French government tweaks its public pension—and European bureaucrats

By Editor Test *Thu, Aug 29, 2013*

Francois Hollande's government conspicuously ignored some of the recommendations that the European Commission had made to it regarding pension reform.

Only seven years away from a potential €20.7b ($27.6 billion) shortfall in the financing of its pay-as-you-go social security program, the French government announced that it would lengthen the contribution period (to 43 years from 41.5 years by 2035) and incrementally raise contributions for both employers and employees a total of 0.3 percentage points by 2017.

But Francois Hollande's government conspicuously ignored some of the recommendations that the European Commission had made to it regarding pension reform—such as the recommendation to increase the statutory retirement age, increase the full-pension contribution period, and not require higher contributions from employers.

Both employers and employees would see their social contributions increase over the next four years – by 0.15 percentage points in 2014 and 0.05 percentage points in 2015, 2016 and 2017 – to reach an overall increase of 0.3 percentage points by 2017.

The government will also ask companies to finance special accounts for "hardship conditions at work." These special accounts, to be introduced in 2015, will help employees performing heavy physical labor to learn new skills, switch to part-time work or retire earlier than the legal retirement age.

Another measure recommended by both the Commission and a French pensions advisory panel in June – which sought to limit indexation – was watered down.

Instead of revising the indexation rules, which could have led retirees to see their pensions fall by one percentage point compared with inflation, Hollande's government moved the date of adjustment of pensions from April to October. The move could help France save as much as €600m ($800 million) by 2014, according to the government.