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Project to create a universal time savings account (CETU)

DECEMBER 2022

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REPORT

PROJECT TO CREATE A UNIVERSAL TIME SAVING ACCOUNT (CETU)

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SUMMARY

The mission, launched at the request of ministers with a view to providing preparatory information for negotiations with social partners on the creation of a universal time savings account (CETU), carried out its work between the end of September and the end of November 2022. In accordance with the request of the sponsors, in order not to preempt the conditions for entering into future negotiations, it refrained from consulting the social partners and therefore confined itself to a purely technical vision, mainly resulting from meetings with the government departments concerned and employers in the public and private sectors.

Since it was not asked to propose a pre-constructed scheme, but rather to provide a tool to facilitate open consultation, the mission adopted a pragmatic approach aimed, on the one hand, to provide as comprehensive a case-by-case review as possible of the main points to be addressed and the options and challenges associated with them; and, on the other hand, to suggest the order in which it considered the topics should be arbitrated and negotiated.

Long before the Universal Time Savings Account (CETU) project, the Company Time Savings Account (CET) was created in 1994. Subject to the conclusion of a company or industry agreement, its implementation by an employer allows each employee to save their unused leave days, which they can use later or have reimbursed ("monetisation"). Gradually eased, the regulatory framework of the CET is now extremely open: procedures for deposits, ceilings for outstanding loans, possibilities and limits of use or monetisation are, in companies, almost entirely left to the social partners, and can thus be adapted to the particular situation of each company.

To date, the CET has not been the subject of an in-depth study and the foreign examples identified by the mission (Belgium, Germany) are limited to certain sectors or companies. The CET underwent a period of strong development when the 35-hour work week was introduced and was established in all three public service sectors from 2002. However, it remains reserved to a minority of employees: the 8,000 or so agreements signed relate almost exclusively to large or medium-sized companies; and according to the available, somewhat incomplete statistics, only 10-20% of employees in the private sector have a CET.

The largest savers are high-income holders, while conversely temporary employees and short-term contract holders are in fact excluded from the scheme due to the minimum one-year seniority rule in most company agreements. Although there is no reliable information on savings deposits, the use of the days saved is heavily focused on the end of career.

Far from being just an extension of the company CET scheme, the establishment of a CETU involves the design and implementation of a relatively complex overall system: **this is why the mission recommends that collective bargaining (or the prior government framework) focuses, as a first step, on determining the structural characteristics of the future scheme.**

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The purpose of the reform and its scope are the first two issues to be determined. Is it simply a question of stimulating the development of CETs by guaranteeing the transferability of the days saved from one employer to another throughout life, or of effectively generalising (and therefore compulsorily) the right to open a time savings account for all employers, or even for all assets?

In the latter case, the ambition in terms of scope must be arbitrated before the negotiation, both with regard to the possible exclusion of certain sectors or categories of employers and with regard to the field of potential beneficiaries. Two major options are possible in this respect: to make the right to open, credit and use a CETU subject to salaried or similar status - or to make it, in a broad sense of universality, a right attached to the person of any asset, regardless of its status. The mission examined the implications of the second hypothesis on the main categories of people who do not currently have access to the CET (self-employed, temporary workers, jobseekers) and pointed out specific and sectoral situations requiring special examination (e.g. teachers).

The desired degree of CETU **uniformity** will determine the respective roles of the national standard and the company agreements. A **unitary** design, which would make the CETU a public policy system intended to automatically replace all CETs in the company, could, by reducing the scope of collective bargaining, encounter legal obstacles and serious social, economic and organisational difficulties. Conversely, the CETU could be the "**networking**" of **freely traded CETs** in each company as part of a negotiating obligation - at the risk of incomplete generalisation and difficult portability. Therefore, the mission also examined two intermediate options: that of a CETU accessible to all and **co-existing** with the CETs negotiated at company level; and that of a CETU which, by **subsidiarity**, gives employees of companies that have not concluded a CET agreement, the right to open and credit a time savings account whose characteristics would then be defined by a national standard.

The fourth structuring topic is **the management model**: CETs are now managed by employers, who bear both the financial commitment of remuneration for the days saved and the responsibility for keeping individual accounts. This decentralised model could be that of the CETU: employees' leave entitlements would then circulate from employer to employer. This scheme, which presents the benefit of a certain continuity with the current situation, is, on the other hand, poorly adapted to the management of changes in employer and, above all, to situations outside salaried employment (unemployment, start-up of a company, expatriations, etc.) for which the intervention of a third-party manager would be inevitable. An alternative model would be to take care of the accounting and financial commitment by a mutual fund that would collect the value of the days saved and disburse the leave allowances when the time comes: however, this separation between the operational management of leave (by the company) and its compensation (by the Fund) may appear to be too disruptive in relation to the current situation, in particular if it were to be applied to the public sector, and difficult to reconcile with the diversity of situations existing in companies. A mixed model combining, depending on the situation, management by the company and outsourcing in a mutual fund, particularly in the event of changes in employment situations, was therefore also studied by the mission.

These structuring choices are closely interdependent and, taken together, will shape the architecture of the **CETU - a system for which, as a second step, the negotiation will determine the key parameters.**

The CETU will mainly be credited by payment of unused leave days: in this respect, public health concerns (converging with financial or budgetary concerns) could lead to a cap for the entire annual flow of days that can be saved, or the total outstanding amount, as is currently the case in the public sector. Conversely, if the priority objective was to maximise the ability to anticipate retirement, or even to transform working time into purchasing power, then a restrictive public policy cap may seem undesirable. An input by purchase of days (transformation of money over time), which is already possible in some company CETs, could constitute useful flexibility and, above all, to encompass a broad vision of universality, would be the only possible input route for self-employed workers.

The conditions for the **reevaluation of rights over time**, as savings are likely to be retained for decades, are therefore a central and sensitive subject. If, in the event of a decentralised model, managed at the level of each employer, it proves difficult, in practice and in law, to deviate from a leave allowance aligned at any time with the current salary¹, - this is not the case if the allowances are paid by a mutual fund: in this case, the negotiation will have to determine the method of valuation of the individual “stock” of days saved. Among the various avenues explored by the mission, it will be necessary to identify the one that will best reconcile the protection of the beneficiaries’ interests with the financial sustainability of the scheme: reevaluation determined by the constraint of the equilibrium of the scheme, or indexed on price or wage trends, or on a financial indicator, etc.

The **methods of using the rights to leave** savings and the degree of constraint imposed on this point by common public policy rules will depend primarily on the objectives assigned to the CETU. In this regard, three major themes should be the subject of arbitration that the mission has endeavoured to clarify: the reconciliation between the exercise of leave rights and the management constraints of the employer; the degree of regulation of the possibilities for monetising rights; and the link between the CETU and the other public rights management schemes over the course of the career: pension schemes, personal training account, professional prevention account. The CETU, like the current CETs, could thus be used to anticipate the total or partial cessation of activity or improve the level of retirement savings.

In the event of a decentralised architecture, especially if plenty of leeway is provided for collective bargaining, the **operational challenges** will be limited. On the other hand, the creation of a mutual fund will require the establishment of **governance** and the **choice of an operator**, whose mission has identified the main roles. In this case, specifications must be drawn up as soon as the CETU architecture has been stabilised in order to be able to compare the proposals of potential candidate managers. Similarly, the **tax and social security treatment** of financial flows linked to **the operation of the CETU, as well as their link with social schemes** (unemployment benefit and minimum social benefits), must be the subject of proposals from the government departments concerned, based on the analyses conducted by the mission.

¹ As in most current CETs.

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The mission attempted to estimate the volume of the future scheme, based on incomplete and poorly representative data of what the CETU would be. In any case, its operating costs would be borne either by companies (in a decentralised model close to the current CETs) or indirectly by the beneficiaries, by deduction from financial investment products (in the case of a mutual fund). Apart from the budgetary impact that outsourcing the management of leave entitlements would have on all public sector employers, the main financial risk for the State relates to the scenario in which the mutual fund would guarantee the revaluation of entitlements according to an external index - a guarantee that would probably ultimately be based on the State.

In the absence of any economic literature on this subject, the mission was only able to present the consequences for employees of the establishment of the CETU in a theoretical manner. Nevertheless, it is important to emphasise that most of the potentially negative impacts are likely to be corrected by an adequate system configuration: for example, the problem of the hiring barrier, partly solved by the use of a mutual fund; or the risks relating to occupational health, which an appropriate capping of the input options would limit. This is also true for companies that, under certain conditions, could find in the CETU an opportunity in terms of managing working time or reducing their balance sheet (the liabilities being transferred to a mutual fund) - although it is undeniable that the deployment of the CETU in all SMEs, and even more so in very small businesses, would be a real challenge.