INTERNATIONAL SOCIAL SECURITY ASSOCIATION

WORLD SOCIAL SECURITY FORUM
MARRAKECH 2022

World Social Security Forum

34th ISSA General Assembly

Marrakech, Morocco, 24–28 October 2022

Social security cash flow and financing

Technical Commission on Contribution Collection and Compliance
International Social Security Association
Geneva

The International Social Security Association (ISSA) is the world's leading international organization for social security institutions, government departments and agencies. The ISSA promotes excellence in social security administration through professional guidelines, expert knowledge, services and support to enable its members to develop dynamic social security systems and policy throughout the world.

The ISSA technical commissions play a central role in the Association. They are the backbone of its knowledge development and technical work. Organized along 13 clusters of topics, they allow ISSA members to focus their efforts in their particular area of interest.

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1. Introduction

In France, according to the Constitution, "Social security is the guarantee made to each person that in all circumstances, he will have the means necessary for his subsistence and for that of his family, under decent conditions". (Explanatory memorandum to the Ordinance of 4 October 1945 Creating a Social Security System).

The Central Agency of Social Security Bodies (*Agence centrale des organismes de sécurité sociale* – ACOSS) is a public administrative body. It was created in 1967 to manage the common treasury of the General Social Security Scheme (*Régime général de la sécurité sociale*), which covers approximately 85 per cent of the French population.

In January 2021, ACOSS became the "URSSAF National Fund" (*Urssaf Caisse Nationale*); however, it remains part of the legal entity of the Central Agency of Social Security Bodies.

2. The legal framework and cash-flow and debt-management methods

Cash-flow and debt management is subject to an annual financial framework voted on by Parliament on the basis of four-year projections. This Social Security Financing Bill (*Projet de loi de financement de la Sécurité sociale* – PLFSS) includes forecasts for revenue, expenditure and the borrowing ceiling for non-permanent resources.

2.1. A specific committee for monitoring social security accounts

Created in 1979, the Social Security Accounts Committee (*Commission des comptes de la Sécurité sociale* – CCSS) is responsible for analysing the accounts of the various schemes. Its work serves as a reference for understanding the financial situation of the social security system, with both the presentation of the results of the past financial year and forecasts for the year to come. In particular, the committee is called upon every September to take part in the drafting of the PLFSS, for which its work serves as a basis.

The CCSS brings together all social security stakeholders:

- The committee chair, the Minister for Social Security;
- Four members of the National Assembly and four members of the Senate designated by the President of the National Assembly and by the President of the Senate respectively;
- A member of the Economic and Social Council designated by the President of the Economic and Social Council;

- A magistrate from the Court of Accounts (*Cour des comptes*) designated by the first president of the Court of Accounts;
- Twelve representatives of trade unions and social organizations;
- Representatives of all social security bodies;
- The president of the National Centre for Health-care Professions (*Centre national des professions de santé*) as well as five representatives of doctors' professional organizations and three representatives of health-care establishments designated by the Minister for Social Security;
- Seven qualified individuals selected for their specific expertise by the Minister for Social Security.

ACOSS, in its capacity as the General Social Security Scheme's financing body, undertakes common and centralized cash-flow management for the four branches of the General Scheme in accordance with Article L. 225-1 and Articles D. 225-1, D 225-3, D. 253-38 and D. 253-41 of the Social Security Code.

It guarantees the separate management of the cash situation of each branch of the General Social Security Scheme (sickness, work accidents and occupational diseases, family and old age), as well as monitoring revenue and expenditure.

2.2. Objective: Ensuring a seamless supply to the benefit-paying funds in line with their needs

- Performing daily cash-flow forecasts;
- Collecting funds and centralizing them as quickly as possible at ACOSS;
- Optimal management of banking relationships;
- Covering risks to ensure smooth functioning regardless of unforeseen developments.

Social security contributions are centralized at ACOSS on the day they are collected by the Social Security and Family Allowance Collection Network (*Union de recouvrement des cotisations de sécurité sociale et d'allocations familiales* – URSSAF). The insurance funds that pay benefits are supplied with cash on the day that the spending takes place.

Transparency and control of operations: ACOSS accounts for operations on behalf of the General Scheme and the national funds.

3. Main financial management issues and levers to be put in place

- Collection of ongoing resources (social security contributions, earmarked taxes);
- Payment of benefits;
- Funding of cash requirements and deficits;
- Investment of occasional surpluses and/or reserves;
- A cross-cutting dimension of control and risk management;
- Challenges with regard to human capital and information systems.

3.1. Organization: the virtues of centralization in financial management

Cash pooling makes it possible to:

- reduce borrowing;
- manage risks (interest rates, exchange rates) in a single place;
- promote forecasting;
- increase bargaining power with banks.

3.2. Financing needs: combining bank borrowing and reliance on the financial markets

- Financing short-term cash flow: access to commercial paper markets helps reduce costs and opens up access to abundant liquidity subject to the quality of the credit rating; this is supplemented by bank loans, which provide security against the risk of problems with market access in particular.
- Financing medium- and long-term needs: bond issues and debt amortization (the Social Debt Redemption Fund (*Caisse d'amortissement de la dette sociale* – CADES)).

3.3. Payment of benefits

Cash-flow profiles and requirements are structured on the basis of settlement dates.

It is vital to adhere to the dates and the amounts due.

The "reachability" of insured persons/beneficiaries (whether they have a bank account or not; whether payment is by bank transfer or in cash): see under "Banking relationships".

3.4. Collection of ongoing resources (contributions in particular)

Timing is very important, hence the need for legal payment deadlines.

The processing of receipts (with varied means of payment): both speed and efficiency are key to boosting cash flow (hence a recommendation/obligation to use a particular means of payment).

Centralization of funds (interbank or otherwise): speed is key.

3.5. Forecasting… flows and overall balances

In terms of management, "it all comes down to forecasting": management must be forward-looking. It is therefore necessary to forecast both incoming and outgoing cash movements and overall financing needs ("cash-flow profiles").

Forecasting is an important element of risk management. The level of complexity is high, and the allocation of resources must take account of the issues at stake.

3.6. Surplus management

- Deposits and short-term investments (repurchase agreements);
- The question of long-term reserves (the Pension Reserve Fund (*Fonds de réserve des retraites*)/specific scheme reserves): long-term asset management issues;
- Investing occasional surpluses and/or reserves.

3.7. Banking relationships

The transfer of funds from contributors to insured persons is carried out through the banking system (bank accounts and means of payment).

Financing: borrowing or even market financing is undertaken with "banking" partners (dealers).

This is an important area that is preferable to organize centrally so as to have a consolidated group approach and greater influence over the banks (quality of service, risk management, and cost).

Example: the URSSAF National Fund works with 28 financial institutions.

3.8. Short-term debt sustainability and transfers to long-term financing

Differences between income and expenditure can cause cash requirements to build up over months or years, reaching levels that can no longer be financed solely by short-term instruments.

It is then necessary to switch to medium- and long-term financing via bonds and/or to modify spending and revenue parameters in order to return to a situation where social security accounts are moving in the right direction.

In France, legislators have established a long-term social security debt management system: CADES.

Debt transfers to CADES: ring-fencing of the debt, with resources earmarked for its settlement over several years.

3.9. The importance of cash-flow forecasts for accurately estimating the needs to be covered

Forecasts must be made of both incoming and outgoing cash flows in order to anticipate borrowing amounts.

Forecasting can be facilitated by regulatory deadlines:

- Family benefits on the fifth of the month, retirement benefits on the ninth, hospital benefits on the 20th;
- Two contribution deadlines, on the fifth and 15th, depending on the size of the company.

Having an estimate of needs and how they will be covered over a long period (one-year rolling estimates) makes forecasting possible and facilitates discussions with partner banks or ensures more accurate estimation of the volume and duration of debt issuance. Care must be taken not to create a liquidity gap.

ACOSS therefore plays the role of "automatic stabilizer", making it possible to maintain spending levels during periods of lower contributions, while providing support to companies.

ACOSS supports contributors, while ensuring fair play and the rights of insured persons.

Requirements are mainly financed on the financial markets with two short-term debt issuance programmes (Euro Commercial Paper – ECP – and Negotiable European Commercial Paper – NeuCP). Our partner banks provide complementary support.

4. A look back at the COVID-19 crisis and its impacts on treasury management

Following the crisis and the rapid rise in financing needs, the use of bank financing was necessary to respond to the shock. When the situation stabilized, bank financing was replaced by cheaper market financing.

The impact on the scheme's cash flow was approximately 40 billion euros (EUR) in a few months in 2020, necessitating the rapid implementation of an exceptional financing plan.

The breakdown of financing for 2020 was as follows: most financing was through the market (76 per cent), followed by bank financing (23 per cent) and financing through deposits made by social security schemes with short-term liquidity (1 per cent).

Maintaining good long-term relationships with a wide range of partner banks makes it possible to draw on the banks' lending capacity when necessary. In 2020, EUR 40 billion was financed in this way over a few months, including EUR 20 billion with the *Caisse des Dépôts et Consignations*, our historical banking partner. In 2020, the banks directly subscribed to dedicated market debt issues which they kept on their balance sheets.

There was a slight impact – of a few dozen basis points – on the cost of financing when demand peaked, as of course volume had to be prioritized over price. Once the crisis had passed, the loans were gradually renewed at more favourable prices. In 2021, the Agency thus returned to its price levels of early 2020.

Deficits are initially financed in the short term (less than one year). This requires a dedicated team with expertise in capital market financing.

	2019	**2020**
Number of operations	2,081	2,264
Volume in EUR billion	326	348
Average issue in EUR million	156	153
Average duration in days	30	90*

Note: * The greater the amounts to be financed, the longer the loans have to run to avoid liquidity risk.

A return to normal is possible in one of the following ways:

- Improvements in cash flow due to a dynamic economy (wage bill, job creation);
- Changes in the scheme parameters (measures);
- If the debt grows too large to be managed in the short term, the transfer to CADES of the structural part so that it can be amortized over several years with dedicated resources.