The Future of Retirement
It's time to prepare

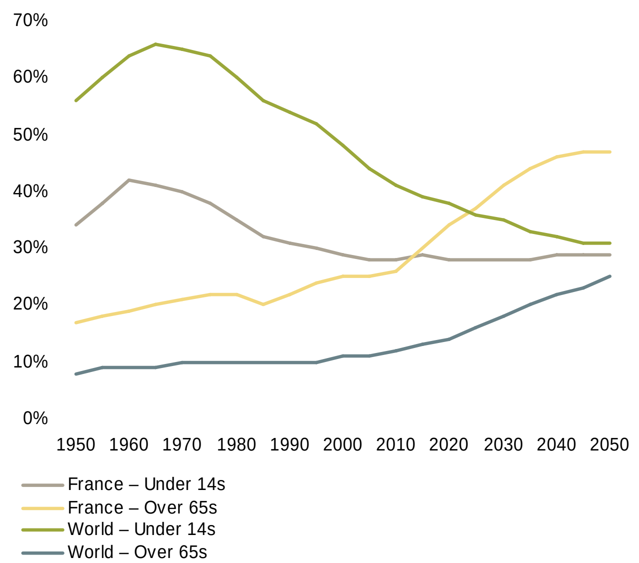
Fact Sheet
France

The fifth annual **HSBC Future of Retirement** report builds on from the previous year's reports in exploring the current attitudes and behaviour towards retirement. Whilst for many in France retirement is viewed as a new age of opportunity, the issue that needs to be addressed is how French families envisage funding and supporting their retirement years. The report explores how the French are responding to the new responsibility of being increasingly accountable for their pension provision. The report also identifies the current 'preparedness gap' – the feeling shared by the vast majority of French people that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in France

France – like most countries of the world – is facing the problem of an ageing population. As can be seen from the chart below, in the coming year or two (around **2010**) the number of dependent adults in France will surpass the number of dependent children for the first time.

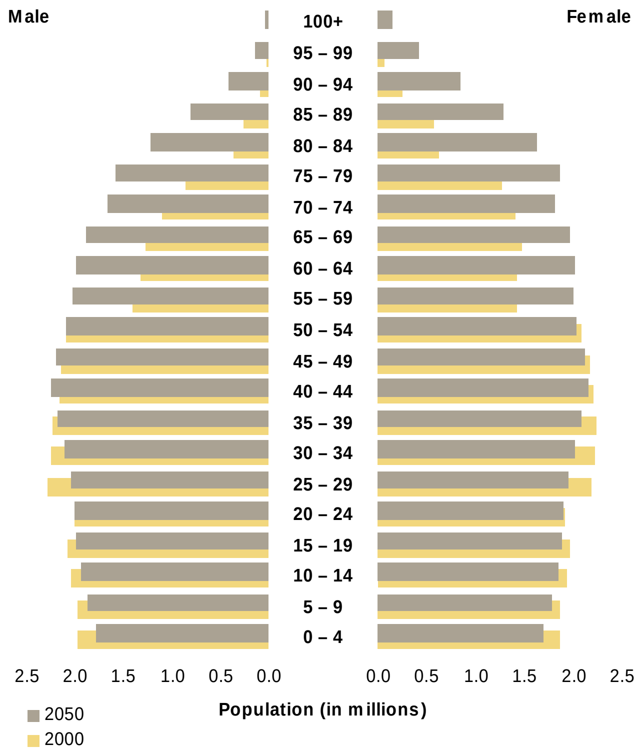
Figure 1 – The ageing French population



Source: UN World Population Prospects: The 2008 Revision, Population Database

In France's population pyramid it is clear that in the year 2000 (the blue section of the chart) the bulging section of the population was aged between **25-30 years**, however, as we fast forward to 2050 (the red section of the chart), this bulge swells to **age 50** and beyond. This signals a future in which the elderly population will be far greater than today, posing many questions for governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of France



Source: U.S. Census Bureau, Population Division

The Pension Pillars

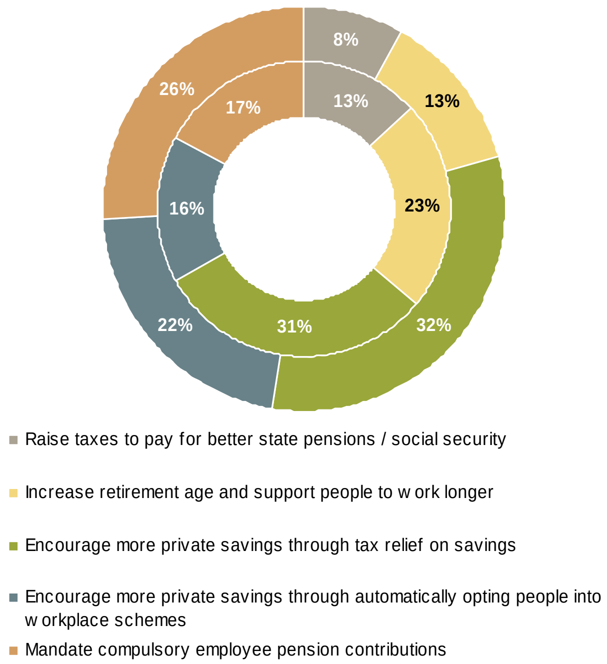
In looking at the future of retirement, the World Bank has established a model with three pillars of pension provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In France, the state has played an important pension provision role and this may in part explain why French savers have typically preferred to save in short term savings products. However, reforms in 2004 have shifted the focus with the introduction of new ‘personalised’ pension products (Pillar 3). The findings reveal that the French have embraced more than many countries this personal need to save. However, saving for retirement is still seen as a less persuasive motive to save (at **18%**) compared with **23%** globally.

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
France	The ‘Fillon’ reforms laid the foundation of a funded pension system. France previously relied on a pay-as-you-go system.	Already had a well established second tier system covering executives (AGRIC) and non-executives (ARRCO).	Reforms in 2004 led to new products aimed at developing personal pension provision. The new PERP provides annuities and lump sums.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in France see the voluntary approach as the most popular way to help people fund their retirement; around **one-third** (32%) of those surveyed favoured encouragement to save through further tax relief on long-term savings. This preference for tax relief may highlight the fact that many in France accept that they are now responsible for their retirement income and look to government more as an enabler.

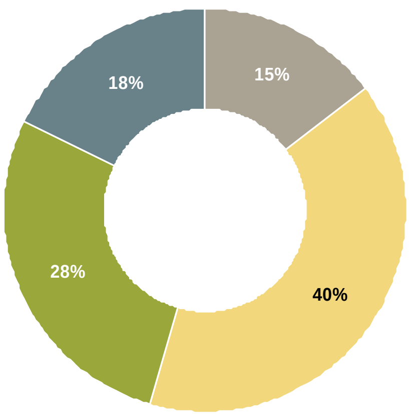
Figure 3 – What the government should do in supporting and financing an ageing population (France’s results are the external ring; global results are the internal ring)



The Conditions for Realising Successful Retirement Planning

In line with all the countries in the 2009 survey, the research revealed a major preparedness gap in France. This may reflect the shift towards personalised savings and pension provision, which increases the uncertainty around retirement outcomes. The findings reveal an alarming **85%** of people do not know what their retirement income will look like. Only **15%** of French respondents currently feel well prepared for retirement.

Figure 4 – Levels of preparation



- Very well prepared – I don't feel I need any advice
- Fairly well prepared – I have done some planning but I'm not sure exactly what my retirement income looks like
- Fairly unprepared – I have not done much retirement planning but am not confident about my retirement income
- Very unprepared – I have not done any retirement planning

Figure 5 – Understanding of finances

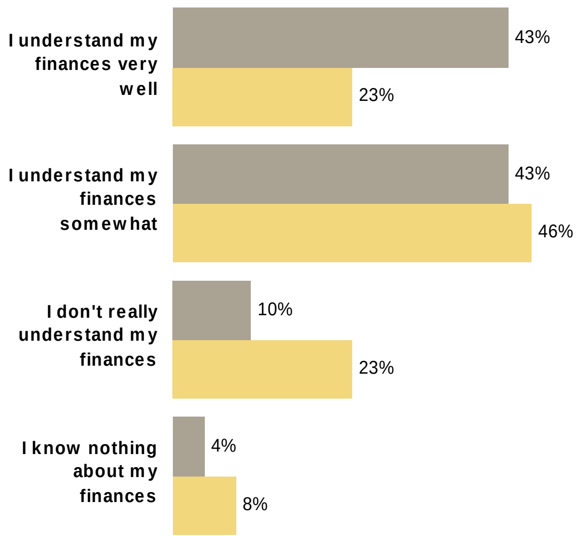
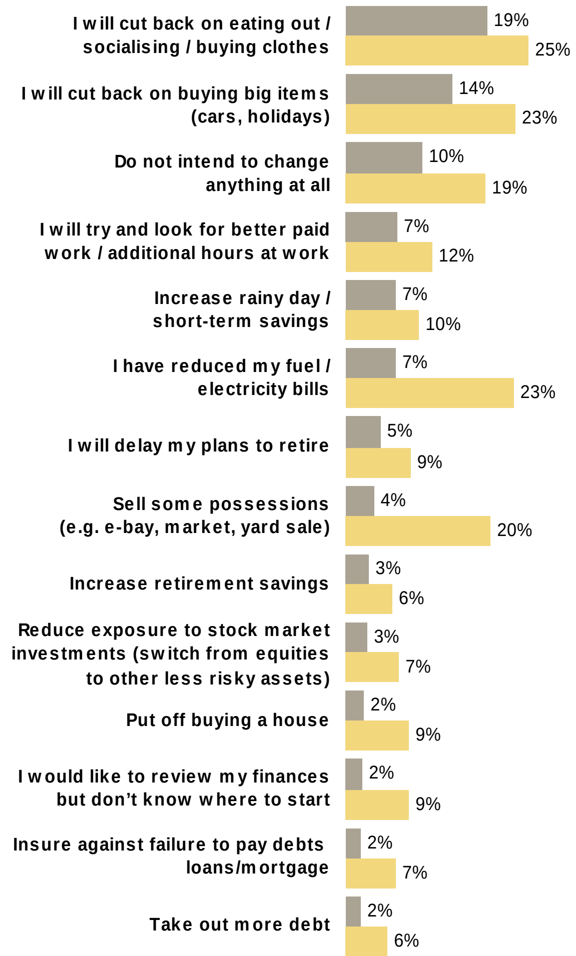


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is driven in part by people's lack of understanding about their long-term finances. Whilst **43%** of respondents understood their short-term finances very well only **23%** are as confident about their long-term finances.

The Preparedness Gap

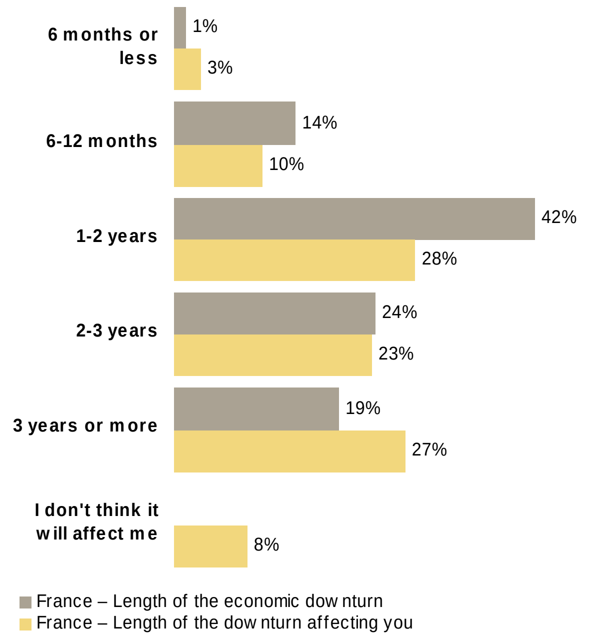
These low levels of understanding of personal finances in France may mean that the 'preparedness gap' is linked to a lack of access to both financial advice and guidance. **66%** of the people surveyed had never accessed any general financial education, whilst **46%** of people have never accessed any form of professional financial advice. Given the responsibilities people now face in planning for their retirement, this lack of financial education and guidance could become a major impediment. Even with France at the international forefront in developing financial education programmes, it is paramount that people develop a better understanding of their finances so that they can adequately plan for their retirement.

The Economic Downturn

Over the last 18 months the economic downturn has had a significant impact on people's finances as well as their attitudes. The International Monetary Fund (IMF) expects France to remain in recession throughout 2009 and most of 2010, and many of the French respondents agreed with this view. However, people in France – along with other developed economies – are generally less optimistic than the global picture. Only 15% of French people think the downturn will last less than 12 months compared to 43% who think it will last more than 2 years.

Many French people felt that the downturn would continue to affect them long after their economy emerges from recession. This could reflect concerns over an anticipated lingering impact on job prospects or returns on their savings or investments. When viewing survival strategies adopted by French families to cope with the downturn, it is clear that people are attempting to create a 'buffer' of savings by reducing expenditure on both large and small purchases, whilst also paying down debt. The findings also reveal that **1-in-10 people** in France have either reduced or stopped saving into a pension. A further **8%** say they will seek financial advice to help them make sense of the choices facing them.

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, France is faced with an ageing society. In response individuals are increasingly taking more responsibility for funding retirement. Having taken steps throughout this decade to put the necessary retirement products in place, France still faces the challenge of widening access to financial advice and education in order to enable French families to better understand their longer term finances and plan accordingly.

The current economic downturn is forcing households in France to develop survival strategies though fewer people are changing their finances compared with other developed economies. Most of the changes envisaged to date reveal a greater focus on changing consumption patterns – French families are cutting back on spending – though their greater focus on financial planning within the current backdrop may simply mean that they are looking to save more for the short term. Reducing debt and reviewing insurance is less of an issue in France than elsewhere.