

HR PRACTICAL INFORMATION

Understanding the French Pension System

The French pension system is complex. Between basic, supplementary retirement pension, number of quarters, full rate and duration of contributions, it is difficult fully to understand how the system works. This newsletter aims to bring you some explanations.

HOW DOES THE PENSION SYSTEM WORK IN FRANCE?

The pension system as it exists today in France was established in 1945. It is based on a contributory pension scheme¹ and solidarity between generations: the contributions of those who are currently working directly fund the pension for those who are no longer working.

In France, the overall pension of a private sector employee consists of both a basic pension paid by the Assurance Retraite (CNAV) to which every employee in France contributes and an additional pension paid by the supplementary pension funds ARRCO and AGIRC for “*cadres*”.

HOW IS THE BASIC PENSION CALCULATED?

The basic pension is calculated in quarters. From the first job, each salaried employee has an individual account opened by the Assurance Retraite which lists the remuneration and other data needed to calculate the pension.

The number of quarters validated does not correspond to the actual activity period. It is determined by the amount of gross annual salary used to calculate pension contributions within the limit of four quarters per year.

Currently, an employee must fulfill two conditions to receive his basic pension: having reached the age of 62 and contributed 166 quarters.

Following the *Réforme des retraites* of 9 November 2010, the contribution period to obtain a full pension progresses in line with the increase in life expectancy. Since 2009, the contribution period for a full pension has been increased by one quarter per year to reach 41 years in 2012 and 41.5 years in 2020.²

¹ The contributory pension scheme opposes the funded pension system which consists of saving for retirement and investing money on financial markets until the age of retirement.

² The measures taken in recent years have corrected some flaws in the pension system and notably improved the financial balance. However, further reforms in the coming years should be expected.

HOW IS THE SUPPLEMENTARY PENSION CONSTITUTED?

The ARRCO and AGIRC complementary pensions are measured in points. The contributions are converted into points according to a scale revised each year. These points accrue on an account opened by the employer at the beginning of the employee's career. Each year, the supplementary pension fund(s) provides an updated points statement to each employee on its website.

HOW IS THE BASIC PENSION CALCULATED?

The calculation of the basic full pension in the general scheme is carried out in 2 phases. The "average annual salary" must first be determined. Since the 1993 reform, effective for people born in 1948, the average annual salary is calculated from the best 25 years of income. Each year's salary is revalued to take account of inflation and it is the average of the 25 years of the highest wages which is called "average annual salary." The basic full pension is 50% of the average annual salary.

HOW IS THE SUPPLEMENTARY PENSION CALCULATED?

To obtain the amount of the ARRCO and AGIRC supplementary pension, the total points should be multiplied by the point value.

The contributions deducted monthly from the salary for the supplementary pension are converted into points by dividing the amount of contributions by the purchase price point which changes every year.

When retiring, the accumulated points are converted into Euros by multiplying them by the point value, fixed, too, each year. The result is the annual pension being paid.

WHAT HAPPENS IN CASE OF CHANGE OF EMPLOYER?

The individual account is provisioned by the new employer through the Assurance retraite.

For supplementary funds, when changing employer(s), employment or qualification, the ARRCO or the AGIRC fund can possibly change. In this case, the new employer pays contributions to the new pension fund. Supplementary pension points will continue to accrue.

WHAT HAPPENS IN CASE OF UNEMPLOYMENT OR ILLNESS?

Some unworked periods can be considered as insured periods. This is the case for maternity for which 4 full quarters are granted.

Other periods are considered as insured, within the following limits:

- 2 quarters per year for periods of disability,
- 4 quarters per year in respect of national service,
- 4 quarters per year for periods of illness or accident,
- 4 quarters per year for compensated unemployment periods.



The number of quarters giving rise to contributions or considered as contributed, may not exceed 4 per year.

MEASURES IN FAVOR OF THE FAMILY

In case of periods not worked, the French pension system grants, under certain conditions, increases or quarters, in particular for the birth or the adoption of a child to the mother or the father.

Daily maternity allowances

In order not to penalize mothers, the law provides that the daily maternity allowances are taken into account in the calculation of the pension for any birth subsequent to 31 December 2013.

The supplementary pension plans also allow parents to be allocated points, contributed or not, and pension increases, especially for the birth or the adoption of a handicapped child or for the education of at least 3 children.

US NATIONALS EMPLOYED IN FRANCE

Since March 2, 1987, an international convention between France and the United States on Social Security and pensions in particular, has been signed.

What is this agreement?

This agreement allows to combine the years of work in France and in the United States for the calculation of the French pension and to perceive the American retirement even if you contributed less than 10 years in the United States. Indeed, regardless of the time you worked in the United States, you will not lose the contributions you paid during your stay in France, which was the case before the convention.

What you will receive exactly?

In addition to your French pension, you will receive your US retirement benefits proportionally to the years you contributed. However, your basic retirement from the French Social Security and your US retirement pension will be paid separately.

CLAIMING YOUR FRENCH PENSION WHEN YOU ARE A US CITIZEN

The signing of the International Convention on Social Security between France and the United States facilitates the American pension claim. For this, the pension application form SSA 2490 entitled "Application for Benefits under a US International Social Security Agreement" of the US Social Security to benefit from the French-American agreement must be completed.

If you live in France when winding up your pension, there is no particular rule. You must submit your request directly to the Pension Fund you were dependent on in France.



If you worked more than 6 quarters but less than 10 years in the US, the agreement allows you to receive a pension if you cumulate 10 years of contribution years between France and the United States.

INCREASE YOUR PENSION

It is possible to continue working after the minimum retirement age (60 to 62 years following the year of birth), beyond the legal contribution period to generate a premium, which will increase your pension.

WINDING UP PENSION

When an insured employee plans to retire, he must specifically wind-up his pension entitlements, i.e. convert his rights to retirement pension.

Requirements

The age and the contribution period must be met to receive a full pension. These conditions vary depending on your year of birth.

The basic pension is paid monthly in arrears, which means that for example, the monthly payment for January is paid in early February.

The supplementary pension is never assigned automatically; it must be requested. It is recommended to file your request 4 to 6 months before the desired retirement date with the organization to which you are

attached. It is necessary to have a record of your career history that lists all periods of activity. ARRCO and AGIRC pensions are paid monthly.

INSTITUTIONS TO CONTACT

To wind up the pension rights, the insured person must first contact the Social Security for the basic pension. The Social Security can transmit the necessary information to the supplementary pension fund(s) to which the insured person is affiliated.

GET SOME INFORMATION ON RETIREMENT

The “Career statement” reflects your entire work history. It records all the elements needed to calculate your retirement. You can view and print it on www.lassuranceretraite.fr

From the age of 44, you can apply for regularization of your career statement if it does not seem compliant.

Your supplementary pension fund offers on its website your updated points statement. This document summarizes the ARCCO points you have obtained, as an employee, throughout your career in the private sector and the AGIRC points if you are a “cadre”. For information on supplementary pensions or details on your pension fund, see the following websites:

www.info-retraite.fr

From this website, you can create your Compte Retraite and access to a personalized information on your retirement. You can also make representations and simulations online.

www.agirc-arrco.fr

www.maretraitecomplémentaire.fr

For more information: www.la-retraite-en-clair.fr

For US expatriates : https://www.ssa.gov/international/Agreement_Texts/french.html

Still have questions? Please contact Human Resources