Cour des comptes

Chambres régionales
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Pension fund reserves

Executive summary

2022 Annual Public Report

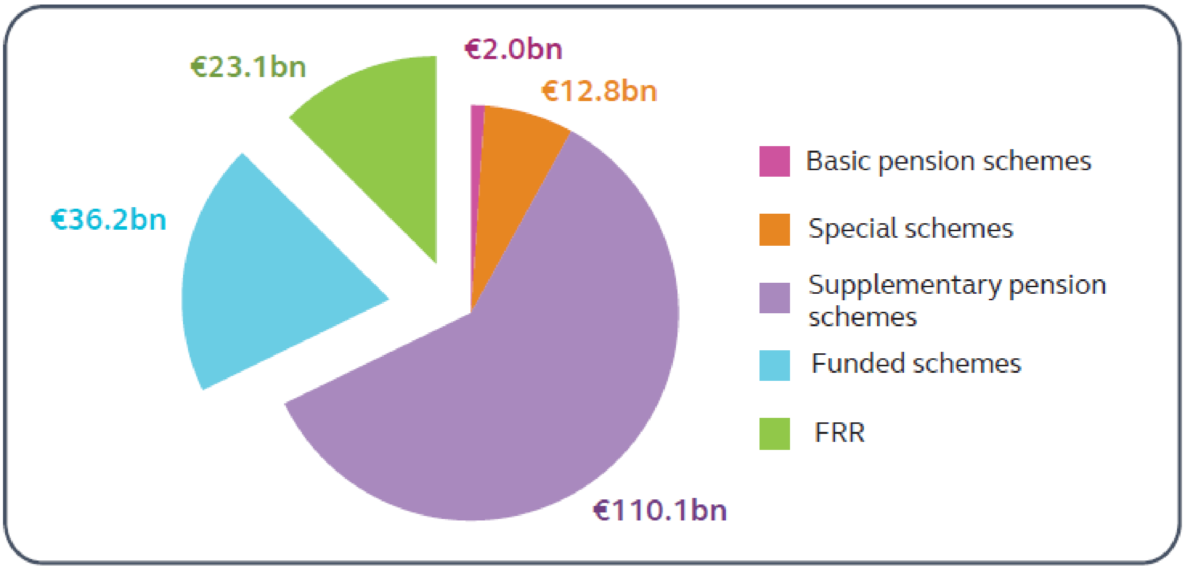
The Court of Auditors examined the contribution of the compulsory pension system reserves to the resilience of the French pension system during the Covid-19 crisis. The use of part-time working and the granting of payment delays had repercussions on their resources. The crisis also led financial markets to wide fluctuations. These facts resulted in different uses of the reserves, while illustrating their usefulness.

Reserves of unequal importance with different objectives

Defined as assets that are not directly required for the administrative management of the pensions, reserves correspond to assets (equities, bonds, real estate, etc.) held by the funds managing one or more mandatory pension schemes.

In France, the role of pension funds *stricto sensu*, in which reserves are the counterpart of individual commitments to members, is limited: their net book value was €36.2bn at the end of 2020. Most of the reserves are held by pay-as-you-go schemes (€124.9bn), primarily by supplementary schemes, including Agirc-Arrco (€52.9bn).

Breakdown of reserves between the different types of mandatory plans at the end of 2020 (in net book value)



Source: Court of Accounts based on data provided by the schemes

The Court of Auditors observed that pay-as-you-go schemes may accumulate reserves most often without defining their goal, and sometimes without integrating them into the general management of the scheme.

Due to the diversity of situations, the relative size of reserves varies greatly. At the end of 2020, they represented between 7.7 months of benefits for Agirc-Arcco and 144 months, or twelve years of benefits, for the notaries' fund.

The contrasting effects of the health crisis on pension plan reserves

The Covid-19 crisis resulted in a limited decrease in the overall amount of reserves of pay-as-you-go pension schemes, from €130.4bn at the end of 2019 to €124.9bn at the end of 2020. But, the effects have been heterogeneous depending on the schemes.

For the Agirc-Arrco, the massive deployment of part-time working in companies led to a technical deficit of €5.3 billion in 2020 and required €4.1 billion of reserves to be drawn on. To comply with the prudential regulations under which the reserves must be the equivalent of six months of benefits over a 15-year period, pensions were under-indexed in 2021 by 0.5 points compared to inflation. For its part, the supplementary scheme for the self-employed has taken €1 billion from its reserves to fund exceptional support.

When the crisis occurred, the regulatory framework for the investment of assets was uncertain. Its overhaul, which has become essential, should pursue three objectives: improving the transparency of reserve management, strengthening the consistency of their management with the medium- to long-term financial projections of the schemes, and building a capacity for expertise outside the pension funds in order to assess the long-term solvency of the schemes, the performance of their management and the associated risks.

The crisis led to review the allocation of the reserves of the *Fonds de réserve des retraites* (FRR – National Pension Reserve Fund). Almost all of its assets are now committed to the Cades (*Caisse d'Amortissement de la Dette Sociale* - Social Security Debt Repayment Fund) in order to finance the deficits of the different branches of the social security system and no longer, as was the initial objective, to contribute to fund retirement pensions in the future.

In this context, the FRR could be closed and any surplus, corresponding to the difference between its assets and liabilities, could be transferred to the Cades. An alternative would be to redefine its nature and missions, for example by entrusting it with the management of cyclical precautionary reserves for the benefit of the CNAV (*Caisse Nationale d'Assurance Vieillesse* - National Old Age Insurance Fund), or even for all branches of the social security system, provided that the balance of the general pensions scheme would be restored.

Recommendations

The Court therefore makes the following recommendations:

1. Harmonize the accounting definition of assets accepted as reserves, financial income and management fees under the aegis of the *Autorité des normes comptables* (French Accounting Standards Authority), in order to allow the monitoring and comparability of financial data *(Social Security Directorate, Budget directorate, General Directorate of the Treasury)*;

2. Update the regulatory framework for the management of pension fund reserves, seeking to align their financial management with their medium- and long-term projections *(Social security Directorate, Budget Directorate, General Directorate of the Treasury)*;

3. Build up a capacity for appraisal, within the supervisory authorities or an independent body, to assess the long-term solvency of schemes, the consistency of their financial management and the associated risks, and to establish a comparison of the results of their management *(Social security Directorate, Budget Directorate, General Directorate of the Treasury)*;

4. Transfer the residual assets of the *Fonds de réserve pour les retraites* to the *Caisse d'amortissement de la dette sociale* (Social Debt Repayment Fund), or redefine its nature and missions *(Social security Directorate, Budget Directorate, General Directorate of the Treasury)*.