

# Longevity Risk and Annuity Insurance in France

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April 2013

## Abstract

The combination of longer life and low fertility rates poses a huge challenge to societies and individuals alike as they are increasingly exposed to longevity risk. Rising old-age dependency ratios create serious financial troubles to PAYG-DB-financed pensions and this will likely induce a reduction in state-provided pension income. Additionally, the market trend away from DB corporate pension schemes towards Defined Contribution (DC) schemes means that employer-relation pension benefits will become more uncertain too. This, together with the breakdown in traditional family networks and the increasing uncertainty in labour markets, means that individuals will have to become more self reliant and will need to supplement their sources of retirement income. In France, the government has decided to promote a voluntary saving for retirement scheme through a law called “Fillon Act”, approved in 2003. The law created an individual saving contract called “PERP” (Plan d’Epargne Retraite Populaire) with the aim to supplement public pensions. It is a DC scheme with payments deductible from taxable income (up to 10 % of the annual revenue), but whose main characteristic comes from the fact that, at retirement, benefits are paid in the form of annuities and taxed at a normal rate. In this paper we analyse the saving for retirement products available in France and use the information provided by the Patrimoine Survey in order to ascertain the profile by age, socio-economic status, levels of income, levels of wealth, and fiscal status of holders of a form of endowment insurance or individual retirement savings. We simulate the distribution of savings and accumulated wealth at retirement by considering alternative simulated amounts and rates of return. To estimate the annuity income that households will obtain after retirement we will empirically investigate different mortality projection models in order to generate prospective life tables for the French population. Using this information, we estimate replacement rates and analyse the existence of differences between different socio-economic groups.

JEL Code: G22, J11.

Keywords: longevity risk, longevity insurance, mortality modeling, annuity.

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