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Financial Position of the National Pension Fund for Local Government Employees

Assessment and Outlook

Report

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SUMMARY

[1] The National Pension Fund for Local Government Employees (*Caisse nationale de retraite des agents des collectivités locales* – CNRACL), established by the ordinance of May 17, 1945, is the public pension system for territorial and hospital civil servants. State civil servants fall under a separate scheme (the State Pension Service – *Service des retraites de l'État*, SRE), though both systems are aligned in terms of pension rights and employee contribution rates. Like the SRE, the CNRACL is an integrated pension scheme that covers both basic and supplementary benefits. In 2023, the CNRACL paid pensions to 1.3 million direct beneficiaries—about 7% of all French public pensioners. It disbursed €23.3 billion in old-age pensions and €2.7 billion in disability pensions, totaling €26 billion in statutory benefits.

[2] Funded by approximately 2.2 million contributors, total contributions reached €24.4 billion in 2023—less than the benefits paid. The fund also contributed to the national pension redistribution system (*compensation inter-régimes*), leading to a deficit of €2.5 billion for the year.

[3] In addition to statutory pensions, the CNRACL operates a social action fund (€123 million in 2023) and a professional wear prevention fund (€6.5 million).

[4] If current trends continue, the fund will move from a modest surplus of €15 million in 2017 to a deficit exceeding twice that of the general retirement system (which serves ten times more pensioners) by 2023. By the decade's end, annual deficits could reach €11 billion, even accounting for the 2023 pension reform and salary increases.

[5] Key reasons for this deterioration include:

- The main explanatory factor is the deterioration of the demographic ratio of the system, i.e., an unfavorable change in the ratio of contributors to pensioners. The contributors-to-pensioners ratio fell from over 4 in the 1980s to 1.46 in 2023, now below the national average of 1.71. This imbalance is the main driver of the fund's structural deficit;
- Demographic compensation also plays a significant role in the accumulation of the deficits. Since 1974, the CNRACL has contributed approximately €100 billion (in constant 2023 euros) to this mechanism. This redistribution process, often poorly understood, reallocates significant amounts of money—more than €5 billion was transferred to agricultural regimes in 2022—based on the relative demographic and financial standing of each pension system. The CNRACL has the dual characteristic of being structurally underfunded, i.e., in deficit, while still being in a relatively stronger position than other systems, which means it remains a contributor to the mechanism. Although it will become a net beneficiary of the compensation mechanism starting in 2027, its past contributions continue to weigh heavily on its financial balance (€80 billion since 1974);
- The shift toward more contractual employment in the public sector—where contract employees now represent 19.9% of the workforce—has indeed led to a noticeable increase in the share of these employees contributing to the general pension system. However, this

only explains about one-eighth of the deterioration in the demographic ratio for the CNRACL;

- The system's reliance solely on contributions to finance its obligations makes the non-contributory benefits it offers, such as child-related pension bonuses or the full validation of sick leave periods, financially unsustainable. These non-contributory benefits are also provided by other pension systems, but those benefit from complementary sources of funding. On average, contributions account for only 66% of total revenues in the national pension system, with the remainder covered by taxes and inter-system transfers;
- Lastly, even though this issue is not yet quantitatively significant, the rapid and substantial deterioration of the CNRACL's accounts raises concerns about a very significant increase in financial costs to cover growing cash flow needs. These interest expenses could rise sharply if the fund's liquidity requirements continue to grow.

[6] Having drawn up this diagnostic, the mission sought to propose avenues for reform that would help place the system back on a path toward financial equilibrium. As this is a pension system for civil servants, the proposed measures must take into account the constraints imposed by the European Union in terms of public deficits and debt. The mission letter calls for an approach centered on the territorial and hospital civil service system itself, though the possible repercussions of proposed measures on other levels must also be kept in mind.

- Some measures would affect only the CNRACL. For example, assuming there is no substitution effect where civil servant jobs are replaced by contract jobs, an increase in employer contribution rates would not affect other social security systems;
- Other proposals would impact all public pension systems, such as raising employee contribution rates, which would affect both CNRACL-affiliated civil servants and those employed by the central state;
- Some suggestions would also affect other pension regimes, both basic and complementary; for instance, moving contract employees currently affiliated with the general regime and the IRCANTEC to the CNRACL would have consequences for the former systems;
- Still other proposals would touch different branches of social security: for example, if the Family branch were to finance non-contributory benefits, this would entail an additional transfer from the Family to the Old-Age branch;
- Finally, a debt transfer or the allocation of a dedicated tax resource could improve the CNRACL's financial position but would result in a worsened fiscal balance elsewhere in the public sector.

[7] In effect, improving the CNRACL's position essentially requires the mobilization of public resources, which means that the impact on public finances overall must be considered neutral:

- Funding through deficits increases the overall public deficit;
- Raising employer contributions, if offset, would require the State to spend more through mechanisms like the general operating grant or the National Objective for Healthcare

Spending (ONDAM[1]). Conversely, if not offset, it would constitute a cost-saving measure for public employers;

- Financing from the Family branch or the Old-Age Solidarity Fund (FSV), as recommended in this report, or a balancing subsidy from the State, would also represent public spending.

[8] There are only two ways to improve the CNRACL's balance sheet without further worsening the overall financial position of the public sector :

- The first is to call on public employers to contribute more, provided that such contributions are funded by internal savings rather than debt;
- The second is to ask civil servants themselves to contribute:
  - either through higher employee contribution rates, effectively reducing their net pay;
  - or by lowering pension benefits, which would constitute a reform of civil service pensions.

[9] Both approaches must be considered in light of the broader issue of declining attractiveness of public service careers. Moreover, these reforms would have spillover effects—fiscally beneficial, but socially and politically sensitive—particularly for central government civil servants. Indeed, the principle of unity in the public service[2] would require that these measures also apply to state civil servants, unless a separation is formally enacted between the different branches, a process already tentatively begun with the disability pension scheme.

[10] In the short term, immediate managerial actions are necessary. These are not just corrective measures, but also fairness measures, given that the CNRACL does not benefit from the same funding mechanisms as other pension regimes. It would be legitimate for the CNRACL to receive such funding, particularly considering its significant historical contributions to inter-scheme equilibrium through demographic compensation. One option would be to diversify the CNRACL's revenue streams, as it currently finances all its benefits solely through contributions, unlike other systems where contributions make up only 70% of total resources. It would be reasonable to compensate the CNRACL for non-contributory child-related benefits. For instance, the general regime is compensated by the Family branch for such benefits, while the CNRACL is not. In 2022, child-related pension bonuses and disability pensions totaled €779 million. Other immediate measures could include relieving the CNRACL of unpaid debts carried on its balance sheet (estimated at €400 million) and reducing financial charges that could reach nearly €1 billion by 2030 if cash needs continue to rise. In this regard, transferring the debt to the *Caisse d'Amortissement de la Dette Sociale* (CADES), or having it assumed by the State, remains the preferred option.

[11] Even if implemented, the proposed measures would not be sufficient on their own to ensure the CNRACL's financial balance. A residual funding need remains and cannot rely solely on a significant increase in employer contribution rates. Any increase should be part of a multi-year trajectory adjusted to the fund's actual financial condition.

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[1] There are employers of hospital civil servants who are not funded by ONDAM.

[2] This principle is neither constitutional nor even legal, with the General Civil Service Code frequently applying the same measures in all three branches. However, it is a sensitive issue for trade unions.

[12] Increasing employer contributions would raise the relative cost of employing permanent civil servants compared to contract employees, thereby increasing the risk of substitution. The mission therefore recommends creating a payroll tax on contract workers, with the proceeds allocated to the CNRACL.

[13] Regarding long-term reforms, the mission has assessed the impact of certain options:

- Broadening the contribution base to include bonuses—currently limited to base salary—would yield short-term revenue but ultimately result in higher expenses, thus being unfavorable to the fund. Altering the scope of affiliation to the CNRACL, though potentially difficult, would likely not produce sufficient demographic improvement to significantly alter the system's trajectory;
- Nevertheless, the mission recommends including part-time civil servants to unify coverage across permanent staff;
- It also supports a comprehensive reform of the demographic compensation system under the supervision of the Pension advisory board (*Conseil d'orientation des retraites*).

[14] The proposed measures are based on a fair distribution of effort and aim for equity by aligning CNRACL's funding structure with that of the main old-age insurance schemes, while also adjusting the demographic compensation parameters. This includes distinguishing non-contributory benefits—linked to national solidarity and requiring external funding or earmarked taxes—adjusting inter-regime transfers, addressing the CNRACL's debt through assumption or restructuring, and asking public employers to share the financial effort by increasing their contribution rates.

In millions of euros	2024	2025	2026	2027	2028	2029	2030
Contributions	25 438.8	25 588.8	25 697.6	25 800.6	26 322.3	26 856.5	27 399.2
Other revenues	675.7	649.9	699.8	749.8	776.1	808.6	841.5
Total revenues	**26 114.5**	**26 238.7**	**26 397.4**	**26 550.4**	**27 098.4**	**27 665.2**	**28 240.7**
Old-age pensions	26 112.8	27 858.6	29 482.2	31 176.2	32 279.1	33 453.0	34 656.7
Disability pensions	2 136.4	2 244.6	2 338.3	2 429.5	2 377.6	2 473.8	2 576.3
Social action fund	134.5	134.5	134.5	134.5	139.9	145.7	151.6
Interest charges	306.0	433.0	550.0	655.0	898.1	1 147.1	1 474.8
Other expenses	1 194.6	1 022.2	854.7	826.0	559.1	538.5	519.0
Total expenditures	**29 884.4**	**31 692.9**	**33 359.7**	**35 221.2**	**36 253.8**	**37 758.1**	**39 378.4**
Projected deficit	**- 3 769.9**	**- 5 454.2**	**- 6 962.3**	**- 8 670.7**	**- 9 155.4**	**- 10 092.9**	**- 11 137.7**
Initial cumulative deficit	**- 8 632.2**	**- 14 086.4**	**- 21 048.7**	**- 29 719.5**	**- 38 874.9**	**- 48 967.7**	**- 60 105.4**
Employer equilibrium rate (before measures)	**39.12%**	**41.85%**	**44.40%**	**47.26%**	**47.78%**	**49.00%**	**50.34%**
Demographic compensation revision	NC	NC	NC	NC	NC	NC	NC
Child pension bonus reimbursement	-	1 000.5	1 061.6	1 125.9	1 168.5	1 211.9	1 255.4

Affiliation of part-time civil servants	-	290.0	283.3	276.7	270.2	263.9	257.8
Debt relief measures	-	-	181.2	435.7	685.8	939.8	1 263.2
FSV financing of half-pay sick leave periods	-	228.5	234.2	239.9	245.6	251.3	257.0
FSV financing of disability minimum pensions	-	50.0	52.1	54.1	53.0	55.1	57.4
Payroll contribution on contract workers		230.0	231.0	231.9	236.6	241.4	246.3
Deficit after measures	**- 3 769.9**	**- 3 655.2**	**- 4 919.0**	**- 6 306.6**	**- 6 495.7**	**- 7 129.4**	**- 7 800.6**
Cumulative deficit after measures	**- 8 632.2**	**- 12 287.4**	**- 17 206.4**	**- 23 513.0**	**- 30 008.7**	**- 37 138.1**	**- 44 938.7**
Employer equilibrium rate (after measures)	**39.12%**	**38.84%**	**41.00%**	**43.34%**	**43.46%**	**44.29%**	**45.13%**
Additional employer contribution points to ensure system balance (base 2024 : 31.65%)	**7.47**	**7.19**	**9.35**	**11.69**	**11.81**	**12.64**	**13.48**

Source : Mission sur la base de données CDC