NEWSFLASH

Explainer: Preparing for your retirement

Paris, 7 Jun 2018

It is important to prepare for retirement while you are still actively employed. It isn't always easy to work out the best time to leave? The Henner Group will guide you through the process with the help of a case study involving Paul, a 62-year-old employee.

The Henner Group's retirement solutions

The Henner Group's Retirement & Employee Savings department serves companies who are seeking retirement solutions for their employees in France or abroad. The Henner Group also designs solutions for expatriates and provides end-of-career support.

Henner's advice:

It is important to obtain regular pension statements from the age of 40 to prepare for your retirement. In France, you can obtain these documents from the retirement pension website www.canv.fr. The statement tells you how much pension you are currently eligible for. In particular, the statement lists:

- Your yearly wages subject to retirement tax
- The number of quarters acquired for the full pension
- Any periods of unemployment or illness

Everything is taken into account, from work leave to unemployment, etc.

Our tip: All employees should take the time to check that all their periods of work have been taken into consideration, including student work, military service, temporary positions, unemployment and inactivity, etc.

For workers who have had international careers, this can prove more complicated. At Henner, we can piece together your entire international career for you. In some cases, this can take anywhere from a few months to two years to complete.

What about long careers?

In the French pension system, a "long career" can be defined as follows: At the end of the year you turn 20, you must have accumulated 5 quarters towards your pension (or 4 quarters in the year you turn 20 if you were born in the fourth quarter of the year). In such cases, you can retire at the age of 60 if you have accumulated the full number of quarters required to qualify for the full pension.

Case study:

In 2019, Paul is turning 62 and has accumulated enough quarters to qualify for the full pension.

He is an employee and has had a fairly linear career.

At the end of his career, his yearly wage amounts to €60,000 gross (or €46,200 net with 23% of Social Security contributions)

Question: Is it better for Paul to retire in 2019 and pay withholding tax on his pension, or wait one more year and avoid the 10% penalty on his pension points for 3 years?

PENSION CALCULATION

The first column is not an option for Paul who is retiring in 2019, but is included here for reference.

	Full pension with no penalty	Pension with retirement in 2019 and 10% penalty	Pension with retirement in 2020 with no penalty, with increase	Comments if retirement is taken one year later
Social Security	**€17,628**	€17,628	€18,509	Increase of 5%
ARRCO	**€7,311**	€6,581	€7,499	Value of points at 100% + points for additional years
AGIRC	**€7,172**	€6,455	€7,421	
Gross total pension	**€32,111**	€30,663	€33,429	+ 9% of pension
Net total pension	**€29,044**	€27,743	€30,238	
Gross replacement rate	**53.51%**	51.10%	55.72%	
Net replacement rate	**62.87%**	60.05%	65.65%	

→ The penalty applied over 3 years: €29,044 - €27,743 = €1,301 x 3 = €3,903 loss

→ Withholding tax on a pension of €27,743 amounts to €2,122 i.e. 7.65% tax.

→ If he postpones his retirement from 2019 to 2020, Paul will be paid a wage of €46,200 in 2019.

→ Withholding tax on a pension of €46,200 amounts to €6,767 i.e. 14.65% tax, which amounts to difference of €4,645 (€6,767 - €2,122).

Conclusion:

By leaving with a penalty, Paul will benefit in the first year because the tax gain will absorb the penalty: tax gain of €4,645 - penalty of €3,903 = €742.

The 3-year penalty is absorbed within the first year by the tax gain. Obviously, that is only valid for 2019.

If he postpones his retirement, Paul will pay more income tax but will earn €1,194 more (€30,238 - €29,044) every year.

The Henner analysis

Retiring in 2019? Paul will benefit in the short term but will lose in the long term.

For long term gain, Paul would be better off working for an extra year.

About the Henner Group

The Henner Group, a company that designs innovative health and life insurance solutions, is a leader on the French market for group healthcare insurance. With its strong international presence, the independent French company has 1,500 employees throughout France as well as Europe, Asia, Africa and North America. Active in all segments of health and life insurance (healthcare, life and disability insurance), the Henner Group works with 10,000 companies of all sizes to design and manage insurance plans for some 1.5 million members, employees and families. The company has put together the world's largest network of healthcare providers, with 1 million providers in the USA and more than 50,000 in 165 countries, providing its members access to care wherever they are in the world. www.henner.com

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