Retirement Income
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France reforms retirement

By Editorial Staff *Thu, Oct 10, 2019*

The new defined contribution plans are expected to compete with traditional French savings products such as life insurance, bank savings accounts, and pensions. Asset managers Natixis, BNP Paribas and Amundi have irons in the fire.

This summer, France began shaking up its retirement savings system, enacting a new pension law and new regulations in an effort to make it easier for its citizens to save for retirement and to stimulate investment in the domestic economy, according to a report in IPE.com.

Natixis, BNP Paribas, Amundi are among the French asset managers who are launching products in the expanded defined contribution space.

On October 1, a new savings vehicle, called the **Plan d'Epargne pour la Retraite**, or PER, became available within defined contribution (DC) plans. PER comes in three flavors: PERin for individuals, and two group versions (universal PER and categorical PER), which companies can combine into a single plan.

All three variants enable participants to choose an annuity, a lump sum (but only from voluntary contributions), or a combination of the two when they retire.

Members have the option of withdrawing some of their own contributions prior to retirement to buy a primary home. The default investment option is based on "lifestyling," it is now easier to change providers, and tax incentives on voluntary contributions have been standardized.

The new plans are expected to compete with traditional French savings products such as life insurance and bank savings accounts. Life insurance is seen in France as a liquid medium-term savings product. Pension products are less liquid, allowing an asset allocation consistent with a long-term horizon and giving better long-term performance. Life insurance is generally invested in guaranteed assets, and real returns are poor because of the current low interest rates.

“Pension products will be invested in lifecycle funds, with some rules fixed by law,” said Laure Delahousse of the French asset management association, AFG. “They will be allowed to invest broadly in stocks, the proportion of stocks decreasing when the retirement date approaches.

“The investment horizon will now be much longer than for some of the current products. This will clearly open the door to riskier assets such as listed equities, but also new frontier asset classes such as illiquid real assets like infrastructure,” said Estelle Castres, executive managing director, head of insurance channel and GKIC Group, Natixis Investment Managers (NIM).

“Besides focusing on real assets, we are also working with our affiliates and clients on ESG/energy transition products in the new PER or FRPS format. This therefore aligns the government mission of funding the real economy and ESG/climate change issues in the long term, along with retirement savings under the PACTE law,” she added.

“Default investments will include a manager-guided fund or target fund, or—as in current life insurance contracts—a general account (fonds euro) and unit-linked offer. For the PERin, savers will be able to transfer their current life insurance contract into the new PACTE law version with a tax incentive, and by 2022 those will be ring-fenced.”

Xavier Collot, director of employee savings and retirement at Amundi, said, “We expect providers to transform current products into PERs, to expand voluntary contribution opportunities and tax deductibility, and to equip companies that have no supplementary retirement plan. The reform also allows investment into new asset classes such as real estate and private equity in order to increase diversification and potentially increase yield.”

BNP Paribas also have products on the launchpad. The company has retooled its core lifecycle funds to fit with PACTE law requirements. It is also “reinforcing accumulation/decumulation strategies, making them greener and introducing innovative investment management solutions such as ‘isovolatility’ funds in collective schemes (which ensure that volatility remains at a certain level).”

The future marketplace in France for ‘fonds de retraite professionelle supplémentaire’ (FRPS)—supplementary pension funds—is relatively quiet.

The FRPS framework allows providers to manage both individual and occupational arrangements. Although Aviva France, Malakoff-Mederic and Sacra are planning new vehicles, other providers have not shown the same enthusiasm.