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Vive les grévistes, vive la France!

by Michael Cohen

Most readers of the International Section newsletter, and indeed most actuaries, would probably have supported President Sarkozy in the show-down with *les grévistes* (strikers) at the SNCF (the French national railway company) and other rail workers which took place last November. They would have done this on the basis of President Sarkozy's democratic mandate to tackle the special regimes under which such workers can retire at particularly early ages, and of course they would be right to be supportive of the French president. However, if they were to look at the issue from a *pension* point of view, they might find themselves more supportive of the *grévistes*.

Why? Because what is being proposed is a reduction in accrued benefits in an occupational pension plan. I suspect that most actuaries, while agreeing that employers can reduce or even eliminate future accruals, if their employees and/or unions let them get away with it, would offer stiff resistance to a reduction in accrued benefits. In most cases pension legislation would prohibit this in any case.

So what's going on? Why can't Sarkozy just reduce future accruals and let accrued benefits remain unchanged? To answer this question we have to look at the way occupational pension plans are funded in France. In North America and the United Kingdom, even in the public sector, occupational pension plans would normally be funded on a full funding target, and even where they are not necessarily funded (in the public sector), some attempt would be made to at least account for them on an accrual basis (although this might not be universal). Certainly in Canada, workers for Via Rail have a pension plan based on the accrual principle (admittedly the comparison between Via and the mighty SNCF is quite invidious). I'm sure Via workers would be quite upset at seeing their retirement age increased for accrued benefits. In France, by contrast, occupational pensions are funded through a "solidarity" system. In other words, pay as you go. The French system is one big OASDI or CPP, not only for the social security part (which in the United States, Canada and the United Kingdom, generally represents only a fraction of a worker's expected pension), but for the whole lot, and generous at that. For

example, rail workers can retire at age 55 and some as early as age 50. This means many will spend more years in retirement than at work!

Does this matter? You bet! In a funded system, the past has been paid for and any reduction in future accruals gives the employer immediate relief in the bottom line. If we preserve accrued benefits and only change future accruals in a pay as you go system the bottom line relief in the short term is ... precisely nothing. Relief only comes when the first generation of workers begins to retire with reduced benefits and then it is only a small proportion of their benefit which is affected. Significant cost savings only start to be seen 15 to 20 years down the road, by which time President Sarkozy is himself a retiree and the inhabitant of the Elysée Palace is some person who is currently obtaining their education in the system that the President also promises to reform! Not a pretty picture from a political point of view.

So while there may be good reasons to propose pay as you go funding for universal social security, this little spat shows how dangerous this method is for occupational plans. Perhaps we should see a few French actuaries marching with banners inscribed "*Vive les grévistes, vive la capitalisation, à bas la répartition*" (long live the strikers, long live funding, down with pay as you go), but somehow I doubt it!

Linguistic notes: One should write "Vivent les grévistes" (third person plural of the subjunctive), which in fact is pronounced the same way as "Vive les grévistes" (for those who complain about silent letters in English, note the silent "ent" in French!), but I have used "Vive..." by analogy with "Vive les vacances" (long live the vacations), which is used for the sake of euphony, or more correctly euscopy (no further linguistic notes on the use of Greek derivatives in the English language are offered!)

Editor's note: At the time of the strikes in France and writing this article, the author was in Kazakhstan, which was a pioneer in changing a pay as you go system to a funded defined contribution system, working with the state-owned pension accumulation fund. □



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