after truncation to the social security ceiling). The pension, at the maximum, was equal to 50 percent of this reference wage. Before 1983, an additional condition for pension-claiming was that the claimant be age sixty-five or higher. This threshold was lowered to age sixty in 1983, but only for people having contributed to the system for more than thirty-seven and one-half years. For people not fulfilling this condition, retirement between the ages of sixty and sixty-five was possible, but a strong penalty (a 10 percent pension reduction pension for each year of anticipation).

Complementary schemes are organized as systems of notional accounts, which provide pensions that are more or less proportional to the cumulative contributions paid by workers during their working lives. Workers buy "points" with their contributions when they are working, and receive pensions proportional to the number of points they have accumulated over their careers. Retirement is also possible at age sixty for individuals fulfilling the conditions for the full rate in the general regime. Special schemes are more generous in two respects: They generally allow retirement at age sixty or even lower without additional conditions, and pensions are often computed as a percentage of the most recent wage. Regimes for the self-employed, on the other hand, still have a retirement age equal to sixty-five and, at least for older cohorts, offer lower-level benefits than do other categories.

4.1.2 From the *Livre Blanc* to the 1993 Reform

Questions have been intensively raised about the long-term viability of this system during the 1980s. The end of the 1980s was marked especially by increasing pressure from private insurance companies to add the pension issue to the public agenda, with the explicit intention of developing their role in pension financing through the development of complementary funded schemes, in which they would have played a large role.

This lead to strong reactions by social partners and managers of PAYGO schemes who felt that their management of pensions was being unduly criticized, and who argued that, even if there were a real pension problem, funding would not be the right answer to the question. It was in this conflicted context that prime minister Michel Rocard ordered the preparation of a “white book,” coordinated by the *Commissariat Général du Plan* (the General Planning Agency) and issued in 1991. The first purpose of this white book was to present basic facts and prospects about the pension system. Concerning prospects, it proposed a global projection for the aggregate pension system showing a need for increased contribution rates of 50 to 100 percent up to the year 2040, depending on fertility rates and employment rates. For specific regimes, it proposed detailed projections up to 2010 only. At this horizon, without changes in contributions rates, deficits were projected to be 374 billion francs for the main basic schemes, including 342 billion francs for the general regime, and 49 billion francs for ARRCO and AGIRC (the total amount of pension expenditures in France, at this time, was about 900 billion francs, or 12 percent of GDP).

The *Livre Blanc* then explored various solutions. It ruled out a few radical scenarios, such as a transition to a fully funded system (an announcement that was essentially rhetoric, because no one, in fact, advocated such a radical change) or a shift to a system of universal lump-sum pension benefits completed by private saving or pension funds. The *Livre Blanc* clearly favored adaptations within PAYGO schemes, with a quantification of some particular scenarios for the general regime: a modification of conditions necessary to receive a pension at the full rate at age sixty, changes in the rules for computing the reference wage, and indexation of pensions on prices. According to its evaluation, such measures could at least help solve potential imbalances up to the year 2010.

The publication of this white book was not immediately followed by any political decision. Rocard himself was replaced just after its publication. It was only in 1993 that some consequences were drawn from this report. The Balladur Reform (after the name of the prime minister of the conservative government between 1992 and 1995) was enforced during the summer of 1993. It applied to the general regime and assimilated schemes, and consisted of three major points directly inspired by the *Livre Blanc:*

- Indexation of pension on prices instead of indexation on average wages, but with a *clause de rendez-vous,* (regular adjustment meeting clause); that is, the possibility of discretionary increases of pensions in case of excessive divergence from average wages.
- Computation of the pension on the basis of a wage averaged over

twenty-five years instead of over ten. This is currently taking place progressively, with a one-year increase for each successive cohort between the 1933 and 1948 cohorts.
- An increase in the number of years spent in the workforce necessary to receive full pension benefits at age sixty. This number will progressively shift to forty years instead of thirty-seven and one-half. The increase is one-fourth year for each cohort, so that the new final condition should apply to the 1943 cohort.

Presently, these measures are the only formal reforms implemented in the French pension system. Some parallel adjustments have been introduced, however, in complementary schemes for wage earners (i.e., for ARRCO and AGIRC), especially in 1993, 1994, and 1996. In the first steps, some additional resources were collected through increases in contributions in order to face current deficits implied by the 1993–94 economic recession. Later, more restrictive measures—such as increases in the purchasing price of points, and moderation of the evolution of the nominal value of these points—were introduced.

How far did the Balladur reform and the adjustments performed by complementary schemes go toward solving the pension problem? Concerning the general regime, simulations show that the Balladur reform may help limit the progression of the equilibrium contribution rate, which should increase, until 2040, by only 11.7 percentage points (i.e., a 70 percent increase), while the demographic ratio is divided by two. The lengthening of the conditions necessary to receive the full rate do not play a large role in this result, at least in the medium run. Most of the members of cohorts leaving during the current decade and the next one will have accumulated a sufficient number of years of contribution at age sixty to remain unaffected by this aspect of the reform. It is rather the two other attributes that are likely to generate reductions of the total pension bill. Of course, this would result from declines in replacement rates, both at liquidation (table 4.2), and after liquidation (because of indexation on prices instead of on wages). This raises two concerns:

- The relative reduction in total pension is mechanically linked with the rate of economic growth. The reform's contributions to solving imbalances will be low if economic growth is very slow.
- The choice of solving imbalances through reductions in pensioners' relative standards of living has not been really debated, because the reform has in general been presented in technical terms that are not very explicit. In any case, this choice increases, rather than rules out, the need for complementary savings for individuals who wish to maintain their standards of living after retirement. This leads directly to the question of partial funding.

The same kind of observation can be made of reforms in complementary schemes. The downward adjustment of pension levels could even be stronger if these schemes were to follow literally the scenarios they have themselves provided for the Charpin Report, as shown in tables 4.2 and 4.3. These projections assumed a progression of the purchasing price of pension points parallel to the average wage, meaning that all successive cohorts, from now on, would accumulate a similar number of points over their careers. If we assume that the nominal value of these points would change only according to prices, this means a complete stagnation of pensions in real terms. Combined with a doubling of real wages over the next forty years, this plan indeed neutralizes almost completely the impact of demographic change (table 4.3), but with very severe consequences for replacement rates (table 4.2).

The contrast with expected changes for civil servants is striking. Because no change is planned for their replacement rates, the equilibrium contribution rate increases in parallel with the demographic dependency ratio. Two questions are thus raised: (1) How can we avoid the large declines of relative pension levels for the private sector, through complementary funding or by relying more on an upward adjustment of the retirement age? and (2) Is it possible to reduce the expected inequality of treatment between the private and the public sectors? We shall first discuss the role of complementary funding, which has been hotly debated since the 1990s.

Table 4.2 Projections of Gross Replacement Rates for Four Typical Cases

Pension Schemes	1996	2020	2040
Blue-collar workers, private sector[a]			
General regime	45.7	41.1	40.9
ARRCO	22.4	15.4	10.3
Total	68.1	56.5	51.2
Executive workers, private sector[b]			
General regime	22.9	20.6	20.6
AARCO	11.7	8.2	5.4
AGIRC	24.4	16.7	11.9
Total	59.0	45.5	37.9
Civil servants			
Total	57.8	57.8	57.8
Physicians			
Total	54.5	41.5	29.8

Source: Charpin (1991).

Notes: Includes the impact of the 1993 reform for the general regime and of planned indexation rules for ARRCO and AGIRC. See text for explanation of abbreviations.

[a]Individual reaching the social security ceiling after twenty years of contributions.

[b]Individual at the 90th percentile of wage earners affiliated to the general regime.

Table 4.3 Projections for a Selection of Pension Regimes

	Demographic Ratio[a]			Current and Expected Balance[b]		
Pension Schemes	1998	2020	2040	1998	2020	2040
Wage earners, private sector						
CNAVTS (general regime)	1.7	1.1	0.8	−0.1	−5.5	−11.2
ARRCO	1.7	1.1	0.7	0.3	−0.5	−1.1
AGIRC	2.4	1.3	0.9	−1.7	−5.3	−3.9
Wage earners, public sector						
Civil servants' scheme	1.9	1.1	0.9	0.0	−26.4	−40.9
CNRACL (local administrations' pension scheme)	3.3	1.4	1.0	9.2	−16.7	−28.9
Self-employed						
Carmf	5.0	1.6	1.3	1.7	−6.1	−7.0

Source: Charpin (1991).
Notes: See text for explanation of abbreviations.
[a]Contributors/pensioners, excluding widows and orphans.
[b]Before compensation transfers, in contribution points.

4.2 Implementing Pension Funds: From the Insurer's *Livre Blanc* to the Stillborn Thomas Law

4.2.1 A Multiplicity of Proposals with Fragile Political Support

Proposals for developing the role of saving in retirement preparation were made well before the pension debate rose to its current level of importance. It was already the topic of a book cowritten by Kessler and Strauss-Kahn (1982). The debate intensified and radicalized, however, when Kessler became president of the *Fédération Française des Sociétés d'Assurance* (FSSA, the French federation of insurers) and published the *White Book of Insurers* (FFSA 1991) as an echo to the one prepared by the government.

In their white book, insurers argued that the burden of the public pension scheme from 2005 to 2010 would lead to intergenerational inequity. They advocated stopping the revalorization of pensions in order to limit the implicit debt for future generations, and the creation of pension funds as additional pension schemes. Insurers' pension funds were to be sponsored by firms or branches, to benefit from strong fiscal incentives, and to be managed as life insurance, leading to the payment of annuities supplementing the PAYGO pension. This proposal was followed by two alternative proposals:

- Bankers and mutual societies (governed by the mutual insurance code) proposed the creation of *Fonds d'Epargne Retraite* (Retirement Pension Funds), whose major difference from the insurers' proposal was that it would allow a choice, upon retiring, between an annuity and a one-time payment of capital (a solution that met people's preferences, according to surveys).

- Provident institutions (*Institutions de Prévoyance* [contingency funds], closer to PAYGO pension schemes) proposed an organization in which trade unions would be involved in the management of funds (*Fonds à Gestion Paritaire;* i.e., funds managed with equal representation of partners). This proposal, too, offered the possibility of transforming the annuity into capital, but with restrictive conditions.

To be implemented, such propositions needed a legal basis. Many laws were proposed during the period. All came from the most liberal side of the political spectrum, the socialist party and trade unions having developed strong resistance to this trend (partly for historical reasons—the failure between WWI and WWII of fully funded basic schemes—and partly for political reasons). Their suspicion of these projects was generally reinforced by the fact that the projects were sponsored by professional lobbies potentially interested in the development of such funds.

The first proposition, written in 1993 by Senator Marini, aimed at creating a saving instrument designed to correct the historical weakness of the French equity market; it did not include any fiscal incentive. This proposition was never discussed by Parliament. The next proposal was written by two members of Parliament, Thomas and Millon, between the end of 1993 and the beginning of 1994. It proposed the creation of *plans d'épargne-retraite d'entreprise* (or firm retirement saving plans; the term *pension fund* had been ruled out because of the negative connotation generated by the Maxwell affair). This project proposed that 20 percent of the funds should be invested in the sponsoring firm. It was more strictly oriented toward retirement than was the Marini proposal. The next draft was by Minister Barrot (who returned to the term *pension fund*) and was characterized by generous fiscal incentives.

Finally, the Thomas law, voted-in in 1996, was a mix of all these drafts: It allowed the choice between exit with a rent or with a lump-sum capital, proposed generous fiscal incentives, and allowed internal management within the firm. It was precisely the last two points that raised problems for the new socialist majority following the political switch in 1997, and that led to the abrogation of the law.[1]

4.2.2 A Lack of Consensus among Economists Themselves

More generally, political arguments against pension funding (and partial privatization of the pension system) are

1. Moreover, the fact that the minister in charge of applying the law was the ministry of the economy and not of social affairs was considered additional proof that social concerns were absent from this law.

- Inability of saving vectors to cover the whole population;
- Risk linked with financial markets;
- Inequality provided by fiscal incentives in a country where only half the population pays income tax;
- Risk of resource evasion for mandatory PAYGO schemes, if payments to pension funds are exempted from social contributions; and
- Governance conflicts between wage owners and equity holders.

In this still inconclusive debate about the opportunity of developing pension funds, the economic profession, itself, did not speak with a unique voice (Blanchet and Villeneuve 1997). Part of that voice shares the public defiance of pension funding that was inherited from the failure of funded schemes around the time of WWII.

First, it was easy for opponents of funding to recall that funding is not intrinsically better-insulated from demographic risks than are PAYGO schemes. This is especially true if population aging is due to an increased life expectancy (this argument has been widely used by managers of PAYGO schemes); but it is also the case if aging is due to a slowdown or contraction of the active labor force, even if we take into account the possibility of exporting capital to countries where the labor force is apparently more dynamic.[2]

These points forced partisans of funding to adopt other arguments. The central one is the fact that, even when demographic shocks affect funding and PAYGO in parallel ways, a structural advantage may remain for funding if the economy is constantly evolving below the golden-rule savings rate. This remains only theoretical, however, and is itself subject to the following objections:

- The first well-known objection is that even if shifting toward partial funding is more efficient in the long run, it involves a short-term consumption loss, which is generally irreversible and is politically hard to impose on the current generation.

2. Artus (1999), for instance, argues that the demographic cycle that will begin in 2005–2010 will paradoxically favor the PAYGO schemes, especially if these funded schemes are invested in fixed-income assets (such as government bonds, which have been the favorite vector of insurance companies to date). The explanation is that the active population has been high during the past years, thus involving high rates of unemployment, low levels of wages, low levels of consumption, and weakness in the economic growth in Europe and Asia where the saving rates—pushed up by the high life expectancies—are high relative to the investment rates. When the numbers of the active population flatten out or even decrease after 2005–2010, wages will rise, consumption will be more dynamic, and inflation will be higher. In addition, currently active cohorts who bought expensive assets will have difficulties selling them back to subsequent, less-numerous cohorts. High wages, low yields, and higher inflation rates will create a yield gap between PAYGO and funded schemes; this gap will be higher for funds invested in fixed-income assets and cannot be reduced by the exporting of saving flows excedents, because life expectancy is also increasing in the emergent countries, where the induced effects are the same as in the developed countries. Thus saving rates exceed investment rates.

- The mechanisms through which this loss could eventually be compensated in the future are considered either as lacking empirical support (e.g., arguments involving endogenous growth mechanisms), or as not being adapted to the French context. This is the case for the idea that shifting to funding would boost growth by correcting distortions implied by the PAYGO scheme: Such distortions are generally considered limited in the French pension system, which is essentially contributive and generates little intracohort redistribution.
- There is also some dissent about the part of the current gap between equity yield and economic growth that results from a low saving rate, and about the part of this gap that is either a pure risk premium or the result of a transitory and unsustainable financial bubble.

On the whole, even if economists frequently agree about the benefits that would result from a lower financial intermediation (Artus and Legros 1992), many still doubt the ability of funded systems to resist demographic and economic fluctuations more than a PAYGO scheme could. This debate remains more or less open, but the difficulty of providing indisputable economic arguments in favor of funding certainly plays a role in the continuing hesitation to develop this tool for solving pension problems.

4.3 The Charpin Report and After

4.3.1 The Charpin Report

While movements were going on around the implementation of pension funds, some problems specific to PAYGO schemes remained unresolved. One problem was the question of the transposition of the Balladur reform to special regimes. An attempt to deal with this was the Juppé Plan in 1995, developed by the newly elected conservative government. Pensions were not the central aspect of the ambitious Juppé Plan, which was expected to foster regulation of social expenditures in France with a particular emphasis on health insurance. However, it also included the proposal to align pension rules in the public sector with those of the post-1993 general regime. This proposal is among those that led to a strong social contest in November 1995, which resulted in the withdrawal of the plan and a new period of uncertainty.

Not long afterward, new polls were organized, which allowed the arrival of a new socialist government. We mentioned earlier that this new majority abrogated the Thomas law; the failure of the Juppé Plan also showed that at least one faction of public opinion was not ready for further reforms within the PAYGO scheme. The pedagogical preparation that had apparently been successful with the first *Livre Blanc* was no longer effective.

This situation suggested the need for further collective thinking about the future of pensions in France. As had been the case for the first *Livre Blanc,* the organization of this collective reflection was entrusted to the *Commissariat Général du Plan,* the traditional forum for nationwide dialogue among the administration, academics, and social partners on long-term economic policies. The result was published in spring of 1999, and is now known as the Charpin Report, after the name of the head of the *Commissariat Général du Plan.*

The basic diagnosis is the same as the one of the *Livre Blanc,* but more emphasis has been put on very long-term perspectives (2040). The report made no recommendations, but explored various scenarios. The main ones were the following:

- A further increase in the duration of the working life needed to reach the full rate in the general regime before age sixty-five, beyond the increase instituted by the Balladur reform (i.e., forty-two and one-half years of contributions instead of forty). Given the current distribution of ages of entry into the labor force for younger generations, this should *de facto* raise the normal age at retirement to sixty-five, except for those entering the labor force very early, who are also those with the lowest qualifications and the lowest life expectancies. The suggestion therefore indirectly took into account considerations of intragenerational equity.
- Compensation for the problem above, by reducing penalties currently associated with anticipated retirement. As explained above, anticipation by one year for people who do not have the full rate currently implies a 10 percent loss in the level of pension, which is more than that requested by actuarial neutrality. This penalty could be reduced to 5 percent per missing year to receive the full rate.
- Development of reserves within PAYGO schemes in the interest of progressive adjustment.
- The need for continuous follow-up of pension regimes and for adaptive management of any future reform.[3]

Despite its very cautious approach, the report has been perceived as excessively pessimistic by a large fraction of the public, as attested by reactions of social partners annexed to the report, and reactions expressed in the news media.

This led to two more recent reports that adopt a more optimistic view of the pension problem. The first is the Taddei report, prepared within the *Conseil d'Analyse Economique* (CAE, or Council of Economic Analysis)

3. This recommendation recently led to the creation of *Conseil d'Orientation des Retraites,* directly attached to the prime minister, including representatives of trade unions, government, and academics. Note, however, that the Medef (large firms union) refused to join this council.

which concentrated on conditions for allowing a more progressive transition from activity to retirement. The second (and the most openly optimistic) is the Teulade report, written by a former minister of social affairs and prepared in the context of the *Conseil Economique et Social* (Economic and Social Council), where it received strong support from a number of trade unions (except the reformist *Confédération Français Démocratique du Travail* [CFDT], who joined the Medef in considering that the optimism of this report was excessive).

4.3.2 A New Focus on Retirement Age

Most of the dissent around the Charpin Report concentrated on this scenario of further restricting the conditions of access to full retirement before age sixty-five. There are two aspects of this problem; the first to determine whether an increase in the retirement age is realistic in the context of high unemployment rates.

We know, of course, that the relationship between age at retirement and unemployment is not a simple one. In particular, it is widely admitted that the lowering of the age of exit from the labor force over the last twenty years did not help reduce significantly the unemployment rate—quite the contrary, in fact, which supports the idea that changes in labor supply have no significant impact on unemployment rates. This view is the one generally promoted in theories of the equilibrium unemployment rate. Some models of equilibrium employment even predict that an excessively low retirement age increases rather than lowers unemployment, because of its positive impact on the tax wedge. If this is true, the case can be made for raising the retirement age without waiting for any improvement of the labor market situation.

However, the accuracy of such theories remains uncertain. One contributing factor could be the existence of an asymmetrical reaction. It is one thing to observe that reducing the age at retirement did not help lower the unemployment rate; to *prove* that postponing this same age would not raise the unemployment rate (at least in the short run) however, is another. This was certainly the reason that the Charpin Report was cautious in saying that increasing the age at retirement should not take place before the unemployment rate had durably returned to significantly lower levels.

When might this new context appear? Many expect it will result naturally from the expected downturn in labor force growth around 2005, precisely when baby boom cohorts will arrive at retirement. This raises once again the question of the impact of changes of labor supply on employment rates, the answer to which is unclear. The element of optimism, if any, thus comes from another point, which is the fact that unemployment rates already have begun to decline in recent years without the help of a more favorable demographic context. This new trend was still very recent at the time the Charpin Report was prepared, but has been confirmed since. Between mid-1997 and mid-2001, the unemployment rate declined from 12.3 to 8.7 percent. This same period has seen the greatest level of private-sector job creation in several decades (since at least 1970). This is the result both of good general economic performance and of a significant increase in the impact of growth and job creations. Although it is too soon to say how long this favorable trend will last, it does suggest that the level of unemployment could progressively become less of an obstacle to policies intended to increase retirement ages.

Dissent in this case will not concern the feasibility of the policy, but the intensity with which it should be developed. This presents several questions. First is the idea (developed, e.g., in the Teulade report) that full employment will, in itself, be sufficient to solve the pension problem, without need of further increase in the size of the occupied labor force through delayed retirement. We know, however, that this idea is only partially true, even under the assumption of full redirection of social expenses from unemployment insurance toward pension financing. Detractors may also object that these resources would be better used if directed toward other (non-pension) kinds of social expenditures.

Further potential cause for dissent is the idea that if we return to a situation of full employment and labor shortages appeared after 2005, we could reactivate the immigration policy. This option is not realistic in the long run,[4] but may be used for a few decades before the pension system is fully adapted to the new demographic context (a position developed in the Taddei report). Finally, many will ask whether this policy should be differentiated across social groups (whose life expectancies differ considerably) and how much flexibility should be permitted around this delayed normal retirement age. This question was at the center of the Taddei report; as mentioned earlier, however, the Charpin Report already dealt with these issues very carefully, with particular emphasis on the idea of promoting free choice of retirement age within systems, in a manner closer to rules of actuarial neutrality (a point bypassed by many of its detractors).

4.3.3 Reserves versus Pension Funds after the Charpin Report

These recent developments show that the question of age at retirement should become more central to the pension debate in France than it has been for years, probably because the shift to retirement at age sixty was too recent to be questioned yet. In this new context, the question of pension funding has been relegated somewhat to future discussion but has not been completely abandoned. Thus we turn now to the current state of opinion on this subtopic.

In the Charpin Report itself, the only reference to funding is the pro-

4. Immigration, in the long run, can compensate only for the part of the aging process that may be due to permanent, below-replacement fertility levels; it cannot compensate for the part of this process that is due to increased longevity. Such a compensation would require unrealistic migration rates, generating a path of rapid and continuous population growth, which would be unsustainable in the long run.

posal to develop reserves within PAYGO schemes. This option had been proposed earlier by some experts (Davanne and Pujol 1997), and such a reserve fund has been implemented for 1999 by the Social Security Finance Law and is expected to be funded by income from privatization and by exceptional receipts. This raises two questions. The first concerns the specificity of this reserve fund, because there is no fundamental macroeconomic difference between allocating income from privatization to this fund versus using that income to reduce any other component of public debt, even without invoking considerations of ricardian equivalence. The second concerns the amount to be invested in the fund. If the purpose is to reduce permanently the total cost of pension financing, the reserves must be much higher, although their final magnitude remains sensitive to assumptions concerning rates of return. For instance, reserves requested to structurally reduce the contribution rate by 1.5 points would vary between 14 and 55 of total gross domestic product in the long run, for real rates of return varying between 5.5 and 2.5 percent. This raises again the question of the sustainability of large gaps between rates of return and economic growth, and the problem of implied costs for the current generations of workers.

How is this policy perceived by social partners? The *Union Professionnelle Artisanale* (UPA; independent workers), the *Confédération Générale des Petits et Moyennes Entreprises* (CGPME; small firms), and the Medef (formerly the *Conseil National du Patronat Français* [CNPF]; larger firms) unambiguously express their opposition to reserves that they view as no more than a source for new increases in contribution rates, with the associated consequences for labor costs and competitiveness. They continue to ask for funded facultative plans with important fiscal incentives, promoted at the firm, branch, or interprofessional level.[5]

The professional lobbies have not changed their attitude since 1995. This attitude is very close to that of Medef (D. Kessler, still president of FFSA, is also vice-president of Medef). Insurers are critical of the PAYGO reserve fund: They consider that the measure is too late, that there will be too much temptation for the government to invest these reserves in public debt assets, and that investing in equities is not the government's role.

At the other end of the spectrum, reserves are not more welcome by trade unions, who remain more or less hostile to any form of funding, whatever its context. This is the case for the *Confédération Générale du Travail* (CGT), the *Fédération Syndicale Unitaire* (FSU), and *Force Ouvrière* (CGT-FO), whose membership rate is rather important in the public sec-

5. In a document called "Propositions of the Medef to Insure the Future of the Retirement Pensions in France" (April 1999), the Medef expressed two proposals: on the one hand, to increase the length of careers necessary to obtain a full pension to forty-five years (i.e., two and one-half years more than in the scenarios examined in the Charpin Report); and on the other hand, to divert 8 percent of the gross wages to a pension fund (this 8 percent being the level necessary to maintain the current generosity of the system). In fact, these two measures can be considered as partially redundant.

tor. The *Confédération Générales des Cadres* (CGC, a middle-executives' trade union) is opposed to individual funding but not to reserves. Finally, reformist trade unions are unopposed both to these reserves and to a certain development of pension funds or individual funding; these unions are the *Confédération Française des Travailleurs Chrétiens* (CFTC), and, more importantly, the CFDT.

4.3.4 Toward Employees' Saving Schemes

Assuming that individual funding will develop, we now ask what the form for this development will be. After the abrogation of the Thomas law, many feel that pension funds are less in favor and doubt the need for any new instrument for retirement preparation. This is partly the result of the demobilization of professional lobbies, especially insurers, whose interests in pension funds declined somewhat, and who preferred going back to more traditional activities, especially life insurance. Life insurance has been a very successful saving tool during the last decade and now represents 55 percent of French saving flows. It is probably one element of spontaneous answer to fears concerning the future of PAYGO replacement rates.

Reflecting another such perceived solution is the recent shift in interest toward another form of saving: employee saving schemes (Balligand and De Foucauld 2000). This interest has been stimulated by the observation that 40 percent of French enterprises are owned by nonresident investors (due, in part, to fiscal incentives for foreign investors). This weakness of the ratio owned by French investors created unusual movements in equities prices in 1999, and—together with a debate over the fiscal status of stock options—induced increasing interest in these employee saving schemes. This interest received support from different segments of the political spectrum. Trade unions have expressed different positions: CFDT expressed interest in strong development of employee saving schemes with links to retirement pension funds, whereas CGT—in an ambiguous position—contends that the two problems are different.

It was in this context that a law was voted-in in February 2001 with the aims of allocating saving to the firms' investment (with fiscal incentives), of favoring a better repartition of economic growth between employees (particularly by increasing the portability for wage earners in small firms), and of allowing employees to use these saving schemes for medium-run (ten-year) projects. For these purposes, the *Plans d'Epargne Interentreprises* (PEI, for small firms, with high portability) and the *Plan d'Epargne Salariale Volontaire* (PPESV, mainly medium-run projects) were created while the existing employee saving schemes were deeply renewed. All these schemes now include guaranties and rights for wage earners, such as portfolio-allocation rules and improved roles for ad hoc supervision committees.

However, although the ability to invest a significant part (one-third of the assets) in the sponsoring firm is expected to lead to strong incentives for wage earners, the law still puts apart the link with retirement pension financing.

4.4 Conclusion

To summarize briefly, positions with regard to the pension problem have evolved considerably since the early 1990s. Several reports on the topic have played their pedagogical roles. The first steps toward a moderation of pensions were taken by the Balladur reform in 1993; the debate about funding, even though consensus is still lacking, has become less ideological and less dramatized since then.

Yet some stumbling blocks remain. The matter of the alignment of special schemes with the general regime is still far from being resolved. Another matter—how far policies aimed at underindexing pensions should go (Sterdyniak, Dupont, and Dantec 1999)—is still insufficiently debated. These policies can give one the sense that the pension problem is solved—which is true, from the point of view of projected aggregate imbalances for PAYGO schemes. Those who will be pensioners in the future, however, may not understand that these policies are enacted at the expense of future replacement rates, and that they will result in large income losses for the oldest pensioners at ages in which their needs are not necessarily declining. The pension problem should, in this respect, be closely linked to reflections on the future of old age dependency and on the way we plan to finance its coverage.

Finally, the articulation between age at retirement and partial funding is still unclear. One solution would be to maintain relatively high replacement rates at low ages for low-income workers, arguing that these workers also benefit from shorter life expectancies and, on the whole, began working earlier. Higher-income workers, on the other hand, would have to choose between two options: relying essentially on their human capital by preparing themselves to work until a relatively advanced age; or relying on financial capital accumulated either through life insurance, employee saving schemes, and (if they are finally implemented) pension funds or any of their substitutes.

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Comment Martine Durand

The paper by Didier Blanchet and Florence Legros provides a very good overview of how the debate on pension reforms has evolved over the past decade or so in France. In particular, it highlights the political difficulties the various governments in place during this period encountered in attempting to introduce these reforms. The analysis presented in the paper

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provides an excellent background to understand both the present state of the debate and the direction of future reforms.

Some Institutional Features of the French Pension System and the Lack of Reform So Far

The paper emphasises the political context that has framed the pension reform debate in France, and implicitly argues that this context is at the root of the difficulties encountered in the push for the reform agenda. However, one should not underestimate some of the institutional features of the French pension system as another major explanation for the lack of reform so far. Three such features are worth mentioning.

The Complexity of the French Pension System

The authors give a broad outline of the present institutional arrangements, but the system is in fact much more complex. It consists of (1) a basic compulsory public scheme; (2) numerous compulsory complementary occupational schemes, some of which have fewer than 20,000 contributors; (3) mechanisms to ensure some level of redistribution between these two schemes; and (4) a separate scheme for public-sector employees. Although some progress has been made toward the unification of the major private-sector employee schemes, there remains a striking difference between the public- and private-sector schemes. The public-sector scheme is more generous and has remained unaffected so far by either past or proposed reforms. This complexity is undoubtedly a major source of rigidity.

The Management of the French Pension System

The private pension schemes are managed according to bi- or tripartite arrangements involving trade unions, industry confederations, and the government. This form of management is not unique in Europe, but it requires consensus building to undertake reform. In the case of France, it probably constitutes another reason for the lack of reform, given that French industrial relations are notoriously prone to conflicts.

The Various Conceptual Approaches to Pensions

Historically, French pension systems have been built on various conceptual approaches. Private-sector schemes were based on insurance principles; self-employed or occupational schemes were based on wealth accumulation; and public-sector schemes were based on deferred income. These different concepts have given rise to very different institutional arrangements across regimes with respect to the way contributions and benefits are determined. This contributes not only to the complexity of the system but also to the difficulty in harmonizing the various schemes, as the different philosophies underlying their setups has presented very different underlying technical characteristics.

What Is the Extent of the Aging Shock in France?

As mentioned in Blanchet and Legros's paper, another important element of the relatively slow progress in implementing reform has been a long-standing lack of consensus on the diagnosis on the French pension problem. It is true that there now seems to be a broad sense of agreement on the extent of the shock facing the overall system. However, what is probably still lacking is the sense of urgency. The French situation is indeed generally worse than in most other large countries in the Organization for Economic Cooperation and Development. This sense of urgency should perhaps have been given more prominence in the paper.

The Demographic Shock Will Be Larger in France Than in the European Union

Based on Eurostat or United Nations projections for French demographics, by 2040 the old age dependency ratio might be about 80 percent relative to employment, and about 50 percent relative to the population aged twenty to sixty-four. These ratios are higher in France than in either the European Union (EU) or the OECD, indicating that France is in a worse situation than most other industrialized countries.

The Effects of Specific Labor Market Problems

An important factor of the French pension problem that also needs to be emphasized relates to the very low participation and employment rates of males aged fifty-five to sixty-four in France. Participation for this group is less than 40 percent in France, compared with close to 50 percent on average in the EU and more than 60 percent in the OECD. This difference is even more pronounced for employment rates. A continuation of these trends would have important implications for future dependency ratios in France.

Implications for Public Finances and Intergenerational Equity under a Business-as-Usual Scenario

The Less-Favorable Starting Point for Public Finances in France

Social expenditures on old age pensions are on a rising trend in France. These expenditures represented more than 12 percent of gross domestic product (GDP) in 1997, implying that, apart from Italy and Austria, France owns the largest share of GDP spent on pensions among OECD countries.

Poor Prospects for Public Finances in the Absence of Pension Reform

Simulations based on unchanged assumptions for the retirement age, productivity growth, immigration, unemployment rates, and institutional arrangements imply an unsustainable path for French public finances. The detailed simulations conducted in the context of the Charpin Report, also shown in the paper, confirm the earlier findings of an OECD study (see Leibfritz et al. 1995; OECD 1998) estimating that the net present value of French public pension liabilities amounted to 60 to 200 percent of GDP, depending on the assumptions made for the discount rate (7 percent and 2 percent, respectively). This estimated figure is among the highest in Europe.

Intergenerational Issues

Another aspect of unsustainability is illustrated by the results of intergenerational accounting models. Recent studies show (e.g., Doré and Levy 2000) that French generations born after 1995 will have to pay on average about 60 percent more than all generations born after 1995, if public finances are to remain in balance. Although these results usually depend in a crucial way on underlying assumptions regarding productivity growth and the discount rate, sensitivity analysis indicates that, whatever the assumptions, there remains a large intergenerational imbalance in France.

What is the Scope for Reform?

The above remarks underscore the pressing need for pension reform in France. However, it is also clear that, given the existing complexity and rigidities in the current system, any reform will require strong political will. At the outset, however, it should be noted that the current upswing should provide an opportunity to improve the starting point for reform in terms of public finances.

Current Proposals

Blanchet and Legros tell us that it is likely that upcoming reforms will center mainly on two aspects: increasing the retirement age and providing additional funding through the introduction of a specific reserve fund.

Other Options for Reform

There is, however, a number of other options for reform that are not discussed in the paper but that could be considered within the PAYGO system, while at the same time other forms of additional funding could be envisaged.

Simplifying the Overall System

This is probably politically difficult, but the experience of other countries shows that it is not impossible. Unless everyone sees what are the benefits and costs incurred by all, it will be difficult to implement reform. Transparency regarding who gets what now and who would get what after the reform of the various schemes is important. Otherwise, entrenched attitudes will persist. This transparency is particularly important if the issue of the widening divergence between private and public employee schemes is to be addressed.

Increasing the Labor Supply of the Elderly

As mentioned by Blanchet and Legros, and as seen above, an increase in French labor supply is desirable in order to lower future old-age dependency ratios. This can be achieved either through an increase in the statutory retirement age or through an increase in the number of years of contributions needed to receive full pension benefits. However, a further way to increase the labor supply is to remove existing incentives to early retirement and to disability and unemployment schemes for older people.

There are several avenues for reform in this area. In France, as rightly mentioned in the paper, the debate on whether to continue working at older ages has been very much linked to that of unemployment. However, the idea that an increase in the retirement age may translate into higher unemployment is generally unsubstantiated. Studies conducted in the context of the OECD Jobs Study (OECD 1999), for example, show that (1) lower employment rates at one end of the age spectrum have not translated into higher employment rates at the other end (i.e., the withdrawal of the elderly from the labor market as a way to create jobs for the young did not work), and (2) countries that have high employment rates are also those where the labor force has increased most.

As mentioned in the paper, the Balladur Reform, which will be fully effective in 2008, provides strong incentives to work until the age of fifty-nine because the penalty for retiring before fifty-nine is, in principle, very high. However, even with such a penalty, early retirement remains high in France, because there is still the option to retire *via* specific early retirement or unemployment benefit schemes. Of course, increasing the labor supply, especially for the elderly, will require measures to improve their employability.

Apart from indirect incentives toward early retirement, factors affecting the retirement decision depend on the replacement rate, accrual rates (i.e., the increase in pension wealth from working for an additional year), and the implicit tax rate on this extra year's earnings. The earlier reforms, including the Balladur Reform, have not reduced significantly the generosity of the French system, as mentioned in the paper. Based on a somewhat simplified but comparable methodology, OECD calculations show that the French replacement rate is among the highest in the major OECD countries (see Blondal and Scarpetta 1998).

Regarding accrual rates, the penalty for working after the retirement age (or after the earliest age at which pensions become available) is currently rather large in France. An extra year of work implies foregoing one year's pensions and often paying pension contributions for an additional year with little or no increase in acquired pension rights. Work done at the OECD shows that the drop in old age pension wealth (i.e., the discounted value of future pension streams minus pension contributions), is among the highest in France as a percent of gross income (see Leibfritz et al. 1995).

Finally, the implicit tax rate in France also provides an incentive to retire early. This tax on an extra year's earnings compares the difference in pension loss from working an additional year after the age of fifty-five with the increase of earnings during the additional year. If this tax rate is positive, the system discriminates ceteris paribus in favor of early retirement, because pension wealth decreases the longer the individual remains in employment. In France, the implicit tax rate remains at about 50 percent, among the highest in the OECD (see Blondal and Scarpetta 1998).

Modifications to Retirement Income

An important way to encourage people to work longer would be to move toward an actuarially neutral system. This option is not explicitly discussed in the paper, although other countries (e.g., Italy) have recently moved in this direction. Such a system would imply switching from a defined benefit system to an almost–defined contributions system, where the sum of the benefits an individual receives in retirement is linked to the contributions the individual made over his or her lifetime. Under such a system, individual choices toward retirement are better satisfied and less likely to be influenced by other factors.

Of course, pension revaluation remains an important issue. Although price indexation goes a long way toward reducing public deficits, it raises other issues such as those mentioned in the paper (e.g., equity problems between active and retired individuals, and declining standards of living for retired people). To a certain extent, switching to an actuarially neutral system would contribute to solving some of these problems, for instance, by indexing pensions on some moving average of real GDP growth, such as is done in Italy.

In addition, other forms of retirement income might be developed. Indeed, even in countries that have moved toward a more actuarially neutral system, additional funding is still necessary to maintain the living standards for the elderly. The authors discuss the proposal made by French economists Davanne and Pujol (1997) to introduce within the PAYGO system a reserve fund that could serve either to smooth contributions or to reduce pension costs permanently. However, whatever the purpose of the reserves, a major issue remains that of finding the necessary resources. A possibility in this respect might be to promote the development of private employees' saving schemes. At present, as mentioned in the paper, these schemes are still in their infancy and are only remotely linked to pensions. However, any form of private saving for pension purposes is likely to meet with trade-union resistance, because unions typically consider these private saving schemes as American-style pension funds, to which most of them are vehemently opposed.

Concluding Remarks

In conclusion, there exist a number of avenues for reforming the French pension system that go beyond the measures proposed in the paper, namely the retirement age and the introduction of reserves. Several other options might be contemplated both within the PAYGO system (in particular, increasing the labor supply of the elderly) and through the introduction of additional funding elements (whether in PAYGO or fully funded schemes).

These will require a large consensus, however, but one thing is certain: they need to be addressed without delay.

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Discussion Summary

Didier Blanchet agreed with the discussant’s view that there is no systematic connection between early retirement of the elderly and a reduction of unemployment of the younger. He pointed out that the paper refers to common beliefs about this connection, not to what this connection actually is.

Horst Siebert remarked that it appears difficult to change a system, such as the French, that is comanaged by social partners. In his view, social partners have vested interests in the existing system, and they have been given power to administer the system and to distribute administrative and political positions. He compared the French case with the case of Germany, where it is already extremely difficult to change the system. In his view, France will be the last of the three major continental countries—Italy, Germany, and France—to change its social security system.

Laurence Kotlikoff noted that the paper and the comments were very clear and that he had a deeper concern about France after hearing the paper than he had before. He asked whether it makes sense to set up an account for every French citizen who is invested in a global index fund at very low costs. On the one hand, that might give the average French citizen an opportunity to invest cheaply in a diversified global system. On the other hand, it might be a way of pointing out how desperate the current situation is.

Jeroen Kremers raised the issue of transparency in the French social security system. Given that the French system is so complex, he wondered whether French citizens can fairly easily get an assessment of their individual pension rights. He asked whether it might be useful at least to improve transparency of the system, because in his view confidence is an important aspect of the history of the policy debate in France. *Martine Durand* responded by mentioning her own experience studying the French pension system. She said that she had to do a lot of reading to understand the system and conjectured that the man in the street is probably not aware of his individual pension rights—despite all the reports that have been published. She noted that the announced reform of the pension system will not contribute greatly to an increase in transparency. *Didier Blanchet* reported that the complexity of the pension system is generally one of the first points raised in the different reports issued over the last decade. The recent history, especially in 1995, showed the difficulty of reforming some specific segments of this complex system, with the result of slowing down the general reform process. The problem with the reform of the French pension system may be, for one part, a political problem resulting from a "blocking minority."

Referring to the Charpin Report, *David A. Wise* asked why only early retirement benefits are going to be reduced but not the special unemployment provisions. The latter have to be reduced substantially to make them actuarially fair. *Martine Durand* agreed that any reform that does not address the special early retirement and unemployment schemes would be insufficient. *Didier Blanchet* mentioned that some changes were introduced in unemployment or preretirement provisions after the Balladur reform in

1993: This reform was accompanied by parallel changes of minimal ages necessary to claim preretirement benefits or the specific nondegressive benefits applying to unemployed people near the retirement age.

Martin Feldstein noted that the outcome of the public debate about pension reform in France is not to change the system, although a variety of educational reports have been issued in this respect. He asked whether there are projections of social security contributions for the next twenty or thirty years and whether the public understands these projections. *Didier Blanchet* responded that the evidence concerning the effects of the reports is mixed. In 1993, the reform was passed without major difficulties, and there was a feeling that the first *Livre Blanc* had actually contributed to developing a better understanding of pension problems. The social contest after the Juppé Plan in 1995 suggested the contrary. On the other hand, the increase of the savings rates during the second half of the 1990s may prove again that at least one part of the population tries to anticipate the impact of demographic changes on future pension levels.

David Blake raised the question of issuing recognition bonds to acknowledge unfunded pension liabilities. He remarked that no country would have been eligible to enter the Euro as part of the Maastricht criteria if the unfunded pension liabilities had been officially included as a part of national debts. In this sense he called the Euro one of the most dishonest games played in twentieth-century European politics. *Michael Burda* pointed out that pension liabilities and government bonds are not the same and they are perceived differently by the public. He mentioned that the government in Germany has reneged on a pension adjustment for two years now and that many people are saving for their retirement to supplement their promised pension benefits.