

French public Service  
Additional Pension Scheme

2009

**Annual report**





#### **LEGAL REFERENCES**

- Article 76 of the French pension reform  
Law 2003-775 of 21 August 2003
  
- Decree 2004-569 of 18 June 2004 on  
the French Public Service Additional  
Pension Scheme
  
- Statutory order of 26 November 2004  
implementing Decree 2004-569 of 18  
June 2004 on the French Public Service  
Additional Pension Scheme

Translator's note : RAFP (Retraite Additionnelle de la Fonction Publique) and ERAFP (Etablissement de Retraite Additionnelle de la Fonction Publique) are both acronyms for the French Public Service Additional Pension Scheme.



# Report on the administration and management of the French Public Service Additional Pension Scheme

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*During the first half of each year, the Board of Directors deliberates on a detailed management report for the previous year that addresses, in particular, the Scheme's operations and financial equilibrium as well as the collection status of contributions. This report is submitted to the French Parliament and made available publicly.*

*Art. 22 of June 18, 2004 application decree No. 2004-569 regarding the French Public Service Additional Pension Scheme*

**RAFP OR ERAFP ?**

Article 76 of the 21 August 2003 pension reform law created a mandatory public service additional pension scheme – known as “Retraite Additionnelle de la Fonction Publique”, or RAFP – in the 18 June 2004 decree No. 2004-569. RAFP therefore generically describes the scheme created through this law, but not the legal entity itself. ERAFP, or “Etablissement de Retraite Additionnelle de la Fonction Publique”, is the public-sector administrative entity charged with the scheme’s management.

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# A leading entity for civil servants' retirement savings

Operational since 2005, the French Public Service Additional Pension Scheme (RAFP) is a unique pension scheme.

## **RAFP and the financial crisis**

Like all the institutional investors, ERAFP was affected by the financial crisis. The scheme was nevertheless buoyed by its prudent assets and liabilities management, ongoing asset allocation diversification and a Socially Responsible Investment (SRI) policy consistent with a long-term view and a commitment to looking beyond immediate financial gain. The Scheme's commitments to active contributors and pensioners are largely covered. This broad coverage is noteworthy because the Scheme calculates the likely present value of these commitments using a relatively low, and therefore very conservative, discount rate.

Finally, for RAFP, the crisis confirms the relevance of its SRI approach. Indeed, the SRI filter makes it possible to better assess risk and identify sectors and companies that will be the growth drivers of tomorrow.

## **A leading entity for civil servants' pensions**

Nearly 4.7 million people currently hold rights entitling them to benefit from an additional pension. More than 44,200 public-sector employers make regular contributions – €1.6 billion in 2009 – based primarily on bonuses. Since 2005, some 400,000 pensioners have already received benefits

## **The inter-generational equity requirement**

As the only mandatory French pension fund, RAFP has made inter-generational equity a core component of its governance and management. This commitment is reflected in particular through the implementation of a points-based system with a single purchase value.

## **Further development**

After an initial period focused on the challenges of creating a new Scheme, the Board of Directors has initiated new measures on behalf of beneficiaries. It has therefore made adjustments in the asset allocation to favour greater diversification. Similarly, the Board plans to provide more information to active contributors and step up its public relations efforts as regards the implementation of the SRI Charter.

#### THE WORK OF THE BOARD OF DIRECTORS IN 2009

The Board considered matters involving its regulatory competencies: assessment of the Scheme's commitments, determination of the amount of reserves to establish for their coverage, purchase and service values of points, the management entity's budget, financial statements, internal control, etc.

At the 26 March 2009 Board of Directors' meeting, the directors approved modifications to the SRI guidelines and new management measures applicable to listed shares issued by large-cap multinationals, as ERAFP has decided to establish geographically based sector classifications. In accordance with the SRI Charter, RAFF also published its first annual report in 2009 on the implementation of its SRI policy, approved by the Board of Directors at the 18 June 2009 meeting.

The Board of Directors' meetings of 5 May and 17 December 2009 focused on draft administrative orders regarding employee time bank accounts in the French central, regional and local public sectors. Time bank days may now be transformed into RAFF points. The directors advised voting against the proposed legislation in each case.

During an extraordinary meeting on 27 May 2009, the directors sought a joint review, along with the supervisory authorities, of the regulatory framework applicable to the Scheme in order to adopt an accounting policy that is more compatible with the Scheme. The Board also took advantage of this opportunity to examine the potential expansion of RAFF's investment scope within the framework of the Social Security Code. The possibility of diversifying assets under management to include the property and forestry segments was raised. Finally, the Investment Policy Monitoring Committee was charged with adapting the SRI guidelines to include forestry assets following a decision made by the Board at its 22 October 2009 meeting.

In addition to updating the Management and Objectives Agreement ("Convention d'objectifs et de gestion" – COG) with Caisse des Dépôts, the directors issued an opinion on the administrative order relative to the frequency of payments for "small employers" at its 18 June 2009 meeting. The objective was to allow a single annual payment instead of the usual 12, for employers with fewer than 10 civil servants, thereby facilitating the reconciliation of the official reporting statement with payments made. This modification would affect 40,000 local and municipal authorities.

Finally, the directors examined the reimbursement of travel and lodging costs for ERAFP directors and employees (Board meetings of 26 March and 5 May 2009) and extended the reimbursement of IT expenses to include deputies (Board of 22 October 2009).

#### ATTENDANCE AT BOARD OF DIRECTORS' MEETINGS

##### Representatives of active contributors

CFDT	6
CFE-CGC	6
CFTC	6
CGT	6
FO	6
FSU	6
SOLIDAIRES	6
UNSA	6

##### Representatives of employers

Ministry of Defence	6
MINEFE	6
La Poste	6
Association des maires de France	5
Assemblée des départements de France	4
Association des régions de France	0
Fédération hospitalière de France 1	6
Fédération hospitalière de France 2	6

##### Qualified persons

Jean-Jacques Marette	3
Alain Dorison	6
Jean-François Rocchi	6



## Scheme governance

### The Board of Directors

In 2008, at the conclusion of the first term, a new Board of Directors was appointed. It comprises 19 members:

- eight representatives of active contributors, drawn from the ranks of the representative trade unions,
- eight employer representatives, including three for the French State, three for the local and regional authorities and two for the public hospital sector,
- three qualified persons

### Specialised committees

The Board has established four sub-committees. They assist the Board with the preparations and follow-up for its deliberations, especially as regards assets and liabilities management, auditing, collections and investment policy monitoring. Jean-François Rocchi is the Chairman of ERAFP, while Philippe Desfossés is its Chief Executive Officer.

### Activity report

The Board met six times in 2009. Once again, attendance was very strong, with an average attendance rate of 89%.

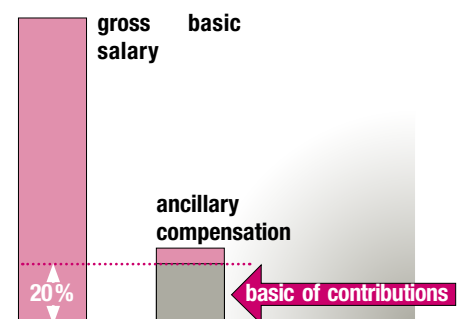
The Board deliberated on matters involving its regulatory competencies: assessment of the Scheme's commitments, determining the amount of reserves to establish to cover these commitments, purchase and service values of points, management entity's budget, financial statements, etc.

In May 2009, the Board met in two extraordinary sessions. The first was to review the proposed regulatory changes affecting the expansion of the Scheme's investment scope (property, forestry, unlisted companies, etc.) and the adaptation of its accounting framework. The second examined the draft legislation on employee time banks in the French public service sector.

### BASIS OF CONTRIBUTIONS

- Bonus, allowance and in-kind benefit amounts used to calculate Scheme contributions and rights are capped at 20% of the gross annual basic salary received.
- These capped amounts are subject to a 10% contribution rate, with 5% paid in by the employer and 5% paid in through withholdings from civil servant beneficiaries.
- Note: the “Individual Purchasing Power Guarantee” (GIPA) is not included in this capped system. The 10% contribution rate therefore applies in full, regardless of the relative level of ancillary compensation.

Similarly, time bank days directly converted into RAFP points in accordance with the terms of the 28 August 2009 decree No. 2009-1065 are not included in the capped system. However, no contribution is applied in this context, since the conversion to RAFP points is based on the full valuation of time bank days.





# Additional pension characteristics

RAFP is a mandatory, points-based scheme benefiting civil servants working in the French central government (civilians and military), local and regional governments and public hospital sector as well as magistrates. The scheme makes it possible to pay out an additional retirement benefit along with the main pension, taking into account bonuses and ancillary compensation paid to civil servants during their active working lives.

## A public pension fund

The public sector additional pension is based on the fully provisioned, pay-as-you-go model, which makes it possible to combine the advantages of a pay-as-you-go system with those of a funded system. Comparable to collective funding, the system is based on the scheme's requirement to permanently cover all of its commitments through financial assets. Thus the rights vested by each beneficiary over the course of his career are fully guaranteed over time through the establishment of financial reserves, which themselves generate income.

## Beneficiaries

At 31 December 2009, nearly 4.7 million people have an RAFP rights account and benefit or will benefit from the additional pension scheme.

In order to acquire additional pension rights, beneficiaries must satisfy three conditions:

- be a civil servant in one of the three public-sector functions (French central gov-

ernment, local and regional authorities or the public hospital sector), a magistrate, a person in the military or working for the military on a contractual basis.

- contribute to the French State's civilian or military pension scheme or the CNRACL ("Caisse Nationale de Retraites des Agents des Collectivités Locales")
- receive compensation items used to calculate the benefit.

## Basis

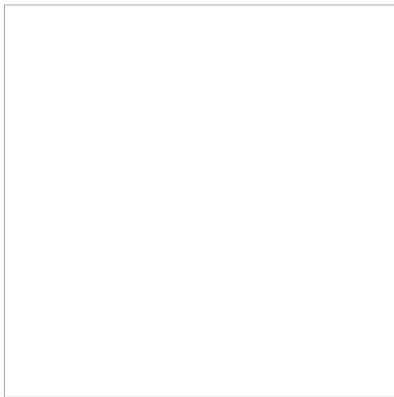
The contribution basis consists of all types of compensation not included in the main pension calculation, such as bonuses, overtime hours, allowances and in-kind benefits. However, this basis may not exceed 20% of the gross basic salary received by the civil servant in the course of a calendar year. The "Individual Purchasing Power Guarantee" (GIPA), created in 2008, is an exception to this principle. It is subject to the RAFP contribution in full.<sup>1</sup> The 20% cap is also waived for time bank days transferable into RAFP points.

## Contributions

The overall contribution rate is set at 10% of the basis amount, split evenly between the employer (5%) and the civil servant (5%). Each euro paid in to RAFP by the civil servant is matched by an employer contribution. Contributions are typically paid in monthly.

<sup>1</sup> - 16 September 2008 decree N°. 2008-964





### Lump sum or annuity : sample calculation (1)

#### ANNUITY OR LUMP SUM ?

The benefit is paid out in the form of a lump sum if the number of points vested on the liquidation date is less than the number of points corresponding to an annual annuity of €205 calculated on the basis of the service value of the point for the year 2005 (Art. 9 of the 18 June 2004 decree), i.e. 5,125 points. The payout amount is calculated so as to maintain actuarial equality among all beneficiaries. Thus the lump sum payout is equivalent to what the beneficiary would be entitled to receive in the form of an annuity.

**Lump sum payout**

Bertrand, a nurse  
make annual contribution of €80 to RAFF.  
His employer matches his contribution

He retires at age 65 after contributing for 30 years (in 2035)

He as accrued 4,591 points in his account (< 5,125 points).

4 591	
x 0,04261	(2)
x 25,98	(3)
x 1,23	(4)
<b>€ 6 251,19 gross</b>	

Bertrand will receive a gross lump sum payout of €6, 251.19  
This lump sum will be paid out in one or two instalments, depending on his retirement date.

**Annuity payments**

Myriam, a healthcare manager,  
makes annual contributions of € 339,56 to RAFF.  
Her employer matches her contribution.

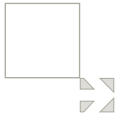
She retires at age 60 after 10 years of contribution (in 2015)	She retires at age 65 after 15 years of contribution (in 2020)
She as accrued 6,495 points in her account (> 5,125 points).	She as accrued 9,742 points in her account (> 5,125 points).
6 495	9 742
x 0,04261 (2)	x 0,04261 (2)
<b>€ 276,75 gross</b>	<b>€ 510,58 gross</b>

Myriam will receive a gross annual annuity payment of €276,75  
This amount will be recalculated each year based on the service value of the point.

Myriam will receive a gross annual annuity payment of €510,58  
This amount will be recalculated each year based on the service value of the point.

- (1) Exemples fictifs, non contractuels et donnés à titre indicatif. Ils ne tiennent pas compte, notamment, des déroulements de carrière, de l'évolution annuelle des valeurs du point et des changements de réglementation éventuels.
- (2) Pour les besoins de la démonstration, la valeur de service 2009 du point a été utilisée dans cet exemple.
- (3) Coefficient de conversion en capital correspondant à une espérance de vie à 60 ans.
- (4) Coefficient de surcote : au-delà de 60 ans, plus l'âge de départ en retraite est élevé, plus ce coefficient est important.

*Myriam et Bertrand ont retardé leur départ à la retraite au-delà de 60 ans : ils bénéficient d'une prestation majorée (surcote).*



## Additional pension characteristics *(continued)*

### Rights account

In the first quarter of each year, the employer submits to Caisse des Dépôts a summary statement of all contributions paid in during the previous year for all its participants. The sum of the amounts indicated in these statements must be equal to the sum of the amounts effectively paid in. Converted into points, the contributions are credited to an individual rights account, which may be viewed online at [www.rafp.fr](http://www.rafp.fr). The number of points is determined by dividing the total amount of contributions paid in during a year by the purchase value of a point for a given year.

### Point values

Point values are set each year by the Board of Directors of ERAFP, the Scheme's management entity.

■ The purchase value makes it possible to calculate the number of points obtained during the year. This value is identical for all contributors, regardless of their age. It thus represents a form of intergenerational solidarity among the beneficiaries' various age categories.

■ The service value is applied to the total number of points vested to calculate the additional benefit.

### Technical return

Derived by dividing the service value by the purchase value, the technical return is 4.075%. It reflects the ongoing consideration of intergenerational solidarity requirements.

### Redemption of rights

Upon reaching age 60 and qualifying to receive pension benefits under the framework of the main pension scheme, a beneficiary may seek to receive the additional pension benefit. The annual amount of this additional benefit is obtained by multiplying the number of points accrued in the rights account by the service value of the point.

### Benefit payments

Up until 2008, all additional pension benefits were paid out in a lump sum. Indeed, if the beneficiary has accrued fewer than 5,125 points at the liquidation date, the benefit is still paid out in a lump sum determined on the basis of an actuarial table.

If more than 5,125 points have been accrued, the benefit is paid out as a monthly pension. The first annuity payments began in 2009 for an average sum of €24, representing four years of contributions (2005-2008). All things being equal, the amount over a full career would correspond to a monthly annuity payment of around €200.

### Reversion

If the rights holder dies, a reversionary benefit goes to the surviving spouse and orphaned children up until they reach the age of 21.

### Premium

If the accrued rights are liquidated after the beneficiary has reached age 60, the amount of the additional pension benefit is multiplied by a premium factor. This premium factor is intended to restore the actuarial equity by

taking into account the life expectancy of the covered population.

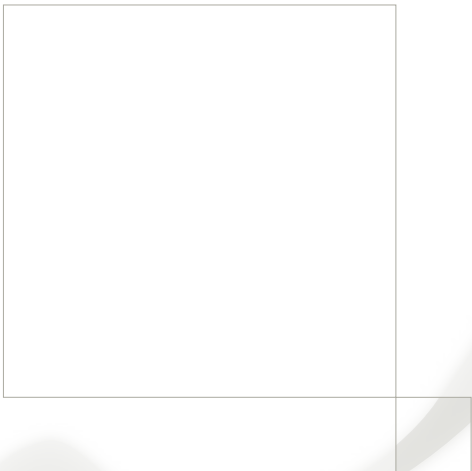
### Scheme's financial equilibrium

Each year, ERAFP's Board of Directors assesses the Scheme's commitments and determines the amount of the provision to be established for their coverage. The challenge is clearly to maintain a conservative return rate policy in the current economic crisis environment in order to maintain the Scheme's long-term equilibrium.

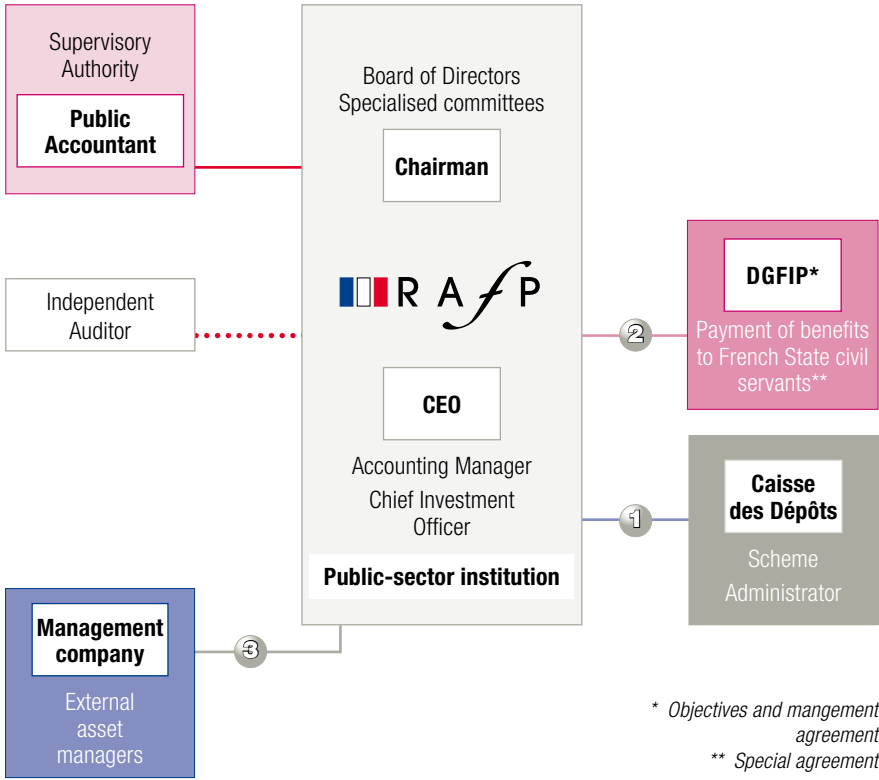
### Prudential rules

The amount corresponding to provisioned contributions is invested in bonds, equities and other listed assets.

In addition to the requirement that its commitments be fully covered, the Scheme is subject to prudential rules for investing assets: 25% limit on assets invested in equities or mutual funds; 5% limit on investments in securities issued by the same entity; 10% limit on assets not denominated or transacted in euros.



**SHARING OF RESPONSABILITIES**



## Scheme operations

### General operation of the system

The Scheme created by the law of 21 August 2003 is managed by a public-sector management entity serving an administrative function and subject to supervision by the French State. The application decree<sup>2</sup> entrusts the Scheme's administration to Caisse des Dépôts, under the authority and control of the Board of Directors. Financial asset management is partially outsourced to investment firms.

### ERAFP : Caisse des Dépôts : contractual commitments

The main services provided by Caisse des Dépôts within the framework of the Scheme's administration are set forth in the Management and Objectives Agreement ("Convention d'objectifs et de gestion" – COG) between the two institutions for the 2006-2010 period.

At the conclusion of the initial roll-out phase and fine-tuning of management processes, Caisse des Dépôts agreed to optimise the quality of the service provided while adhering to controlled budget limits.

The first joint assessment of the COG thus led to the conclusion that qualitative indicators needed to be taken into account for measuring performance. The COG is currently in the process of being updated for the 2011-2015 period.

Finally, in May 2009 ERAFP and CDC signed a mutual support agreement for pre-dispute collection involving individuals and legal entities. Disputed collection operations involving individuals commenced in June 2009. Collection involving legal entities will begin in January 2010.

### A structured relation ship

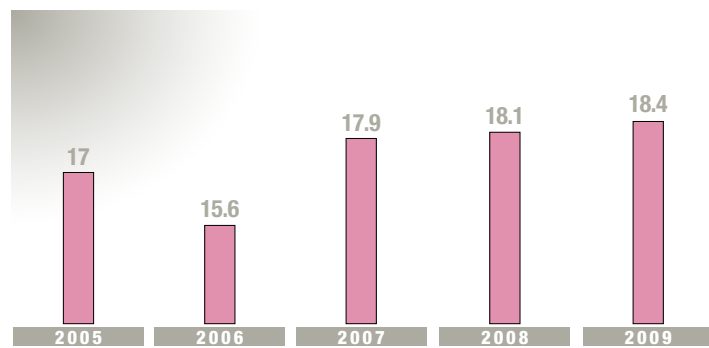
ERAFP continued its efforts to bolster its initiatives targeting core functions: actuarial governance of the Scheme, definition and implementation of investment policy orientations, budget preparation and execution, organisation of governance bodies and communications policies. ERAFP also took steps to strengthen its capacity for governance and assessing resources applied by third-party service providers as well as their performance, including the designated asset management companies and the Scheme administrator.

Caisse des Dépôts, meanwhile, established an administrative coordination unit, which serves as a genuine client interface between ERAFP and the departments charged with the respective processes. These departments are based for the most part at the Bordeaux entity.

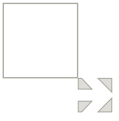
<sup>2</sup> - décret n°2004-569 du 18 juin 2004.

**ADMINISTRATIVE EXPENSES**

€ millions



*2005 administrative expenses include the cost of transactions realized in 2004 as part of the Scheme's creation..*



## Scheme operation *(continued)*

### **ERAFP – French State : a specific service**

In addition to its role as the institution's supervisory authority, the French State, through the DGFIP's regional pension centres, pays out the additional pension benefits to pensioners of the central government along with the main pension benefits. This service is billed separately, the details of which are specified in a bi-partite agreement.

### **Partially outsourced financial management**

Since 2005 and as authorised under applicable regulations, ERAFP directly manages its investments in French Treasuries and government-backed securities. However, the financial management of the Scheme's equity portfolio is outsourced to specialised firms.

The management of euro zone equities is therefore delegated to four companies: IDEAM, Robeco AM, BNP Paribas AM and Pictet AM. The multiple-firm allocation diversifies the financial risks across several service providers and reflects a conservative asset management approach on behalf of the beneficiaries.

The selected managers pledge to optimise the funds' returns in a manner consistent with ERAFP's SRI Charter. Each of these companies has created a dedicated investment fund, limited to the euro zone and in which ERAFP invests depending on

the market situation, always on the basis of an entirely proprietary investment process. Investments into each fund are based on their respective performance and ERAFP's investment strategy.

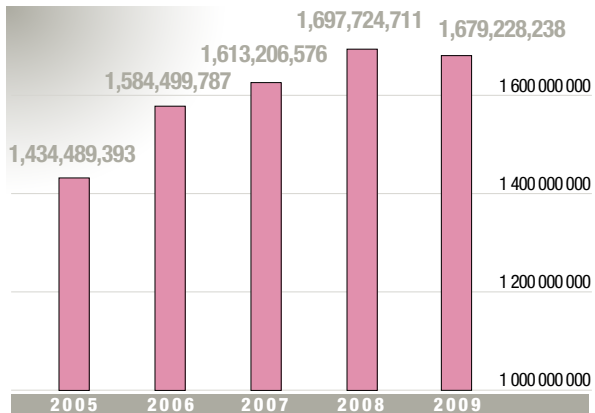
### **Controlled administratives costs**

The operating budget for the Scheme and management entity is financed directly from funds withheld from income. The Board of Directors therefore pays close attention to the administrative expense level.

In 2009, total costs generated by the Scheme's administration were €19.3 million (up 4% relative to 2008, commensurate with the increased activity), of which 62% reflecting administrative costs. Overall, these expenses accounted for 1.2% of the amount of contributions received during the year.

### ANNUAL CASH INFLOWS

In € - at 31 January 2009



### ACCRUALS IN RIGHTS ACCOUNTS

The beneficiaries' rights accounts accrue rights when the difference between the total amount of contributions indicated in the reporting statement and the total amount of contributions actually paid in by this employer is less than €30 or 0.5% of the contribution amounts.



At 31 December 2009, 99.1% of the rights accounts had accrued rights relative to the 2008 basis.

not yet accrued **60,114**



## RAFP administrative management

The Scheme's administrative management has been assigned to Caisse des Dépôts, which collects contributions, maintains beneficiaries' rights accounts and liquidates and pays out benefits.<sup>1</sup> It also constitutes the Scheme's single interface with employers and pensioners receiving a benefit payment.

### More than 40,000 employers...

Some 44,210 employers make contributions to Caisse des Dépôts for the account of RAFP. The vast majority consists of local authorities and public-sector hospitals. Among French central government employers, the majority consist of public treasury departments, ministries and commissioners to the armies.

### ... for more than € 1.6 billion collected

The Scheme collected €1,679 million in 2009, a 2.76% increase relative to the previous year.

Employers pay in the contributions due on a monthly, aggregate basis. In the event of a late payment, a penalty is added to the contribution. In 2009, 710 employers had to pay such a penalty.

### ... and 4.7 million rights accounts

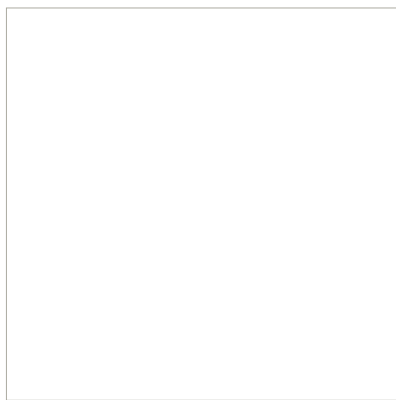
Each year, employers submit to Caisse des Dépôts, the Scheme's administrator, a statement summarising for each of their civil servants the contribution amounts paid in during the previous year. By 31 March 2009, therefore, employers would have had to declare all contributions paid in during 2008. Logically, the total amount of each employer's contributions and the sum of the amounts reported for each civil servant should balance out. Rights then accrue to the contributors' rights accounts.

In the early years of the Scheme's operation, however, numerous discrepancies were observed. ERAFP and Caisse des Dépôts, working closely with the supervisory authority, implemented the necessary means to raise awareness among employers as regards their regulatory commitments and the rights of their civil servants. Caisse des Dépôts took steps to provide concrete information and the necessary technical assistance to the public authorities in order to eliminate the discrepancies observed. As the Scheme is still in its infancy, it seemed essential to configure the system properly.

The combined efforts of the various participants made it possible to markedly improve the accrual rate for rights accounts of contributors for prior years.

The volume of initial discrepancies continues to fall and the situation has improved

<sup>1</sup> - With the exception of the payment of benefits to the pensioners of the French central government, who receive them directly from DGFIP.



## BENEFITS REVISIONS

### Case study

Bertrand has contributed to RAFP since the scheme's creation in 2005.

#### ■ 1 February 2009

Bertrand exercises his pension rights.

Based on the annual reporting cycle, the RAFP benefit that will be paid out to him will only take into account rights acquired in 2005, 2006 and 2007. The rights for 2008 have not yet been recorded.

#### ■ 1 March 2009

The local authority that employed Bertrand submits to Caisse des Dépôts its annual statement summarising the contributions it paid in during 2008. The 2008 rights are recorded on Bertrand's individual account, which results in a revision to his benefit and a supplementary payment.

#### ■ 1 March 2010

The employer submits its 2009 summary statement to Caisse des Dépôts. Bertrand's rights account is updated to reflect his January 2009 contributions.

Following the second revision and corresponding supplementary payment, Bertrand will have received the entire amount of his additional pension benefit.

### News participants relative to liquidated benefits



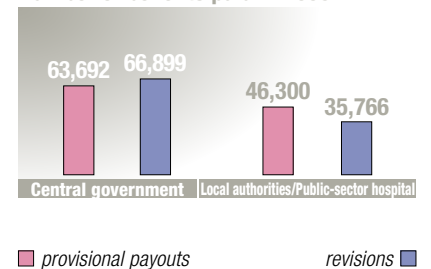
### BENEFITS IN 2009

#### Average benefit

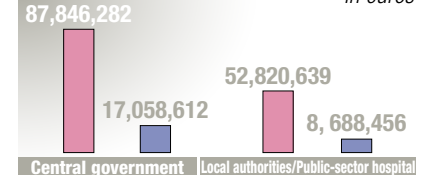
*lump sum, unadjusted for revisions, in euros*

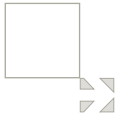
Local authorities/ public-sector hospitals	1,141
Central government	1,379

#### Number of benefits paid in 2009



#### Amount of benefits paid in 2009 in euros





## RAFP administrative management *(continued)*

significantly relative to 31 December 2008. This improvement was due in part to the change in the threshold for accruals to rights accounts, which was raised from €2 to €30. The progress recorded to date will make it possible to continue correcting the rights accounts in the interest of the beneficiaries.

### **A sticking point : multiple employers**

Some agents receive compensation from several employers. Such is the case, for example, of numerous teachers, for whom some allowances are contributed by the local authorities (studies, supervision, etc.). In that case, the primary employer is responsible for calculating the basis and indicates to the so-called secondary employers the amount of contributions to be paid in. The following year, each employer submits to Caisse des Dépôts its individual statement. This system, which is established by the applicable regulations but is complex to implement, creates significant problems for the related employers. Indeed, it requires multiple sharing of information between primary and secondary employers, and corrections are only possible if each employer has access to all information on compensation paid by all other employers.

This requires a relatively heavy workload given the small amounts of contributions in need of correction.

The Board of Directors quickly addressed the issue. A joint working group was established and staffed with members from the respective

departments at Caisse des Dépôts and ERAFP, to be augmented by representatives from volunteering employers. In December 2009, the working group met for the first time to review the issues in greater detail and strive to come up with solutions.

A meeting was also organised in July 2009 at CDC's office in Bordeaux involving the universities of Nantes, Bordeaux and the associated university administrations.

### **Nearly 110,000 liquidations in 2009**

A total of 109,992 liquidations were made in 2009, essentially unchanged from 2008. In all, more than €140 million was paid out to beneficiaries this year under the liquidations. This amount includes reversionary benefits paid out to deceased beneficiaries' spouses and children under 21.

### **103,000 benefits revisions**

Given the annual cycle for filing reporting statements, benefit payouts are revised in the year following liquidation, and the amounts may in some cases appear to be large, given the relatively limited number of years for which contributions have been made. Thus in 2009, 102,665 revisions were made for a total amount of €26 million, or 18% of total liquidations.

While they are intrinsically linked to the overall operation of the system, the revision principle is a constant source of questions from beneficiaries (see box on adjacent page). To

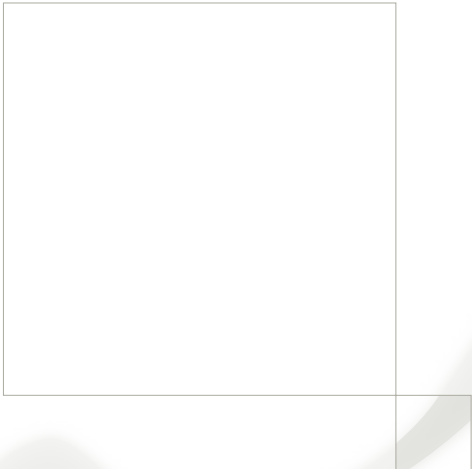
solve this problem, a special effort has been made to improve the presentation of information on pay slips sent to the Scheme's beneficiaries since 2009.

### **Rising payouts**

Overall benefit payout amounts increased by 35% in 2009. The average lump sum benefit payment was €1,280. The seemingly small size of this benefit reflects the Scheme's recent origins and the limited number of points accrued by contributors in their rights accounts. Indeed, the fully contributory Scheme was only launched in 2005 and therefore did not give rise to ex post career adjustments.

### **Liquidation of first annuities**

At 31 December 2009, 216 annuities are being paid: 194 for pensioners of the French central government (FPE) and 22 for those of the local authorities (FPT) and public-sector hospitals (FPH). The average monthly amount was €24, corresponding to four years of contributions in 2005-2008.



**ERAFF'S PROGRESS  
REPORT IN KEY FIGURES\***

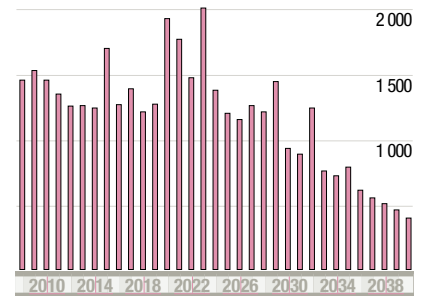
- actuarial provision of around €6,775 million
- discount rate of 1.80% \*\*
- non-technical provision of around €610 million
- net assets of around €8,190 million
- estimated regulatory coverage ratio of around 112.5%

\* estimated at end-2008.

\*\* gross discount rate for management fees, calculated on the basis of a method that takes into account reinvestment risk

**NET CASH FLOWS**

= contributions - benefits + bond redemptions and principal repayment. (estimates)  
€ millions



## Scheme financial equilibrium

RAFP is subject to strict prudential regulation stipulating that :

- the Scheme's commitments to its beneficiaries must be fully covered by assets,
- the likely present value of these commitments must be calculated using a conservative discount rate (i.e. consistent with the conservatively estimated return of the Scheme's assets).

The Board of Directors has significant responsibility to ensure this financial equilibrium on a permanent basis.

### A defined strategic framework

The central pillar of the Scheme's assets and liabilities management is its obligation to cover commitments. Another obligation was quickly added to this first one by the Board of Directors, namely the goal of revaluing benefits to at least keep pace with inflation. Finally, the strategic framework is rounded out by the goal of maintaining adequate solvency to deal with the Scheme's risk exposure.

### A challenging environment...

RAFP began investing in 2005, when nominal interest rates offered on French Treasuries were particularly low.

The Scheme also entered the euro zone equity markets as they were nearing a relatively high level. Thanks to a constant allocation throughout the crisis, however, the Scheme was also able to invest in equities during

periods when valuations became particularly attractive. For the Scheme, the drop in rates for government bonds of financially stable countries is offset by the increased risk premiums on government bonds of less stable countries. The Scheme's solvency improved in 2009 thanks to the rebound in equity markets.

### ...but a favourable horizon

Although established only recently, RAFP will experience a lengthy growth phase. With substantial net cash inflows, the Scheme is not hampered by short-term management constraints.

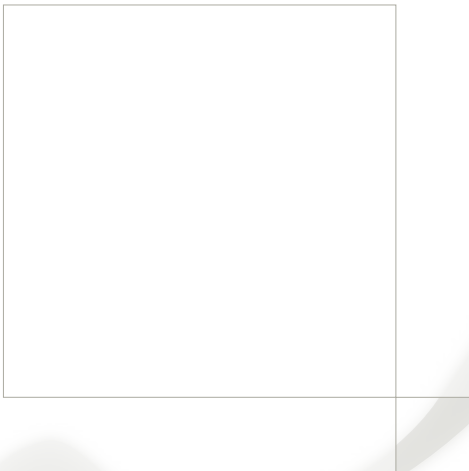
The Scheme has thus been able to hold portfolio securities for the long term

### A conservative approach

Although the economic environment remains fraught with uncertainty, the Scheme is well positioned on a stable base.

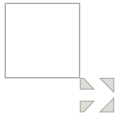
The Board of Directors has in effect favoured a conservative definition of the Scheme's main parameters, which resulted in an initial technical return of 4% that has since risen at a modest rate (4.075% in 2009).





**POINT PURCHASE VALUE AND SERVICE VALUE**

year	2005	2006	2007	2008	2009	2010
purchase value (€)	1	1.017	1.03022	1.03537	1.04572	1.05095
<i>change</i>	-	1.70 %	1.30 %	0.50 %	1 %	0.50 %
service value (€)	0.04	0.0408	0.04153	0.04219	0.04261	0.04283
<i>change</i>	-	2.00 %	1.80 %	1.60 %	1 %	0.50 %
technical return	4.000 %	4.011 %	4.031 %	4.075 %	4.075 %	4.08 %



## Scheme financial equilibrium *(continued)*

Meanwhile, the Scheme's provisioning discount rate is set at a very conservative level compared with the practices of other European pension funds.

Finally, the management entity's target portfolio reflects conservative management. It includes a substantial portion of sovereign debt, weighted by gradual diversification into new asset classes. Specifically, the Scheme seeks to invest in assets offering protection against the threat of inflation.

### Fine-tuned data

ERAFP's mortality table is derived by adjusting the regulatory table certified in 1993. It has been certified by a duly authorised independent actuary.

Each year, the management entity reconciles this table with observed data. This review ensures that the applied data are sufficiently conservative.

In addition, the steady increase in the accrual rate of beneficiaries' rights accounts significantly improves the quality of the individual data used to determine liabilities.

### Scheme parameters

Each year, the Board of Directors sets the Scheme parameters: purchase value and service value of the point.

By adopting new point values for 2009, the Board sought to demonstrate prudence. It therefore maintained the technical return at 4.075%, forgoing any increase for now. It also demonstrated its commitment

to intergenerational equity. The modest revaluation in the service value of the point reflects the fact that some of the Scheme's current characteristics are slightly more favourable to more elderly beneficiaries, for whom a lump sum payout after a few years of contributions represents an advantageous transaction.

### A more dynamic strategic allocation

Like any long-term investor, ERAFP seeks to optimise the return on its portfolio while maintaining its risk exposure at an acceptable level. Under the current regulatory framework, this risk/return optimisation would involve increasing the relative share of equities in the portfolio, within the limits set for the Scheme by regulations, and by the creation of new asset classes dedicated to non-euro-zone international equities and corporate bonds. Two international equities mandates and one investment grade bonds mandate were established in 2009. A modest diversification into listed, small-cap equities is also expected to begin in 2010.

### Audited financial statements

In 2009 as in all the previous years, the Board of Directors only began deliberations on the previous year's financial statements in the second half.

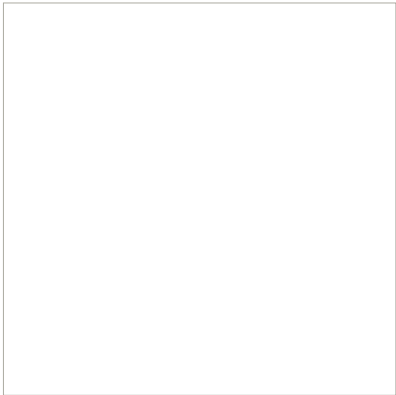
This time lag is closely related to the system for processing and verifying data submitted by employers, which ends on 30 June. Ultimately, this time lag should be further

reduced as employers get up to speed on the learning curve.

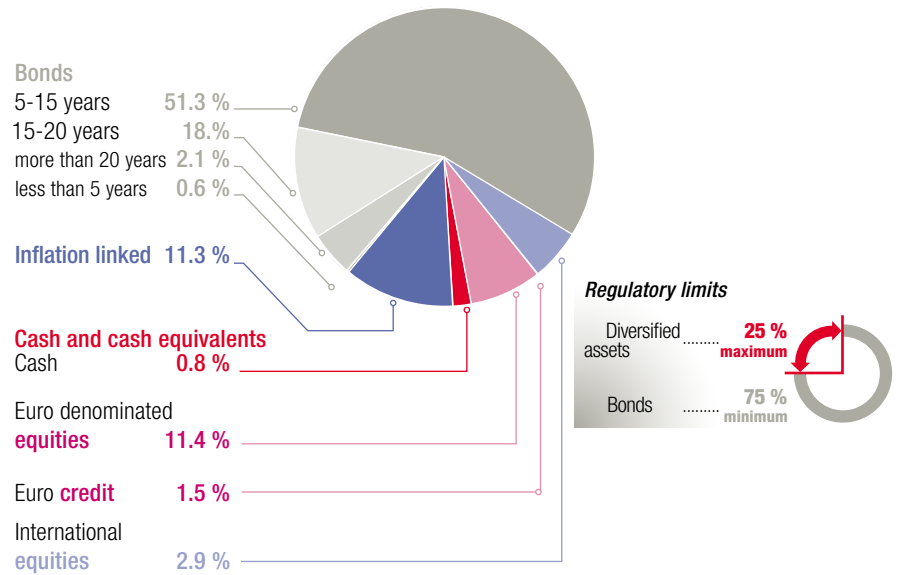
After auditing the valuation process for reserves, the independent auditors again certified the fairness and accuracy of the 2008 financial statements.

### Fully covered commitments

ERAFP's conservative management policy enabled it to record a coverage ratio of slightly more than 112.5% in 2008. In keeping with its regulatory obligations, the Scheme has a healthy model that serves the interests of its contributing beneficiaries.



**PORTFOLIO COMPOSITION**  
by asset class, as a % of market capitalisation



**2005-2008 : AN INITIAL PROGRESS FOR ERAP'S SRI**

A dedicated SRI report provides information on the system implemented by the Scheme, offers an initial status report on the approach and describes the future outlook.



# Financial and Socially Responsible Investing (SRI) policy

Since the Scheme's inception, the investment policy initiated by the Board of Directors has been aimed at reconciling financial performance, risk management and a socially responsible commitment, all in a single approach.

As a recently established, long-term institutional investor, ERAFP has successfully maintained a constant strategic allocation during the crisis. Even at the height of this crisis in March 2009, the Scheme's solvency was never in jeopardy.

## More than €8 billion in assets

In 2009, ERAFP invested more than €1.5 billion, primarily in sovereign bonds and 25% in equities, bringing the total volume of its assets to €8.190 billion.<sup>1</sup>

A new restructuring transaction of the 2015 investment line (bonds) was carried out in 2009.

The net initial yield of the fixed-rate bond portfolio at end-2009 was estimated at 4.43%, up from 4.25% the previous year.

As for the Scheme's equity portfolio, which is held by an FCP investment fund, the market rebound since the March 2009 low limited unrealised losses on this asset class, which accounts for 16.02% of the total portfolio. ERAFP has no so-called toxic assets. Finally, ERAFP's holding period is oriented toward the long term and not immediate financial gain. The Scheme's growth ensures positive cash flow over a long period and enables it to carry its assets without having to divest them before the Scheme reaches its full capacity, i.e. not before 2045-2050.

ERAFP is pursuing its policy of diversifying its asset classes and the geographic

allocation of its bond investments through the establishment of two international equity mandates and one investment grade bonds mandate.

## A socially responsible commitment

From the Scheme's outset, the Board of Directors decided that all investments would adhere to a proprietary SRI approach based on original and demanding criteria. An SRI Charter, augmented by detailed guidelines, specifies the non-financial criteria and rating methods for portfolio securities in each asset class.

ERAFP has thus adopted its own assessment and rating system, confirming its unique approach among French institutional investors. For each institution whose securities have been purchased by ERAFP – companies, States, local authorities, supranationals – a rating is assigned in the five value areas: rule of law and human rights; social progress; social democracy; environment; good governance and transparency. This system is not static and promotes the efforts achieved by the various issuers. A special SRI report focusing exclusively on ERAFP's approach presents the system in detail and offers an update on progress made to date and the future outlook.

<sup>1</sup> 4 - Estimated value at 31 December 2009





## Financial and Socially Responsible Investing policy *(continued)*

The SRI Charter, which is available online at [www.rafp.fr](http://www.rafp.fr), defines the five values underlying ERAFP's socially responsible commitment :

- Rule of law and human rights
- Social progress
- Social democracy
- Environment
- Good governance and transparency

The charter and application guidelines steer the investment policy for the Scheme's reserves.

### ERAFP'S SRI system

By emphasizing that "the investment decisions taken by ERAFP may not overlook the need to serve the general interest" and consequently formalising "the decision to place the investment policy within a socially responsible investing framework and approach covering all Scheme assets", the Board of Directors set an ambitious goal for the management entity in November 2005.

The Scheme's investment choices are therefore made in a universe that includes several layers of filters depending on criteria established by asset class. Three exclusionary filters are applied before any investment is

even considered: the death penalty, child soldiers and torture (these criteria apply mainly to States). In accordance with the best-in-class principle, ERAFP then selects the securities with the best SRI ratings within each economic sector.

This approach is coupled with a classic analysis of expected risk and financial performance.

Each quarter, RAFP's asset portfolio is assessed on the basis of the criteria in the guidelines for each asset class and compared to a standard benchmark index. With an overall rating well above that of the benchmark index for each asset class, the first results confirm ERAFP's socially responsible commitment.

### SUMMARY RATINGS

	average fund score	average index score	difference	difference at 31/12/2008
<b>1. Rule of law and human rights</b>	<b>56.2</b>	<b>53.0</b>	3.2	3.0
<b>2. Social progress</b>	<b>36.6</b>	<b>33.6</b>	3.0	2.8
<b>3. Social democracy</b>	<b>47.5</b>	<b>44.6</b>	2.9	2.0
<b>4. Environment</b>	<b>48.2</b>	<b>44.5</b>	3.7	2.6
<b>5. Governance</b>	<b>49.2</b>	<b>47.5</b>	1.7	1.8
<b>Overall rating</b>	<b>47.5</b>	<b>44.6</b>	<b>2.9</b>	<b>2.4</b>

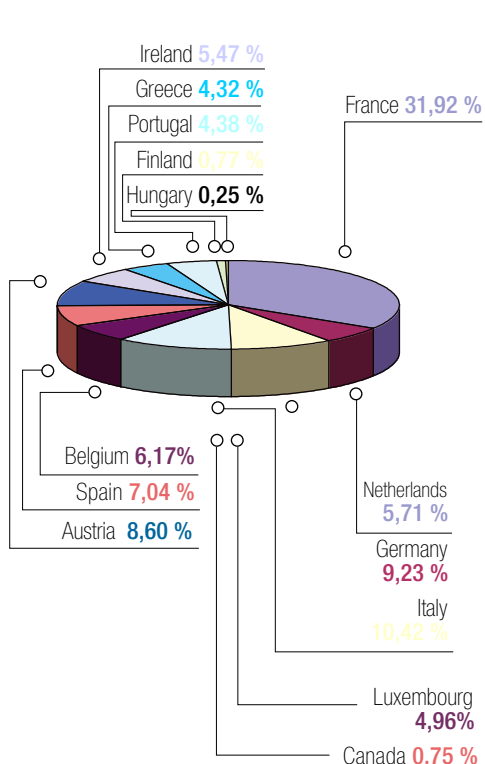
### EQUITIES PORTFOLIO SUMMARY

The portfolio's average rating is higher than that of the benchmark index (MSCI EMU), and for all securities. In fact, the average gap widened in 2009.

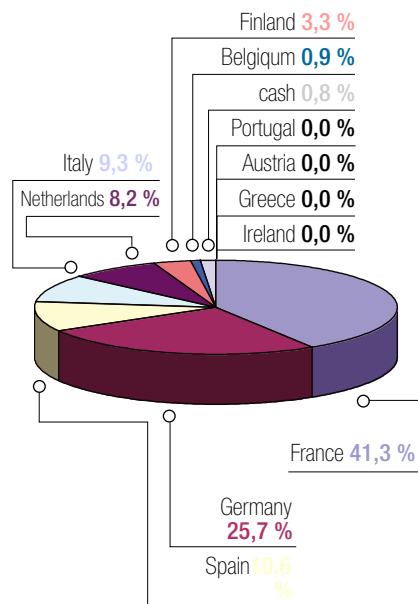
As regards the two new international equities investment mandates, the ratings on the portfolio are on average well above those of the benchmark index but remain below those of the euro zone equities portfolio.

## BREAKDOWN OF PORTFOLIO BY COUNTRY

Breakdown of bonds by country  
Net carrying amount at 31/12/2009

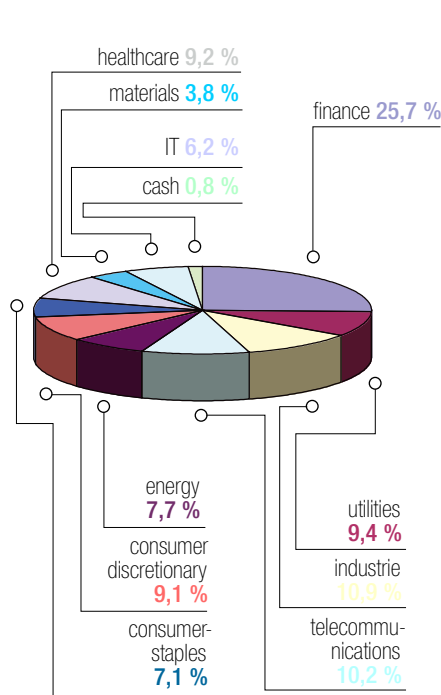


Breakdown of equities by country  
Market value at 31/12/2009



## BREAKDOWN OF EQUITIES

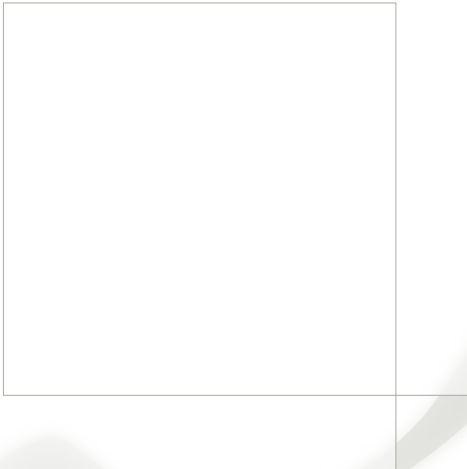
Breakdown of equities by economic sector  
Market value at 31/12/2009



### EUROPEAN TREASURIES BOND PORTFOLIO

Sovereign bonds, managed directly by the management entity, make up the vast majority of Scheme assets and have the highest overall SRI ratings relative to the benchmark index. Nevertheless, the portfolio's diversification, in particular toward less highly rated countries from an SRI perspective but offering higher financial returns, reduced ERAFP's SRI outperformance between 2007 and 2008, although it stabilised in 2009.

	summary ratings			
	average fund rating	average index rating	difference	difference at 31/12/2008
<b>1.</b> rule of law and human rights	<b>63,4</b>	<b>60,4</b>	3,0	1,2
<b>2.</b> Social progress	<b>49,7</b>	<b>47,3</b>	2,4	2,5
<b>3.</b> Social democracy	<b>83,6</b>	<b>82,3</b>	1,3	1,5
<b>4.</b> Environment	<b>62,4</b>	<b>60,9</b>	1,4	2,6
<b>5.</b> Governance	<b>89,5</b>	<b>88,4</b>	1,0	1,8
<b>Overall rating</b>	<b>67,9</b>	<b>67,9</b>	<b>1,8</b>	<b>1,9</b>



#### **SUPPORT FOR RIGHT TO KNOW**

- In addition to sending out individual statements of position (“RIS”) and general indicative estimates (“EIG”), the French Public Interest Group (GIP) for Pension Information sent out 703,000 informational brochures to civil servant active contributors born in 1952, 1953, 1959, 1964 and 1969.
- This mass mailing initiative was launched in 2007 and is slated to be repeated each year for new groups affected by the right to know.
- Overall, personalised promotional materials about the Scheme have been sent to nearly 1,200,000 participants over the past two years.



## Scheme public relations and communications

Five years after the Scheme was first established, the need to raise awareness among all participants – contributors, employers, institutions, etc. – remains a vital and strategic objective. ERAFP and Caisse des Dépôts are working together to achieve this goal.

### **Active contributors : the linchpin of the system**

Although RAFF is a mandatory scheme, its operation would benefit from greater awareness by the civil servant beneficiaries. Given the significant heterogeneity among contributors, communications initiatives need to be pursued across a wide range of media.

The Scheme's web site has become a strategic online communications tool. Launched in December 2008, it has received more than 150,000 visits through 30 June 2009, with a daily average of 943. A points calculator that enables beneficiaries to simulate their points level was added. The site enables active contributors to receive detailed information on the Scheme and view their individual rights accounts using applications developed

by Caisse des Dépôts. In addition to the development of these online applications, the management entity conducted two massive promotional initiatives in 2009.

The first consisted of distributing a comprehensive and informative document on the Scheme to more than 700,000 participants affected by the right to know.

The second initiative consisted of sending a flyer with information on the additional pension scheme to all civil-servant employees of local authorities and public-sector hospitals. A total of 2,700,000 flyers were distributed (1,633,000 to local authorities and 1,100,000 to public-sector hospitals) through employers, who gave them to their employees along with their June 2009 pay slips.

A second brand recognition survey was conducted in 2009. This survey revealed that the Scheme has only limited recognition (23%).





## Scheme public relations and communications *(continued)*

In terms of immediate brand recognition, however, ERAFP achieved the same scores as other additional pension organisations that have been around longer and have much larger communications budgets. Visits to the web site increased significantly following the two promotional campaigns. Nearly 250,000 participants checked their rights accounts, a 75% increase relative to 2008. This observation needs to be put into the broader context of public-sector employees' poor knowledge of their pension schemes. It highlights the need to pursue and step up promotional and educational measures.

### **Public-sector employers : a resource to be strengthened**

Employers, and human resources departments in particular, represent a key avenue for providing active contributors with information.

With its in-depth knowledge of the local authority and public hospital sectors, Caisse des Dépôts is tapping its expertise to conduct numerous training and promotional initiatives with public-sector decision-makers and HR managers at the grass roots level.

### **Media relations**

RAFP was written up in some 50 articles in the mainstream and trade press. The CEO also participated in 17 interviews with the trade press and more than 20 specialised conferences and seminars.

ERAFP also participated in the mayoral trade show held between 17 and 19 November 2009. The Chairman and CEO also gave two press conferences in July 2009. The first was aimed at raising awareness about the Scheme among the French central and local government and public hospital sectors. The second, which involved the financial trade press, covered SRI and discussed the current status of ERAFP's asset diversification.

Finally, the Scheme won the Investment & Pensions Europe (IPE) award for "Best European pension fund on ESG challenges" and "Best French pension fund"

## **Appendices**

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**PREMIUM FACTOR**

RAFP beneficiaries can exercise their pension rights upon reaching the age of 60. They are then entitled to receive a premium that increases the amount of their benefit.

Pursuant to Article 8 of the 18 June 2004 decree, this premium factor is set by the management entity's Board of Directors.

For example, the calculation of pension rights for a civil servant who has accrued 5,600 points in his rights account and retires in 2008 at age 65 would be as follows:

$$5,600 \times 0.04219^1 \times 1.23 = \text{€}290.60 \text{ gross annual annuity.}$$

Assume he dies at age 67 and that his surviving spouse at the time is 64 years 7 months old. Since the number of points held by the spouse following reversion (5,600 x 50%) is less than 5,125, the following conversion factor is used for the lump sum payout:  
 $(12-7)/12 \times 22.36 + 7 \times 21.66 = 21.95$

The spouse would therefore receive:

$$5,600 \times 50\% \times 0.04219 \times 21.95 = \text{€}2,593 \text{ in a lump sum}$$

The conversion formula is as follows:

- if the number of points acquired by the reversionary beneficiary (**points of the rights-holder x reversion rate**) is greater than 5,125, the reversionary beneficiary receives:

points of the rights-holder x reversion rate x point value in euros

- if the number of points acquired by the reversionary beneficiary is less than 5,125, the reversionary beneficiary receives:

**points of rights-holder x reversion rate x point value x lump sum conversion factor based on age of reversionary beneficiary**

age	premium
61	<b>1,04</b>
62	<b>1,08</b>
63	<b>1,13</b>
64	<b>1,18</b>
65	<b>1,23</b>
66	<b>1,29</b>
67	<b>1,35</b>
68	<b>1,42</b>
69	<b>1,49</b>
70	<b>1,57</b>
71	<b>1,65</b>
72	<b>1,74</b>
73	<b>1,84</b>
74	<b>1,96</b>
75	<b>2,08</b>

After age 75, the right to a premium continues to apply.

<sup>1</sup> - Service value of a point for 2008.



**ANNUITY TO LUMP SUM CONVERSION FACTOR**

This factor applies to beneficiaries whose rights accounts have fewer than 5,125 points at the time of liquidation.<sup>2</sup>

**LUMP SUM CONVERSION FACTORS**

**For the original beneficiary :**

age		age	
60	25,98	68	20,36
61	25,30	69	19,63
62	24,62	70	18,90
63	23,92	71	18,16
64	23,22	72	17,43
65	22,51	73	16,70
66	21,80	74	15,97
67	21,08	75	15,24

Conversion factor determined on the basis of pensioner's direct rights and reversionary rights.

**For orphaned child, at time of reversion :**

age		age		age	
0	18,83	7	12,78	14	6,69
1	17,57	8	11,94	15	5,77
2	16,80	9	11,10	16	4,84
3	16,01	10	10,24	17	3,90
4	15,22	11	9,37	18	2,94
5	14,42	12	8,49	19	1,97
6	13,60	13	7,59	20	0,99

**For the spouse, at time of reversion :**

age		age		age		age	
31	41,98	51	30,88	71	17,38	91	5,33
32	41,49	52	30,26	72	16,65	92	4,94
33	40,99	53	29,63	73	15,94	93	4,58
34	40,49	54	29,00	74	15,22	94	4,23
35	39,98	55	28,36	75	14,51	95	3,91
36	39,56	56	27,72	76	13,81	96	3,61
37	38,93	57	27,07	77	13,11	97	3,32
38	38,40	58	26,41	78	12,43	98	3,06
39	37,86	59	25,75	79	11,77	99	2,80
40	37,31	60	25,09	80	11,11	100	2,56
41	36,76	61	24,42	81	10,48	101	2,34
42	36,20	62	23,74	82	9,86	102	2,13
43	35,63	63	23,05	83	9,27	103	1,93
44	35,06	64	22,36	84	8,69	104	1,75
45	34,48	65	21,66	85	8,14	105	1,57
46	33,90	66	20,96	86	7,61	106	1,41
47	33,31	67	20,25	87	7,11	107	1,25
48	32,71	68	19,54	88	6,63	108	1,11
49	32,10	69	18,82	89	6,17	109	0,92
50	31,49	70	18,10	90	5,74	110	0,79

Factor based on direct rights of reversionary beneficiary

Scheme rights are expressed in whole numbers, rounded up to the next highest number.

Note: between ages 60 and 75, the lump sum conversion factor for direct rights-holders is determined on the basis of their direct rights and the reversionary rights of their spouse.

Between ages 60 and 75, the lump sum conversion factor for reversionary beneficiaries is determined on the basis of their direct rights.

In this age range, therefore, the distinction between the two lump sum conversion factors is based on whether or not the spouse's reversionary rights are included.

**2008 INTERNAL CONTROL REPORT**  
(presentation report)

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“The Audit Committee was apprised of the fourth annual internal control report prepared by the management entity. The committee noted with great interest and satisfaction the scope of the methodological work carried out and the progress made by the management entity in drafting its procedures. The work is not yet completed, especially as regards the extension of the risk mapping. The scope of risks related to the activity of the administrative manager is a priority for the management entity.

Overall, the report discusses the conditions in which the various risks must be addressed through corrective measures – “mitigation measures” in the technical language of the report – especially as regards information processing. That enabled us to have a somewhat more detailed report about an incident that occurred over the summer. This incident delayed the calculation of the actuarial provision. The incident occurred during the processing of the administrative manager’s IT operations, resulting in the double-counting of some beneficiaries’ rights. It was detected by the internal control procedures. Corrective action has been taken by the management entity. We were informed of the efforts undertaken by both the administrative manager and the management entity to analyse the incident and propose the necessary corrective measures. More comprehensive audit procedures for the administrative manager’s IT chain along with the manual control of the reviewable data will be established. The committee duly took note of the situation.

Other points were examined during the discussion, and we were able to discuss them with the management entity, the internal controller and the administrative manager. We mentioned the pending legal review to analyse the consequences that could result from the default of an investment company managing an FCP investment fund on the basis of a mandate. It would be useful to obtain some guidance on this point, since such an event is within the realm of possibility and we could not accept having a fund without a manager.

The importance of processes for monitoring mail was emphasized. Mail is sent to both the administrative manager as well as directly to the management entity. We have identified this element as falling within the scope of risk mapping, since improper mail handling may give rise to legal disputes, etc. This is a key point for the management entity’s operational plan.

As cited in the report, we intend to have an external audit of our internal control procedures performed as soon as the management entity has made progress in the coverage of its methodology efforts. The aim is to have an independent review of the quality and soundness of the system implemented as well as the overall risk coverage. The committee felt that this procedure would be worthwhile and, in all likelihood, could be pursued some time in 2010. The audit committee may, at the appropriate time, certainly set aside some of its allocated budget.

»

#### appendix 4

### **2009 ACTUARIAL REPORT ON THE SCHEME'S FINANCIAL AND TECHNICAL OUTLOOK, PERFORMED BY THE INDEPENDENT ACTUARY** (excerpt)

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The highlights of 2008 were the result of :

the continuation of the process to enhance data reliability, especially in the light of the establishment of career fact sheets. The rate of data reliability progress is nevertheless difficult to measure for 2008 given the change in calculation rules. A pro forma comparison would be helpful in measuring actual progress. Nevertheless, the bulk of the uncertainty inherent in the data and first noted in 2005 has been lifted.

- a serious discrepancy between the assets and their defined target. The fact that the relative share of equities was below the target level was justified in the light of the unusual course of events in 2008, but bonds remain largely concentrated in securities with maturities of five to 15 years. As the Scheme's stocks continue to undergo rapid changes, this allocation can be modified substantially in the years ahead until such time as the growth in outstandings reaches a point where the weight of the existing portfolio becomes preponderant.

The Scheme's matching of assets and liabilities nevertheless appears to be consistent with that of comparable transactions, despite the Scheme's specificities and the limitations resulting from its special accounting status.

In that context, the following measures should be taken for the 2009 financial year:

- continue to centralise detailed information regarding deceased members, validate demographic trends of members in the three public-sector functions and establish a similar database covering retired and active members as well as retired employees of the three public-sector functions in order to conduct a study on the mortality of beneficiaries. That will make it possible, if necessary, to adjust the mortality tables used to calculate the provision. To that end, a legal framework needs to be defined with the public sector functions that makes it possible to have secure data on pensions, if only for the purpose of conducting the studies needed to determine mortality rates for Scheme members with precision.
- to oversee the changes in reliability and traceability of individual data used to calculate commitments, beginning with their production by employers, in order to ensure an overview at end-2009 comparable to that of end-2008.
- to conduct a study on the Scheme's overheads in order to adapt, where necessary, the expense ratio used to calculate the provision.
- to strengthen the regular monitoring of assets and liabilities stocks and flows, as was the case at end-2008 in the reports to and decisions of the Board of Directors, by adjusting the monitoring to the Scheme's asset allocation. With the recently enhanced applications used to report to the assets and liabilities committee, this adjustment is designed to promote flexibility in setting deadlines and rules for achieving the strategic asset allocation, and thereby optimise the conditions for pursuing the Scheme's objectives. Similarly, the optimisation process could benefit from the integration of financial market considerations of accounting policies governing financial assets at end-2008 as well as the European Solvency II deliberations.

More broadly, monitoring the Scheme's growth, notably the management of its returns and especially assets and liabilities management, will be necessary for several years. The periodic review of some parameters such as, for example, mortality and strategic allocation based on monitoring approaches gradually introduced by the Scheme will undoubtedly be necessary in the months and years ahead, taking into account changes in the active public-sector workforce in the analysis of these systems.

## ERAFF FINANCIAL STATEMENTS - 2007

<i>assets (€)</i>	2008			2007
	Gross	Depreciation & impairment	net	net
<b>I Investments</b>	<b>6 253 914 821,45</b>	<b>-348 716 232,55</b>	<b>5 905 198 588,90</b>	<b>4 681 028 794,56</b>
Bonds, negotiable debt instruments and other fixed income securities	5 386 914 821,28		5 386 914 821,28	4 040 800 296,17
Equities and mutual fund shares	867 000 000,17	-348 716 232,55	518 283 767,62	640 228 498,39
<b>II - Active contributors and beneficiaries</b>	<b>59 516 068,80</b>	<b>-15 039 951,33</b>	<b>44 476 117,47</b>	<b>42 820 581,93</b>
Active contributors and related accounts	59 174 351,42	-15 039 951,33	44 134 400,09	42 606 037,02
Beneficiaries	341 717,38		341 717,38	214 544,91
<b>III - Other receivables</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>
Trade receivables, advances and down payments			0,00	0,00
Other receivables			0,00	0,00
<b>IV - Other assets</b>	<b>185 048 884,17</b>	<b>-6 924,99</b>	<b>185 041 959,18</b>	<b>53 200 214,11</b>
Intangible assets			0,00	0,00
Property, plant, and equipment	25 421,71	-6 924,99	18 496,72	17 352,63
Cash and cash equivalents	185 023 462,46		185 023 462,46	53 182 861,48
<b>V -Accruals</b>			<b>0,00</b>	<b>0,00</b>
<b>General total I+II+III+IV+V</b>	<b>6 498 479 774,42</b>	<b>-363 763 108,87</b>	<b>6 134 716 665,55</b>	<b>4 777 049 590,60</b>

<i>Liabilities (€)</i>	2008	2007
<b>I - Equity</b>	<b>0,00</b>	<b>0,00</b>
Net income for the year	0,00	0,00
<b>II - Scheme reserves</b>	<b>5 420 775 428,45</b>	<b>4 027 371 332,43</b>
Accruing rights	5 339 180 573,17	4 008 403 802,50
Rights being exercised	21 594 855,28	18 967 529,93
<b>III - Non-technical reserves</b>	<b>674 842 441,46</b>	<b>716 537 130,95</b>
<b>IV - Active contributors and beneficiaries</b>	<b>6 073 262,69</b>	<b>1 129 613,78</b>
Active contributors	5 085 725,42	710 812,97
Beneficiaries and related accounts	987 537,27	418 800,81
<b>V - Other liabilities</b>	<b>33 025 532,95</b>	<b>32 011 513,44</b>
Trade and other payables	32 977 555,46	31 477 005,43
Staff and related accounts	0,00	0,00
Social security and other employment benefits	33 095,41	143 351,46
State – taxes and duties	4 949,00	1 967,00
Other creditors	9 933,08	389 189,55
<b>VI - Accruals</b>	<b>0,00</b>	<b>0,00</b>
<b>General total I+II+III+IV+V+VI</b>	<b>6 134 716 665,55</b>	<b>4 777 049 590,60</b>

<i>Income statement (€)</i>	<b>2008</b>	<b>2007</b>
Contributions	1 642 639 870,52	1 606 764 282,40
Changes in impairment on contributions	10 943 155,29	440 778,72
Late penalties	240 493,21	365 979,69
Other technical income		
<b>Technical income</b>	<b>1 653 823 519,02</b>	<b>1 607 571 040,81</b>
Investment income	196 544 735,92	139 333 061,42
Income from realisation of investments	-	-
Other investment income	7 238 123,55	4 665 245,41
Reversals of impairment on investments	-	-
<b>Gross Investment Income</b>	<b>203 782 859,47</b>	<b>143 998 306,83</b>
Expenses related to realisation of investments	-19 371 302,65	-1 415 258,99
Other investment expenses	-8 813 852,24	-5 948 763,50
Impairment charges on investments	-336 944 729,83	-11 771 502,72
<b>Investment expenses</b>	<b>-365 129 884,72</b>	<b>-19 135 525,21</b>
<b>Net financial Income (loss)</b>	<b>-161 347 025,25</b>	<b>124 862 781,62</b>
Benefits paid	-122 569 768,85	-73 203 949,61
Other benefits (discounts of bonus factors)	-116 874,42	-174 075,49
<b>Benefits</b>	<b>-122 686 643,27</b>	<b>-73 378 025,10</b>
Changes in Scheme reserves	-1 351 709 406,53	-1 641 118 854,28
<b>Technical expenses</b>	<b>-1 474 396 049,80</b>	<b>-1 714 496 879,38</b>
<b>Scheme's net current Income</b>	<b>18 080 443,97</b>	<b>17 936 943,05</b>
Reversals of depreciation and impairment	-	-
<b>Other non-technical Income</b>	<b>-</b>	<b>-</b>
Overall outsourcing of administrative management	-16 198 219,75	-16 690 046,86
Third-party investment management expenses	-	-
Personnel expenses	-430 979,57	-184 076,22
Other expenses	-1 441 620,99	-1 059 893,18
Provision and depreciation charges	-4 623,66	-2 301,33
<b>Operating expenses</b>	<b>-18 075 443,97</b>	<b>-17 936 317,59</b>
Non-recurring income	-	-
Non-recurring expenses	-5 000,00	-625,46
<b>net non-recurring income (loss)</b>	<b>- 5 000,00</b>	<b>- 625,46</b>
<b>income tax</b>		
<b>Net income</b>	<b>0,00</b>	<b>0,00</b>



**KPMG Audit**  
Immeuble KPMG  
1, cours Valmy  
92923 Paris La Défense Cedex



**Mazars**  
61, rue Henri Regnault  
92400 Courbevoie

## **ERAFP**

Registered office: 67, rue de Lille – 75007 Paris

### **Independent Auditors' Report on the Annual Financial Statements**

Year ended 31 December 2008

Dear Sirs:

In executing the mission assigned to us by the Board of Directors, we hereby present our report on the financial year ending 31 December 2008 on:

- the audit of ERAFP's annual financial statements, as attached to this report,
- the justification of our assessments,
- the specific verifications and information required by law.

The financial statements were prepared by the Board of Directors. It is our responsibility to express an opinion on these financial statements on the basis of our audit.

#### **Opinion on the annual financial statements**

We performed our audit in accordance with generally accepted French auditing standards; these standards require that we perform due diligence to determine with reasonable certainty that the annual financial statements do not contain significant discrepancies. An audit consists of verifying on the basis of sampling or other selection methods the items justifying the amounts and information presented in the annual financial statements. It also consists of assessing the accounting policies applied, the main estimates used and the overall presentation of the financial statements. We believe that the information we collected provides a sufficient and appropriate basis for our opinion.

We certify that the annual financial statements are faithful and consistent with French accounting policies and that they provide a fair view of the management entity's operating results for the year as well as its financial situation and net worth at the end of that year.

Without prejudice to the above opinion, we call your attention to the following point described in Note 3.3.3 "Non-technical reserves" regarding the recognition in reserves for expenses of positive and negative balances for each year. This note also provides the reasons underlying the accounting treatment used.



**ERAFP**  
*Independent Auditors' Report on the Annual Financial Statements*  
31 December 2008

**Justification of our assessments**

Pursuant to the provisions of article L.823-9 of the French Commercial Code relative to the justification of our assessments, we bring the following points to your attention:

As mentioned in Note 3.3.2 to the financial statements, ERAFP establishes reserves for the Scheme. As part of our assessment of significant estimates used to prepare the financial statements and on the basis of currently available items, we reviewed the process established to assess these reserves.

The resulting assessments form part of our audit of the annual financial statements, taken as a whole, and therefore contributed toward the determination of our opinion expressed in the first part of this report.

**Specific verifications and information**

Also in accordance with generally accepted French auditing standards, we performed the specific verifications required by law.

Concerning the information presented in the Board of Director's Management Report, we have no observations to make regarding its accuracy or congruence with the annual financial statements.

Paris La Défense, 22 October 2009

KPMG Audit  
Department of DPMG S.A.

Isabell Bousquié  
Partner

Mazars  
  
Nicolas Robert  
Partner

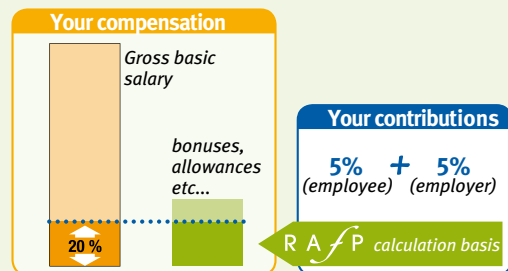


## *My pension is also calculated on my bonuses !*

The French public service additional pension scheme (“Retraite Additionnelle de la Fonction Publique” – RAFP) is a mandatory, points-based pension scheme. All civil servants working for public-sector hospitals, local and regional authorities and the central government participate. Since 1 January 2005, you contribute based on your bonuses, allowances and in-kind benefits and overtime work, and thereby receive an additional retirement benefit to go with your main pension.

### Your contributions

Are you a civil servant in a public-sector hospital and do you receive bonuses, allowances or overtime pay? These compensation items serve as the basis for your contributions to RAFP, up to 20% of your gross annual basic salary. Note: this cap does not apply to the Individual Purchasing Power Guarantee (GIPA), which is fully assessed for RAFP contributions. The 10% contribution rate is split evenly between you and your employer. The withholding amounts are indicated on your pay slip.



### Your rights

Are you a civil servant in a public-sector hospital and do you receive bonuses, allowances or overtime pay? These compensation items serve as the basis for your contributions to RAFP, up to 20% of your gross annual basic salary. Note: this cap does not apply to the Individual Purchasing Power Guarantee (GIPA), which is fully assessed for RAFP contributions. The 10% contribution rate is split evenly between you and your employer. The withholding amounts are indicated on your pay slip.

### Scheme management

RAFP is managed by ERAFP, a public-sector institution, which has a Board of Directors made up of your representatives, selected from public-sector trade unions, employer representatives and qualified persons.

Contributions received by the Scheme are invested mainly in bonds, using an investment approach that takes into account social, economic and environmental consequences and complies with rules to protect the interests of the Scheme's beneficiaries. ERAFP is a leading European institutional investor in the area of socially responsible investing (SRI).

Caisse des Dépôts is responsible for collecting the contributions and administering the rights as well as paying out benefits.

#### You have a question on the contribution or your rights ?

Contact your **employer** : It is up to the employer to initiate any procedure with RAFP on your behalf.

#### You would like to view your rights account or learn more about the scheme ?

Log onto the site at  
[www.rafp.fr](http://www.rafp.fr)



## Scheme's technical parameters

If upon retirement you have accumulated:

**5,125 or more points**, your benefit will be paid out in the form of a lifelong annuity;

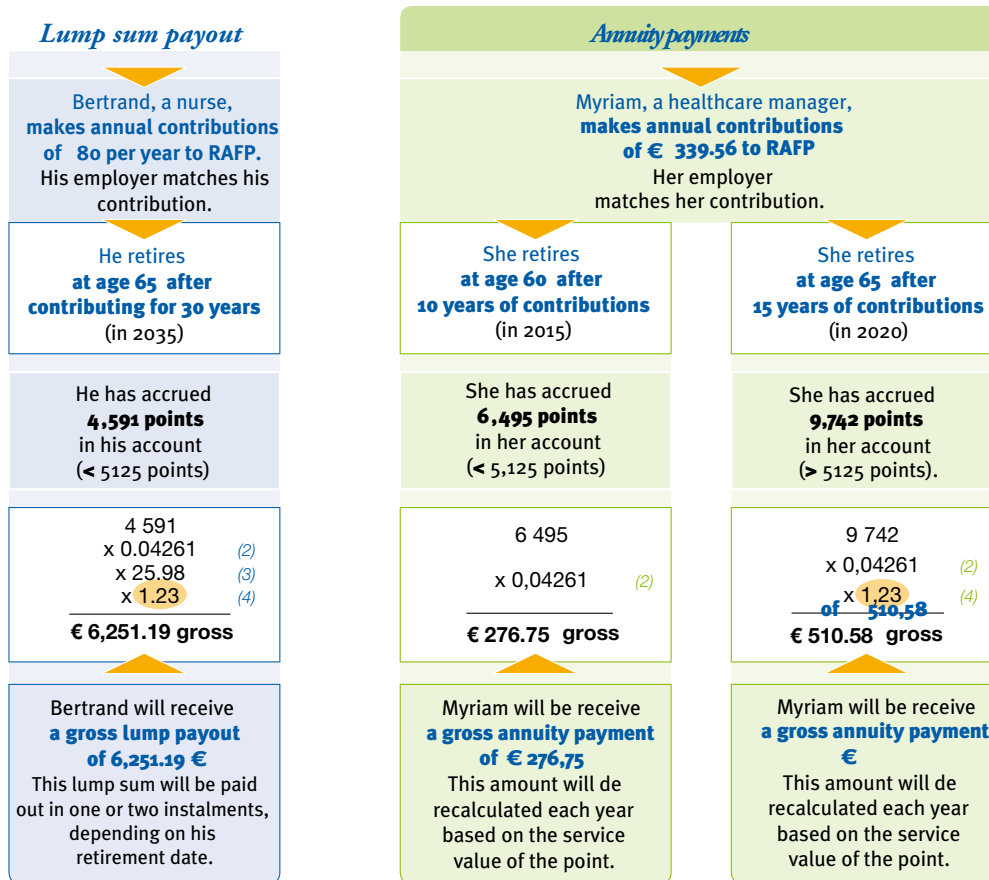
**fewer than 5,125 points**, you will receive a lump sum payment, paid out in one or two instalments depending on the date when you stop working.

To calculate the number of RAFP points accrued for a year, divide the total amount of RAFP contributions indicated on your pay slip (employee portion + employer portion) by the purchase value of a point.

For 2009, 1 point cost 1.04572.

To obtain the annual amount of your RAFP benefit, multiply the total number of points indicated in your rights account by the service value of a point. For 2009, 1 point entitles the beneficiary to receive 0.04261 in lifelong annuity benefits.

## Lump sum or annuity : sample calculation (1)



(1) Fictitious, non-binding examples provided for informational purposes only. They do not include, in particular, career changes, annual changes in point values and potential regulatory changes.

(2) For demonstration purposes, this example uses the service value of a point in 2008.

(3) Lump-sum conversion factor corresponding to life expectancy of 80 years

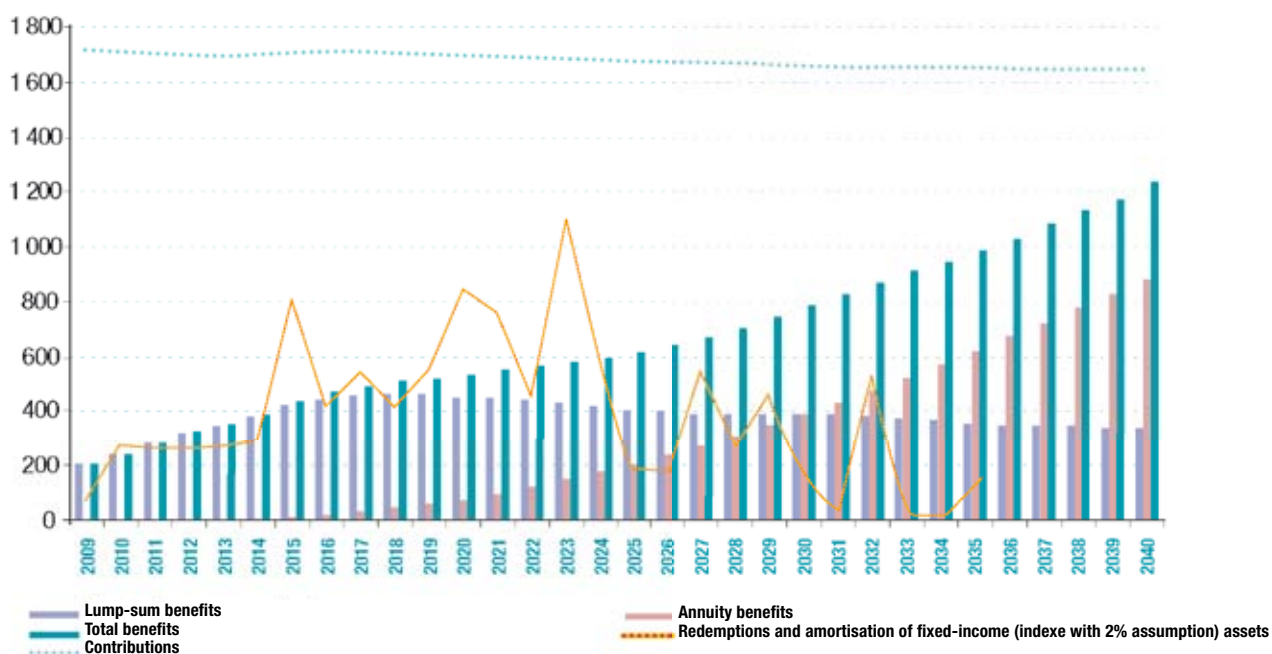
(4) Premium factor: after 60, the higher the retirement age, the greater the factor.

*Myriam and Bertrand delayed their retirement past age 60. A premium will be applied to their benefit.*

**CASH FLOW PROJECTIONS (DETAIL)**

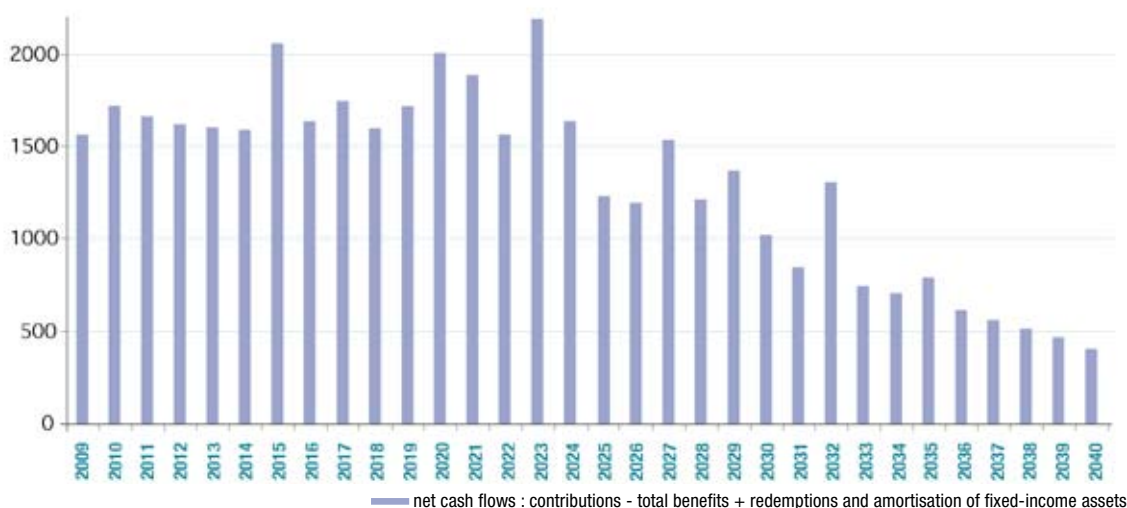
ERAFP is a long-term investor. The duration of its liabilities is estimated at 30 years for the actuarial provision and 15 years for financial flows. Barring any change in the purchase and service values of a point, we obtain the following results. The contributions and bond-related flows (redemptions, interest income) net of benefits generate substantial investment capacity over the long term. Whether they consist of bonds or equities, the targeted investment securities are meant to be held for the long term. The accounting and capital adequacy rules, which have a one-year horizon, do not share this characteristic and are therefore unsuitable and burdensome.

**Fixed-income asset and liability flows (€ millions)**



**ADDITIONAL STATISTICS**  
(Data at 31 Decembre 2007)

**Net cash flows (€ millions)**



— net cash flows : contributions - total benefits + redemptions and amortisation of fixed-income assets

**average benefit amounts (€)**

	public-sector functions :			
	Central government	Hospital	Local and regional authorities	Overall
Direct rights	€ 568	€ 658	€ 525	€ 568
Indirect rights	€ 170	€ 161	€ 146	€ 162

**average rights accounts**

public-sector function :	men		women		overall	
	cotisations	points	cotisations	points	cotisations	points
Central government	€ 1 060	1,046	€ 850	839	€ 960	947
Hospital	€ 1 037	1,026	€ 949	938	€ 967	956
Local and regional authorities	€ 841	832	€ 735	731	€ 782	776

**BOARD OF DIRECTORS MEMBERSHIP**

*Chairman*

**Jean-François ROCCHI** (16 June 2008 decree)

*Specialised committee chairmen:*

*ALM Committee*

**Alain DORISON**

*Audit Committee*

**Jean-Louis ROUQUETTE**

*Collection Committee*

**Jean-Marie POIROT**

*Investment Policy Monitoring Committee*

**Bernard LHUBERT**

***Active contributor representatives***

*Union générale des fédérations de fonctionnaires CGT*

**Bernard LHUBERT**, principal

**Gilles OBERRIEDER**, deputy

*Union des fédérations CFDT des fonctions publiques et assimilés*

**Chantal LABAT-GEST**, principal

**Michèle NATHAN**, deputy

*Union interfédérale des agents de la fonction publique Force ouvrière*

**Gérard NOGUES** (†), principal,

remplacé par **Philippe SOUBIROUS** (4 march 2009 decree)

**Brigitte FIDRY**, deputy

*Fédération syndicale unitaire*

**Régis METZGER**, principal

**Anne FERAY**, deputy

*Union nationale des syndicats autonomes*

**Jean-Marie POIROT**, principal

**Corinne SPEHNER**, deputy,

replacé par **Marc CHRETIEN** (4 march 2009 decree)

*Union fédérale des cadres des fonctions publiques CFE-CGC*

**Robert LAGANIER**, principal

**Patrick GUYOT**, deputy

*Interfon Confédération française des travailleurs chrétiens*

**Xavier DELVART**, principal

**Jacques VANNET**, deputy

*Union syndicale Solidaires fonctions publiques et assimilés*

**Dorine PASQUALINI**, principal

**Philippe TIJOU**, deputy

### Employer representatives

*Employer representatives for all central government functions.*

**Jacques ROUDIERE**, General Controller of the Armies, Ministry of Defence  
Head of Human Resources (DRH -MD), principal  
**Général Daniel DAEHN**, DRH-MD deputy, Head of Human and Civilian  
Resources General Policy department, deputy  
replaced by **Rear-Admiral Jean CASABIANCA**, deputy to the Head of  
Human Resources of the Ministry of Defense, Head of the Military and Civilian  
Human Resources General Policy department (21 October 2009 decree)

**Jean-Louis ROUQUETTE**, Inspector General of Finance, director, deputy  
to the Secretary General of the Ministry of the Economy, Industry and  
Employment, principal  
**Michèle FEJOZ**, General Controller with special responsibility for senior  
management, deputy

**Marie-Hélène LECHEVALLIER**, Controller General, Risk Control department,  
La Poste, principal  
**Foucauld LESTIENNE**, Deputy Director, Human resources, La Poste, deputy

*Employer representatives for local and regional authorities*

*On behalf of the Association of French Mayors*

**Jean-Pierre BALLIGAND**, Mayor of Vervins, principal  
**Daniel LEROY**, Deputy mayor of Moussy-le-Neuf, deputy

*On behalf of the Assembly of French Departments*

**Bernard DEROSIER**, President of the Conseil Général du Nord, principal  
**François SCELLIER**, General Councillor for Val d'Oise, deputy

*On behalf of the Association of French Regions*

**Michèle SABBAN**, Vice President of the Île-de-France Regional Council,  
principal  
**André DROUIN**, Regional Councillor of Aquitaine, deputy

*Employer representatives for public-sector hospitals*

**Michel MOUJART**, Honorary CEO of the Tours CHU, director of Centre  
Hospitalier de Chinon, principal  
**Jean-Pierre GUSCHING**, CEO of Orléans CHU, deputy

**Daniel BOUQUET**, Director of Drôme Nord-Romans/Saint-Vallier hospitals,  
principal  
**Philippe MARIN**, Director of Laval hospital, deputy  
replaced by **Maurice TOULLALAN**, Director of Argenteuil hospital (21  
October 2009 decree).

### Qualified persons

**Jean-François ROCCHI**, French State Inspector General

**Alain DORISON**, Inspector General of Finance

**Jean-Jacques MARETTE**, Civil Service Executive Officer, CEO of the AGIRC-  
ARRCO Economic Interest Group (GIE)

*Other participants at meetings of the Board of Directors*

*CEO of the Management Entity*

**Philippe DESFOSES** (28 May 2008 decree)

*Business and financial control*

**Pierre BRUNET**, business and financial controller, insurance commissioner

*Public Accountant*

**François FOURNIER**, Receiver of Finance

*Government Commissioner*

**Thierry PELLE**, Head of the Pension Office at the Budget Department of the  
Ministry of the Budget, Public Accounts and Civil Service  
replaced by **Philippe JARRAUD**, Head of the Pension Office and Special  
Schemes at the Budget Department (17 June 2009 decree)

*Representative of Caisse des Dépôts administrative manager*

**Gérard PERFETTINI**, Head of the Bordeaux Management Entity (Pension  
department)

**GLOSSARY**

**Share** : fractional ownership interest in a company that gives the holder certain rights: right to examine and control management, right to a portion of the profit distribution (dividend).

**Discounting** : method used to calculate the present value of a future amount based on the interest rate (here referred to as the discount rate).

**Funded scheme** : a funded pension scheme invests paid-in contributions in financial assets, which are then liquidated upon retirement in order to pay out the pension either in an annuity or a lump sum. The pension depends on the amount saved and price trends for the assets (typically equities and bonds) in which the funds were invested.

**Defined contribution (scheme)** : a scheme for which only the amount of contributions is fixed.

**Intergenerational equity** : a concept aimed at ensuring a comparable living standard between individuals at a given point in time and relative to other generations at the same age.

**Pension General Indicative Estimates (Estimation Indicative Globale - EIG)** : a document sent to active beneficiaries aged 57 and 56 in 2009. The EIG provides an estimate of the amount of their pension at age 60 at the full rate, based on income projections prepared by the Pension Orientation Council.

**FCP (Fonds commun de placement)** : a French-registered investment fund consisting of marketable securities managed by an investment company on behalf of unit holders; the FCP is not a distinct legal entity.

**Public Interest Group (GIP) for Pension Information** : public interest grouping of 38 mandatory pension schemes (CNAV, MSA, AGIRC, CNRACL, Ircantec, etc.) to establish the individual information of pensioners on rights acquired in all schemes to which they belong. The GIP posts a universal pension simulation application online (m@rel), which covers 95% of the population. RAFFP will soon integrate m@rel.

**Benchmark index** : representative index of the markets in which the fund is invested.

**SRI** : Socially Responsible Investing.

**Liquidation** : all procedures aimed at the calculation and payout of rights to a beneficiary.

**Bond** : a security evidencing a debt, issued by a sovereign government or company, corresponding to a long-term loan. The bondholder receives income, also known as the coupon.

**Point** : unit used to calculate the pension in some schemes. The contributions made by beneficiaries are used to acquire points. The amount of the pension will be equal to the points acquired during the beneficiary's working life multiplied by the value of the point at the time of retirement. Most additional pension schemes use a point system. Basic pension schemes tend to use the quarterly system.

**PRI** : Principles for Responsible Investment, a Charter drafted under the auspices of the United Nations and to which ERAFP has subscribed.

**Individual Statements of Position («Relevé de Situation Individuelle -RIS»)** : a document sent to active beneficiaries (age categories 50, 45 and 40 in 2009), each year by the last pension scheme to which they belong. The RAFFP statements are sent along with those of the primary pension. The RIS includes information on the beneficiary's entire working life, the coverage periods and points acquired. It may be prepared at the request of the beneficiary.

**Return** : Ratio between the amount of pensions received during retirement and the amount of contributions paid in during the active working life.

**Technical return** : ratio between the service value and purchase value of a point.

**Reversion** : attribution to the spouse of a deceased beneficiary (before or after his or her retirement) of a portion of his or her pension. The reversionary pension depends on the resources of the surviving spouse in the employees' general scheme and the "aligned" schemes.

**Premium** : an additional amount applied to the future pension of a beneficiary who is at least 60 years old and who chooses to continue working, even though he has attained the degree of coverage necessary to benefit from a pension at the full rate.

**Capitalisation rate** : interest rate that enables an amount invested at this rate to achieve a higher amount over a given time period.

**Marketable security** : security traded on financial markets evidencing a claim or negotiable related right (equities, bonds, etc.)



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