Reduction in social security levies on labour income in France: challenges and prospects

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The government aims to boost the purchasing power of those in employment by increasing levies on retirement pensions and capital income. In addition to sparking protests, this measure raises two questions regarding its medium-term consequences: what impact will it have on rules for allocating and calculating social insurance benefits, previously financed by social security contributions; and how will it impact the way in which unemployment insurance is managed by the social partners?

Description

The 2018 Social Security Financing Act abolishes health insurance contributions (0.75%) and unemployment insurance contributions (2.40%) for private-sector employees. In exchange, the general social contribution (CSG) rate has been increased but by a smaller proportion (1.70%). The aim is to redistribute over 7 billion euro to the working population by replacing the current contributions of 3.15% of labour income with a 1.70% rise in the general social contribution (CSG). The measure will mainly benefit private-sector employees by increasing their net pay. It is important to stress that the employers will continue to pay unemployment insurance contributions.

Over the last twenty years, measures to reduce contributions have mainly centred on employer contributions, and government action to this end has increased over time. The last measure to reduce employee contributions dates back as far as 1998. This was offset at the time by an increase in the CSG rate, to make up for the abolition of the share of health insurance contributions allocated to finance health expenditure.

Unlike social contributions, which are based only on remuneration for work, the CSG uses a broader calculation basis: it applies not just to income from occupational activity, but also (since 1998) to income from capital and replacement incomes, in particular retirement and disability pensions.

For private-sector employees, the measure to reduce social contributions will involve the abolition of health insurance contributions (0.75%), which have up to now financed daily sickness-maternity allowances, disability pensions and death benefits) and unemployment insurance contributions (2.40%), amounting to a reduction equivalent to 3.15% of gross pay. Given the increase in the CSG rate from 7.5% to 9.2%, the overall result is a 1.45% rise in purchasing power, i.e. €263 per year for an individual on the minimum wage (€1,498.50 a month), and almost €900 for someone with a monthly salary of €5,000.

For self-employed workers and public-sector agents, the government's wish to reduce social contributions is undermined by the fact that these groups did not pay unemployment insurance contributions. Thus for the self-employed, the reduction takes a different form, consisting in an almost total abolition of family benefit contributions and an increased exemption from health insurance contributions. This will mean a drop in social levies for three-quarters of self-employed people and a neutral effect for the other quarter who happen to be the most well-off. According to the government, the overall result would also be a 1.45% increase in purchasing power.

Public-sector agents, on the other hand, are only granted compensation for the

1.70% rise in the CSG; their purchasing power will remain unchanged.

Unlike people in employment, the retired will mostly have to suffer the increase in CSG. They will not benefit from the abolition of either health insurance contributions or unemployment insurance contributions because they do not pay these contributions. However, the increase will only affect pensioners whose annual gross income exceeds a threshold of €14,404 (€22,096 for couples), i.e. only 60% of retired people. To attenuate the financial implications, the government's line is to emphasise that from 2018 some retired people will benefit from the new progressive exemption from residence tax, which is currently paid by both tenants and owners of houses and flats. Nevertheless, this measure is of a different nature since it is a form of local taxation that does not differentiate between working and retired people.

Outlook & commentary

The replacement of health and unemployment insurance levies on labour income by the CSG raises questions regarding its potential impact on the right to compensation for absence from work due to periods of sickness, disablement and unemployment. The benefits paid out to this end clearly still follow a social insurance rationale that has not to date been called into question: the allocation rules still relate to the duration of insurance, and the amounts paid remain proportional to remuneration, despite the new replacement of employment contributions by the CSG. Yet, according to French law, the CSG acts as a tax contribution insofar as it does not open up any rights to benefits, unlike social contributions. For the time being, the compensation system for absence from work due to periods of sickness, disablement and unemployment remains unchanged, but the prospect of uniform compensation, or even a compensation ceiling, which would involve disconnecting the amount of social compensation from remuneration for work, cannot be excluded. The measure is no doubt less about maintaining coherence between the nature of financing and the type of social benefit (especially since employers will continue to pay unemployment insurance contributions) than about seeking to make additional savings on social expenditure.

In addition, the management of the unemployment insurance scheme by the social partners could be called into question, or at the very least weakened, by the replacement of contributions with CSG. This is particularly true for the role of employee trade union organisations, given that employee contributions have now been abolished, while employer contributions continue. In his election manifesto, President Macron declared that he was in favour of restoring state control of the governance of the unemployment insurance scheme, given how closely related this part of social protection is to employment policy. One possible outcome of introducing CSG into the financing of unemployment insurance could be three-party management (state, employer organisations, employee trade unions) instead of the traditional management by employers' organisations and trades unions. The government's forthcoming announcement of a proposed reform of the unemployment insurance regime may shed more light on this point.

Further reading

Anne-Claire Dufour, "La poursuite assumée de la fiscalisation de la sécurité sociale", Revue de droit sanitaire et social, December 2007, pp.983-992.

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