Cour des comptes

PRESS RELEASE

18th December 2014

PUBLIC BODIES AND POLICIES

ENSURING THE FUTURE OF ADDITIONAL PRIVATE SECTOR PENSIONS (AGIRC AND ARRCO)

For the first time, the *Cour des comptes* issued a public report on the additional pension schemes managed by the two main associations that act as pension funds for both executives and non executive employees, respectively AGIRC (*Association générale des institutions de retraite des cadres*) and ARRCO (*Association pour le régime de retraite complémentaire des salariés*). Managed and controlled by social partners, equally representing employers and employees, these pension schemes currently cover 18 million employees and 12 million pensioners. The pensions they pay out (over €70 billion per year) represent a substantial part of pensioners' earnings. The *Cour des comptes* highlights the aggravation of these schemes' financial situation, which calls for urgent measures. In the run-up to the negotiations to be opened in early 2015, this report seeks to raise social partners' awareness of the vast array of choices that lie ahead of them to improve the situation.

Urgent steps must be taken to overcome the schemesalarming financial prospects

Chiefly thanks to decisive measures taken by social partners since 1993, AGIRC and ARRCO managed to save significant financial reserves between 1998 and 2008. These savings were intended to bear the cost of retirement of postwar generations without resorting to debt. However, the sluggish growth in wages following the crisis has heavily impaired the build-up of these savings since 2008. Other government decisions targeted towards the basic scheme of the private sector have also had negative impact on the additional schemes' financial situation.

Consequently, AGIRC and ARRCO have suffered persistent deficits since 2009, which now threaten to exhaust their savings in the near future. If significant recovery measures are not urgently taken, these savings will be depleted in 2025 in the case of ARRCO, and by 2018 in the case of AGIRC.

To achieve financial sustainability, several combinations of measures (impacting either social security contribution rates, replacement rates, retiring age, or all of the latter) must be considered. It is up to social partners to define them.

Even so, the possible weakness of the anticipated recovery and the limited room for manoeuvre imply that efforts must be shared between employers, employees and pensioners. If social partners were to leave the retiring age unchanged, there would be no other way to fund future pensions than to limit these pensions value or to drastically increase contribution rates, with the risk of negative impact on purchasing power and labour costs.

Regarding executives' pensions specifically, a particular effort from this category is paramount to preserve their pensions. Additional transfers from ARRCO, (which already pays out €1 billion per year to AGIRC) may be inevitable and could result from the two funds' merging. Further steps to make these transfers between AGIRC and ARRCO simpler, more transparent and fairer should also be taken.

Moreover, many government decisions regarding the basic private pensions scheme can jeopardize the situation of additional AGIRC and ARRCO schemes. By and large, closer and more formalised coordination should be aimed at.

A more efficient management and a higher quality of service should be achieved

AGIRC and ARRCO are managed by 37 additional pensions institutions, owned by large social insurance groups, among which AG2R-La Mondiale, Humanis, Klesia, Malakoff-Médéric and Réunica rank as the five major players. This highly decentralised organisation partly explains the high management costs (€1.8 billion levied on contributions in 2013), that outweigh the basic pension scheme's costs by about 20%, for a comparable scope of activities.

The *Cour des comptes* has identified important sources of improved efficiency, particularly in IT and staff costs. Average wage levels are 25% higher than those observed in the basic pension scheme for private-sector employes.

The quality of pension payment itself is affected by a high error rate, with almost 10% of AGIRC pensions and 20% of ARRCO pensions in 2012 suffering an incorrect payment calculation, three payments out of four resulting in lower income for pensioners. In addition, in 2013, about half of the payments were made later than the prescribed period of 30 days.

Moreover, it is thought that fraud in additional pension contributions could amount to between €2.2 and 2.7 billion per year. Checks on additional pension contributions by the URSSAFs (*Unions de recouvrement des cotisations de sécurité sociale et d'allocations familiales*, that is, the social contribution collector for the basic pension scheme) have never been implemented despite being voted in by Parliament as early as 2007. Furthermore, AGIRC and ARRCO do not benefit from intelligence obtained by the URSSAFs to counter illegal employment. This situation is detrimental not only to the financial stability of the schemes, but also to workers' rights.

The decision-making framework of AGIRC and ARRCO should be reformed with due respect to the special role of social partners

Social partners representing employers and employees could base their negotiations on even more conservative economic hypotheses than in the past. They could also consider targeting minimum thresholds for their financial savings and implementing guideline principles to fix AGIRC and ARRCO's so-called "parameters" (mainly, contribution rates, retiring age and pensions' purchasing power).

Finally, additional pension schemes should better be taken into account in the presentation by the government of France's public finance commitments towards its European partners, while respecting for the major role of social partners.

Guidelines and recommendations

The Court firstly issues eight guidelines for the social partners, among which:

- as soon as 2015, reviewing the implementation of the clause that mitigates the the effects of pensions' indexation below inflation;
- as soon as 2016, implementing a set of measures improving the schemes' balance by more than €5 billion as of 2018, and more than €120 billion by 2030;
- strengthening financial solidarity between the AGIRC and ARRCO schemes, along with a specific effort by from executives (members of AGIRC) whilst aiming at the merger of AGIRC and ARRCO in the near future;
- taking on more conservative economic scenarii for the upcoming and future negotiation rounds.

It secondly makes nine recommendations to the managers of the schemes and to government, including the following:

- designing a formalized framework of cooperation between government and social partners to decide on basic and additional pension schemes;
- reducing total management costs by at least 25% by 2020, that is, a savings effort of a further €150 million per year over the savings already agreed upon by the social partners;
- improving the quality of payments and reduce delays;
- implementing checks on contributions to additional pension schemes by the URSSAFs and allow AGIRC and ARRCO to access information obtained to tackle fraud.

Read the report

PRESS CONTACTS:
Ted Marx ▪ Head of Communication ▪ **T** +33 1 42 98 55 62 ▪ tmarx@ccomptes.fr
Denis Gettliffe ▪ Head of Press Relations ▪ **T** +33 1 42 98 55 77 ▪ dgettliffe@ccomptes.fr

@Courdescomptes