


Pension reforms and Household Wealth Survey (1997-2018): households hold more retirement savings when profitable

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1. The issues we address
2. The successive pension reforms and their expected impact on holding rates
3. Occupational retirement savings and life insurance
4. The European context
5. The Household Wealth Survey
6. The logistic regressions: the results
7. Conclusions



1. THE ISSUES WE ADDRESS

- In line with papers on the impact of social security schemes on savings:
 - The impact depends on individual situations regarding career (Alessie et al. 2013), expected benefits (Benheim and Levin, 1989), and wealth (Engelhardt and Kumar, 2011; d’Addio et al., 2018)
 - The reforms in the pension system provide “laboratory experiments” in order to test a possible impact on saving (Attanasio and Rohweder, 2003; Slavov et al., 2019)
- By using the individual data of five waves of the Household Wealth Survey between 1997 and 2018, we identify the impact of the pension reforms from 1993 to 2014, on the holding of long term assets
- We expect an increase in the holding of occupational retirement savings due to the expected reduction in replacement rates induced by the pension reforms
- To better focus on savings for retirement purpose, we specifically concentrate our analysis on the holding of occupational retirement savings

2. THE SUCCESSIVE PENSION REFORMS

- From 1993, pension reforms have targeted a future balance of the social security scheme by:
 - Reducing the replacement rate
 - Encouraging people to work longer
 - Indexing salaries and pensions on prices
 - Progressively harmonizing the rules for different categories of workers

	private sector employee	self employed workers	government sector employee
1993 (Balladur)	increase of career duration for maximum replacement rate from 37,5 years for people born in 1933 up to 40 years for people born in 1943, with a 10% discount per missing year - indexation on prices		
2003 (Fillon 1)	extension of 1993 reform to government employees - further increase of career duration for maximum replacement rate up from 40 years for people born in 1948 to 41,5 years for people born in 1955 - smoothing of the discount effect		
2008	extension of 1993 and 2003 reform to government employees with specific schemes		
2010 (Fillon 2)	increasing by 2 years of the minimum age to access pension benefit (60 to 62 by usual)		
2012 (Hollande)	smoothing mechanism for people who entered young into workforce		
2014 (Touraine)	further increase of career duration for maximum replacement rate from 41,5 for people born in 1957 up to 43 years for people born in 1973		

2. THEIR EXPECTED IMPACT ON THE HOLDING RATES

- We expect higher holding rates for more recent survey waves and younger generations

	REFORM	SCOPE	SURVEYS	EXPECTED OBSERVATIONS
	↓	↓	↓	↓
1993	increase in career duration for people born after 1933			
1997		private sector only		
1998			1997-1998	private sector workers born after 1933 are more to invest in retirement savings
2003	increase in career duration for people born after 1943			
2004		extension to govt employees	2003-2004	private and govt sector workers born after 1943 are more to invest in retirement savings
2008		extension to public cies		
2009				
2010	increase of minimum retirement age by 2 years		2009-2010	private sector employees born after 1943 are more to invest in retirement savings
2012	smoothing effect for people who entered young into the workforce			
2014	increase in career duration for people born after 1957			
2015			2014-2015	private and govt sector workers born after 1957 are more to invest in retirement savings
2017				
2018			2017-2018	Continued effect

3. OCCUPATIONAL RETIREMENT SAVINGS AND LIFE INSURANCE

- Occupational retirement savings until 2019 are described in the Household Wealth Survey (HWS):
 - Different products adapted to specific categories of workers, that can be identified in the HWS
 - Are supplied through life insurance contracts, with the exception of the PERCO, supplied by asset managers
 - Benefits are available at retirement age with few exceptions
 - Contributions and benefits are partially tax exempted, with a reduction of advantages in 2012

- The PER, created by the PACTE law will replace the previous products from 1st October 2019:
 - It has 3 types: collective compulsory, collective voluntary and individual
 - It can be supplied by any type of financial provider (insurance company, bank, asset managers) and is switchable between them
 - Benefits are available at retirement age as a lump sum or annuity, early withdrawal are possible to buy a main housing
 - Contributions and benefits are partially tax exempted and the management of return is streamlined

categories of workers	private sector employees		government sector employees	self employed workers	all
Household survey	surcomplémentaire		complémentaire		PERP
Type	company group compulsory	company group voluntary	individual voluntary		
name before 2019	art. 39, 82, 83 tax code	PERCO	PREFON, CREF, FONPEL, Soldiers	Madelin, COREVA, Farmers	PERP
Holding rate 1997-2017	4% -> 10%		15% -> 6%	24% -> 20%	6% since 2003
PACTE law	PER collectif obligatoire	PER collectif volontaire	PER individuel		

3. OCCUPATIONAL RETIREMENT SAVINGS AND LIFE INSURANCE

- Life insurance :

- accounts for 32% of households financial assets as at end 2018, compared to 4% for retirement savings
- The holding rate is 34% for private sector employees, 35% for government employees, 42% for self employed

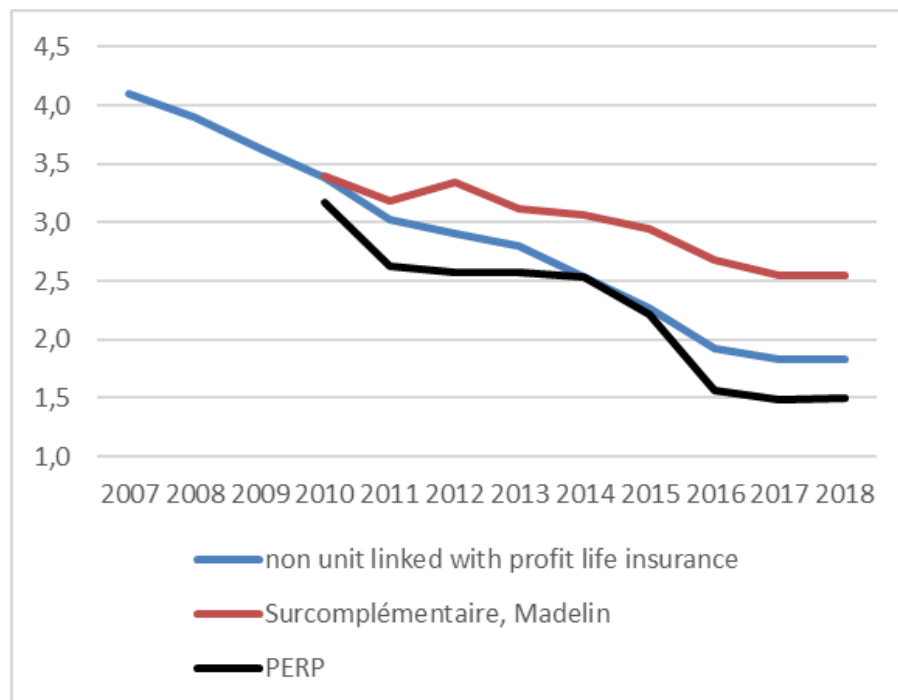
- Life insurance :

- Is accessible to all, without exception
- Is tax exempted for bequest (under 152 500 €)
- Can be repurchased any time, but the lower taxation of return does not apply if repurchased before 8 years

- The compared returns and expectations can explain the difference in holding rates:

- The “surcomplémentaire” and “Madelin” are on average more profitable than life insurance while the PERP is less profitable
- Insurers providing “complémentaire” benefits for government sector employees were allowed in 2016 to reduce the benefits in case of insufficient coverage of the pension entitlements

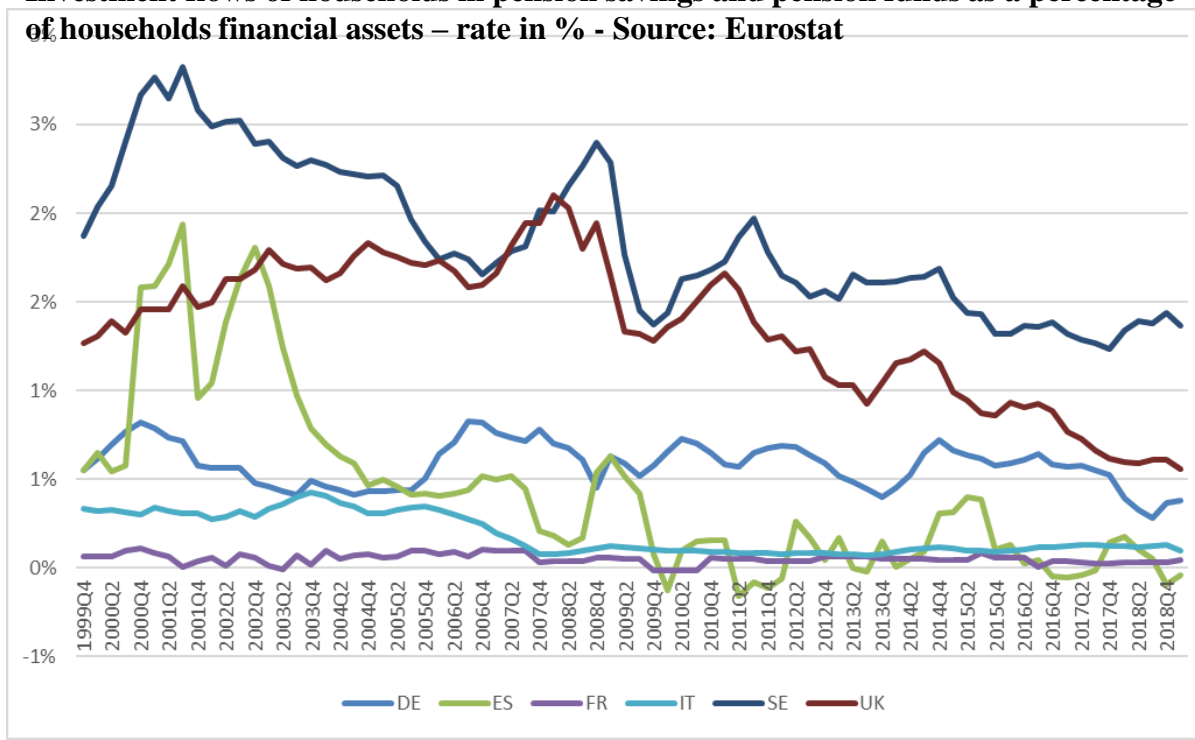
Annual returns on selected insurance contracts – rate in % -
Source: ACPR



4. THE EUROPEAN CONTEXT

- The Pan-European Personal Pension Product (PEPP – Regulation 2019/1238 20 June 2019 for products expected to be available in 2022
 - A voluntary personal pension scheme open to all and portable on a pan-European basis
 - Offered by a broad range of financial providers (insurance companies, asset managers, banks, certain investment firms and pension funds) with possible switch at capped cost every 5 years
 - Member States are encouraged to grant the same tax incentives to PEPP as for similar national products
 - PER should be eligible to PEPP
- Retirement savings are low in France compared to other European countries

Investment flows of households in pension savings and pension funds as a percentage of households financial assets – rate in % - Source: Eurostat



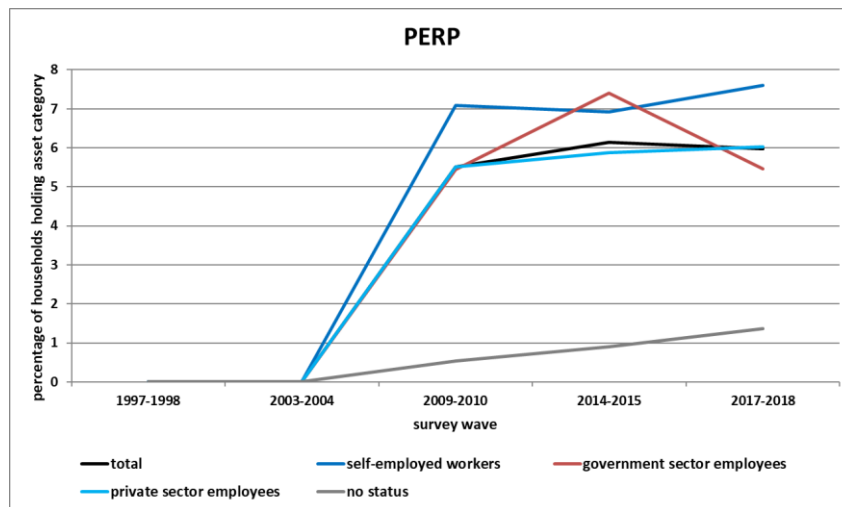
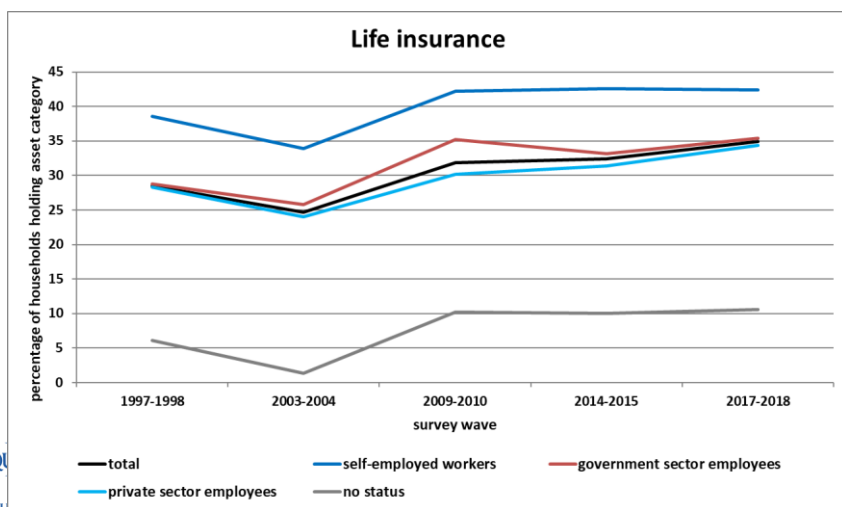
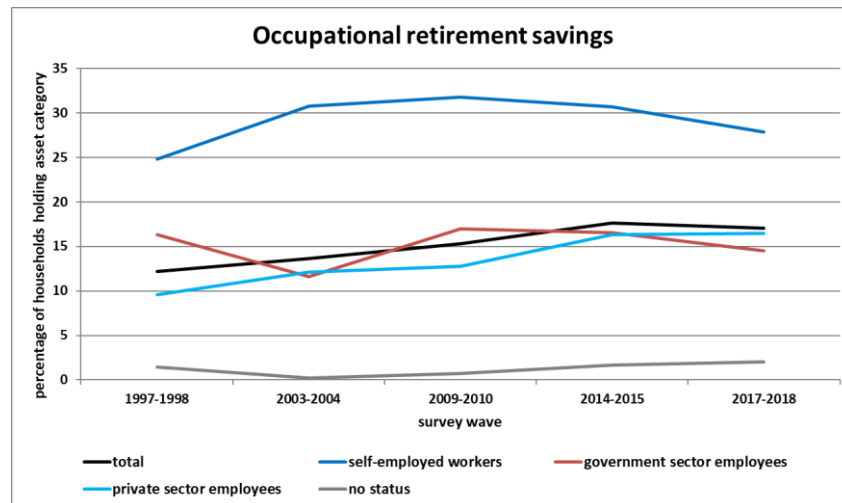


5. THE HOUSEHOLD WEALTH SURVEY : DATA

- The Household Wealth Survey is designed and conducted by INSEE on a sample of 9 000 to 15 000 households
- We have harmonized the data of five survey waves : 1997-1998, 2003-2004, 2009-2010, 2014-2015, 2017-2018
- No specific information about retirement prospects (such as anticipated age and benefits) is available on this time span
- The professional activity of the head of household determines the type of social security regime and the main type of occupational retirement savings the household has access to:
 - Self employed workers (private sector)
 - Private sector employees
 - Government sector employees
- The logistic regressions are run:
 - Separately on these three different professional categories
 - On the five surveys
 - On non-retired people aged between 16 and 65

5. THE HOUSEHOLD WEALTH SURVEY: DESCRIPTIVE STATISTICS

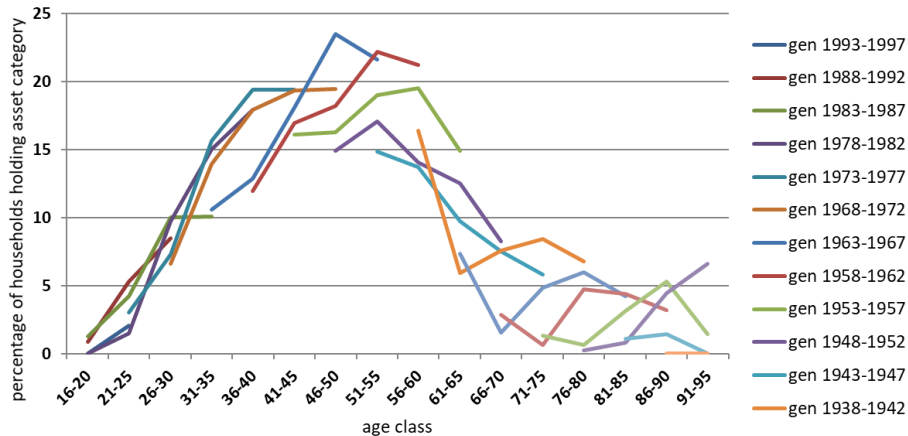
- The holding rate of occupational retirement savings:
 - Increases for private sector employees, though at a slower pace in the last period
 - Decreases since 2009-2010 for government sector employees and self-employed
- The holding rate of life insurance is much higher (35%, compared to 17%) while the holding rate of PERP remain at 6% since its creation in 2003
- The self-employed have the highest holding rates, in line with their higher wealth, low replacement rate of their social security scheme and uncertainty of their income



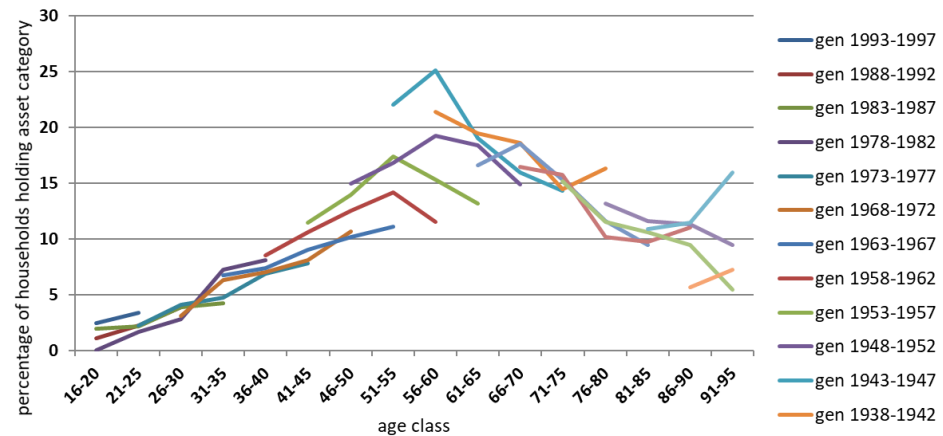
5. THE HOUSEHOLD WEALTH SURVEY: DESCRIPTIVE STATISTICS

- Two holding behaviors regarding long term assets:
 - Assets sold at retirement age, includes also company savings (25%) and housing held for rent (15%)

Occupational retirement savings

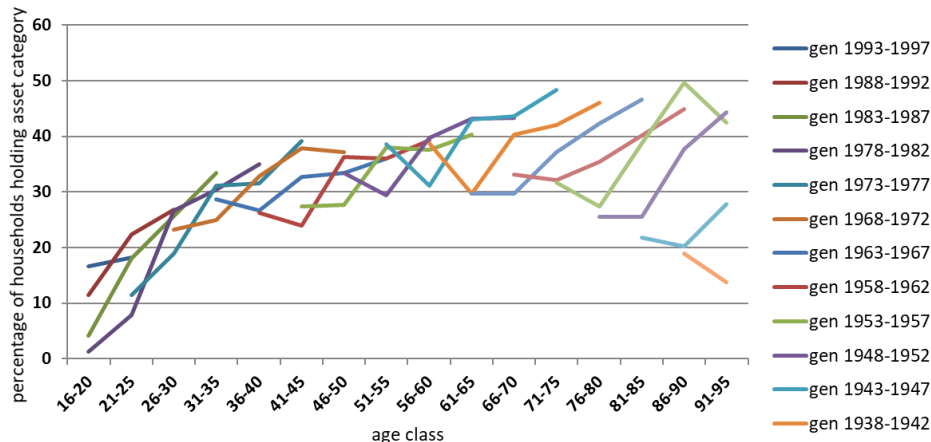


Owner-occupied secondary home

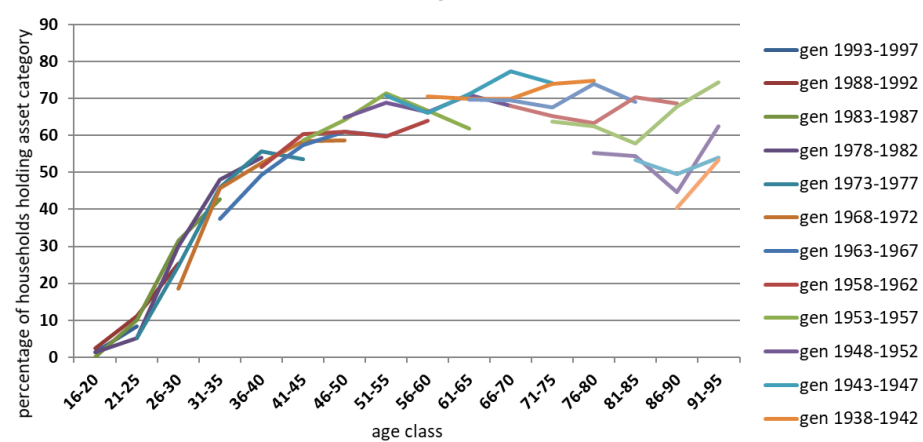


- Assets held after retirement, for own use or bequest, with higher holding rates

Life insurance



Owner-occupied main home



6. THE LOGISTIC REGRESSIONS : RESULTS

- As regard the holding rates of occupational retirement savings, we observe:
 - An increase in odds ratios through the surveys only for private sector employees
 - An increase in odds ratios through generations for private sector but a decrease for government sector employees

Odds Ratio Estimates			
Explained variable: household holds occupational retirement savings (yes = 1, no = 0)	Self- employed workers	Government sector employees	Private sector employees
Effect	Point Estimate	Point Estimate	Point Estimate
1st survey wave: 1997-1998	0.907	1.128	*** 0.780
2nd survey wave: 2003-2004	1.004	0.902	0.949
3rd survey wave: 2009-2010	Ref.	Ref.	Ref.
4th survey wave: 2014-2015	** 1.228	0.970	*** 1.508
5th survey wave: 2017-2018	*** 1.287	0.912	*** 1.640

Odds Ratio Estimates			
Explained variable: household holds occupational retirement savings (yes = 1, no = 0)	Self-employed workers	Government sector employees	Private sector employees
Effect	Point Estimate	Point Estimate	Point Estimate
generation 1933-1937	0.553	2.374	** 0.325
generation 1938-1942	** 0.678	1.451	*** 0.484
generation 1943-1947	*** 0.594	0.964	*** 0.441
generation 1948-1952	*** 0.704	1.035	*** 0.553
generation 1953-1957	** 0.814	1.000	*** 0.797
generation 1958-1962	Ref.	Ref.	Ref.
generation 1963-1967	1.020	1.036	1.077
generation 1968-1972	0.959	1.043	*** 1.213
generation 1973-1977	* 1.292	*** 0.632	*** 1.827
generation 1978-1982	1.254	** 0.605	*** 1.768
generation 1983-1987	1.195	0.742	*** 1.763
generation 1988-1992	0.919	** 0.349	*** 1.990
generation 1993-1997	-	-	0.891

- Other control variables in the 6 logistic regressions:
 - Age group of the head of the household
 - logarithm of total gross assets (in constant euros)
 - Total gross assets quintile
 - Socio-professional category of the head of household
 - Education level of the head of the household
 - Household type



6. THE LOGISTIC REGRESSIONS: OTHER RESULTS

- A positive correlation with age, with significantly lower holding rates before age 40 in all professional categories
- A positive correlation between holding of occupational retirement savings and other indicators of high income and wealth:
 - Higher holding rates for top quintiles of wealth of private sector employees
 - Higher holding rates for self employed (craftsmen, salesmen, entrepreneurs, independent professionals) and managers, lower holding rates for blue collars, staff and unemployed
 - Lower holding rates for persons without diplomas
- A positive correlation between holding of occupational retirement savings and other assets except for:
 - “Livret d’épargne populaire”, a risk-free savings account with a regulated interest rate, accessible only to low income earners
 - Owner-occupied main housing for private and government sector employees



7. CONCLUSIONS

- Our analysis shows that the pension reforms that have lowered the expected future replacement rates have induced an increase in holding of occupational retirement savings:
 - That increases through the cumulative reforms and has a long lasting effect
 - That is stronger for younger generations which are more impacted
- However, this is true only if the occupational saving plans are profitable:
 - the private sector employees who access occupational saving plans which are more profitable than life insurance have clearly increased their holding
 - The government sector employees who access plans with uncertain future profitability due to the 2016 law that allows insurers to reduce benefits in case of insufficient coverage, have reduced their holding
 - The holding rate of PERP, which is less profitable than life insurance, remains stable and low since its creation in 2003
- As a consequence, the ongoing reform of the occupational retirement savings (PACTE Law 22 May 2019) faces the challenge of creating attractive products