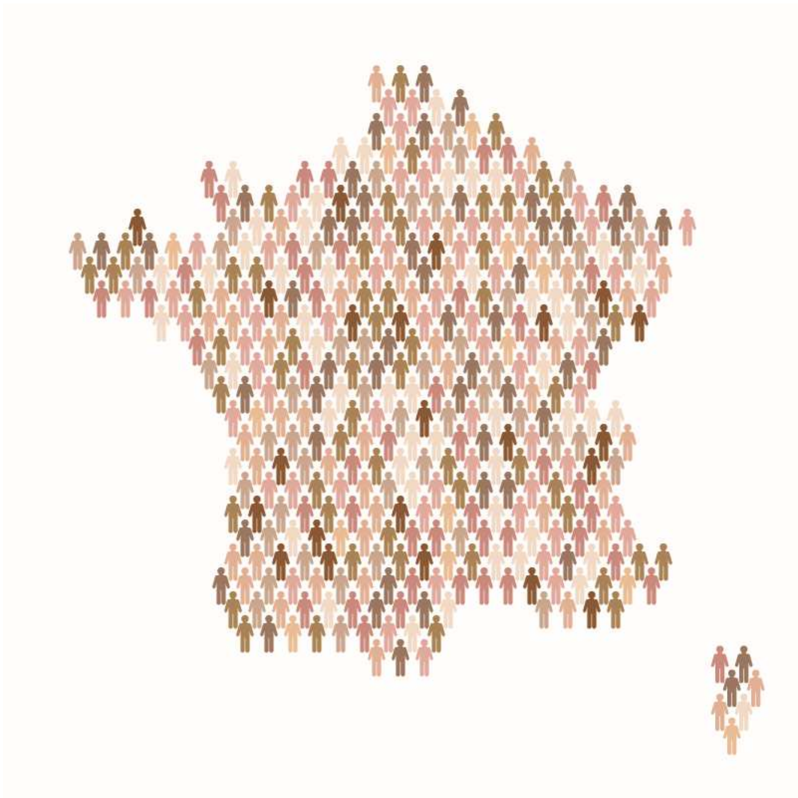
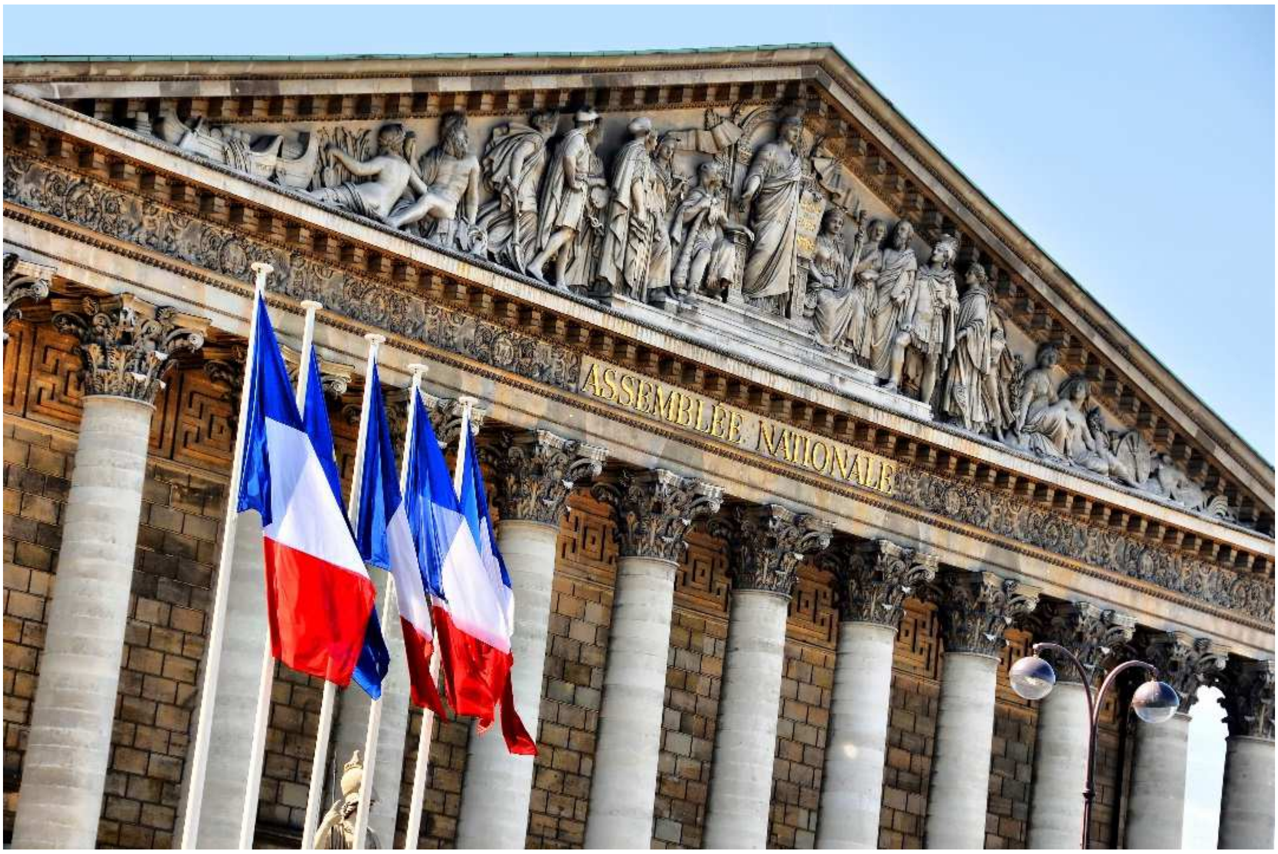


Caisse d'amortissement de la dette sociale

Social Bond Framework

SUMMARY

PART I:
CADES' ROLE IN THE FRENCH SOCIAL SECURITY SYSTEM



1. Social Security: protecting each person against life risks, at each life stage

1.1 Origin, objectives & developments

The 1945 ambition

The concept of Social Security was a core element in the programme of the National Resistance Council (Conseil national de la Résistance (CNR)). Adopted in 1944, this programme provided for "a comprehensive Social Security plan that is intended to ensure that all citizens have means of subsistence in all circumstances in which they are unable to procure those means through employment."

Created by order in 1945[1], 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."

Social protection includes **all transfers**, in cash or in kind, that contribute to covering - within the framework of national solidarity - **various life hazards and circumstances** that weigh upon household revenues or increase household needs: family, illness, unemployment, old-age.

The public authorities **are a major player in social protection and pay approximately 90% of the benefits** (primarily through Social Security). The balance is financed by private actors (complementary organisations, such as health insurance and provident organisations, associations, etc.).

The scope of public social protection goes well beyond social security (the general regime and affiliated regime, namely special employee regimes and independent worker regimes), and includes contractual schemes (unemployment insurance, supplemental pension schemes for private sector employees (Argic-Arrco[2]), supplemental pensions for self-employed workers, etc.), other State benefits (which play a major role in housing and combatting poverty) and local community benefits (notably with respect to certain expenditures tied to disabilities or dependence, and those relating to integration - RSA). For its part, Caisse d'Amortissement de la Dette Sociale (CADES) is involved in the area of Social Security.

The 1945 French Social Security plan[3] **was based on an autonomous model** managed by the **social partners** and forming part of **a financing organisation and rationale focussed on covering workers**. This model has evolved and now ensures **general coverage of the population**. This generalisation has led to broadened access to benefits and the financing thereof and more centralised governance of the system, including an enhanced role for the Government and the Parliament.

Social risks

Social risks are categories of life hazards that are collectively covered.

Terminology applied within the European Union and in international approaches breaks social protection down into six broad categories corresponding to eleven risks:

- **Health** (risks of illness, disability and workplace accidents/occupational diseases);
- **Elderly– survival** (two distinct risks);
- **Maternity – family** (two risks);
- **Employment** (including the risk of unemployment and professional integration and re-integration risks);
- **Housing**;
- **Poverty – social exclusion** (a single risk).

The Social Security Administrations (ASSO)

The Social Security Administrations (ASSO) (excluding public hospitals) are made up of:

- **Basic and complementary social security schemes** (general scheme, Agirc-Arrco (supplemental schemes), MSA[4], special schemes, miscellaneous schemes)
- **Funds contributing to the financing of those regimes** (including the Elderly Solidary Fund (Fonds de Solidarité Vieillesse (FSV)) and CADES)
- **The unemployment compensation system** (UNEDIC)[5]

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[1] According to the summary of the grounds for the order of 4th October 1945 creating Social Security. The 19th October 1945 order relates to Social Security benefits.

[2] Supplemental pension schemes, Association générale des institutions de retraite complémentaire des cadres (AGIRC) and Association pour le Régime de Retraite Complémentaire des Salariés (ARRCO).

[3] Bismarckian inspired plan. "Bismarckian" social protection plans designate social insurance systems that are tied to employment. Workers and their beneficiaries (families) are protected by mandatory regimes that are financed by contributions based on their salaries and are managed by the social partners through autonomous of the State funds.

[4] Mutualité sociale agricole (MSA)

[5] Although under social accounting it belongs to the ASSO category, Unédic is not part of "Social Security" within the meaning used in the text that follows.

1.2 Current system architecture

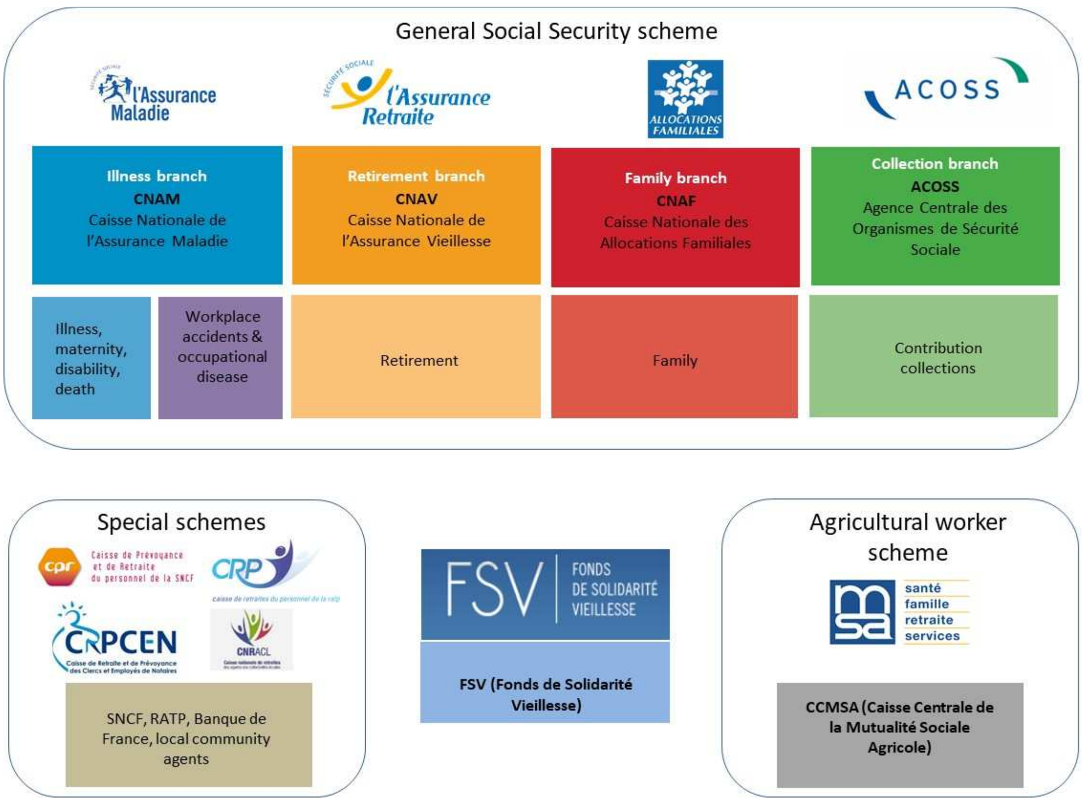
Although the entire French population benefits from Social Security and a coverage pertaining to the principal life risks, **not everyone is covered by the same scheme or in the same way**. Coverage depends on an individual's personal situation and, as appropriate, the sector the individual works in. The unemployment insurance system, which is managed by Unédic, is not described below[6].

The general regime

The general Social Security regime notably relates to employees and covers close to **90% of the population**, i.e., 59 million individuals. It is made up of **four branches**, which either cover the principal risks or manage collecting dues and contributions.

The branches correspond to accounting groupings that encompass revenues and expenditures allocated to the various risks covered by Social Security.

Figure 1: Summary of the various branches of the general regime, the special regimes and the FSV



It should be noted that organic law no. 2020-991 relating to social debt and empowerment promulgated on 7th August 2020 provided for the creation of a branch responsible for managing risks arising from loss of independence (in respect of the elderly and disabled persons).

Agricultural schemes

Mutualité sociale agricole (MSA), the agricultural social mutual fund, is a "one stop shop" which manages health insurance, workplace accidents and occupational disease and family and retirement benefits of farm operators and agricultural workers (two separate schemes) and collects the corresponding contributions.

[6] The unemployment insurance system is managed by Unédic and its benefits are paid through Pôle Emploi. For more information, see Unédic's Social Bond Framework, which is available here.

Special or complementary retirement or health insurance schemes

The self-employed workers (*professions libérales*) benefit from specific retirement schemes.

The various special retirement schemes relate to civil servants, SNCF, RATP, the electric and gas industries, employees and clerks of civil law notaries, religious bodies, etc. These schemes play a special role that is specific to each of them. **27 in all, they cover 7% of the French population**. Risk management and contributions collection are generally allocated among the specific enterprise and fund.

There are also **complementary schemes** that provide supplemental risk coverage. Some of them are compulsory, such as complementary retirement for private sector employees, while others are optional, such as private health or provident insurance.

Solidarity Elderly Fund (*Fonds de solidarité vieillesse)*

Fonds de solidarité vieillesse (FSV) is a public administrative body which is responsible for funding retirement expenditures paid within the scope of national solidarity.

Under certain conditions and on a flat rate basis, FSV funds elderly pension quarters accrued during unemployed periods, medical leaves, civil service volunteer stints, apprenticeship periods and professional training internships. The FSV fully funds the elderly minimum benefit (programmes guarantying minimum resources to the elderly, without contributions being due).

Table 1: Principal data relating to the general regime's various branches

	Family	**Illness**	**Workplace accidents – occupational disease**	**Retirement**	**Collection**
"Caisses nationales" [7]	**CNAF**	**CNAM**	**CNAM – AT-MP**	**CNAV**	**ACOSS**
"Caisses locales"[8]	CAF	CPAM	With the assistance of the CPAMs	CARSAT	URSSAF
Relevant population (2018)	12.7 million recipients, i.e., 32 million beneficiaries (with all family members)	62.4 million individuals covered	18.9 million employees covered (i.e., 2/3 of active workers)	14.3 million pensioners	9.8 million contributing accounts (2019 data)
Financial resources[9]	36.7 billion euros in benefits	202.8 billion euros in benefits	9.4 billion euros in benefits	129.6 billion euros in benefits	532.0 billion euros in revenues
Description	Assists families with their daily lives and develops solidarity towards vulnerable individuals; Four areas of intervention: - Early childhood - Childhood and youth - Solidarity and integration - Housing and quality of life.	Allows everyone to be treated according to his/her needs (pays insured persons' health care expenses and guarantees access to care, prevention programmes) Risks covered: - Illness - Maternity - Disability - Death	Manages workers' professional risks: workplace accidents, commuting accidents and occupational diseases. It implements a professional risk reduction policy.	Pays retirement benefits to pensioners. It accompanies employees throughout their careers and helps them to prepare their retirement.	Collects social contributions and redistributes them to the various branches, thereby ensuring the management of the Social Security system's treasury.

Sources: Social Security accounts, INSEE and UCANSS, ACOSS, 2020 Social Security financing law forecasts.

[7] «Caisses nationales» stands for French institutions managing different branches of the general social security regime at the national level

[8] CNAM : « Caisse Nationale d'Assurance Maladie » (National Health Insurance) / CNAV : « Caisse nationale d'assurance vieillesse » (National Pension Insurance) / CAF : « Caisse d'allocations familiales » (Family Allowance) / CPAM : « Caisses primaire d'assurance maladie » (Local Health Insurance) / CARSAT : «Caisses d'assurance retraite et de la santé au travail » (Local Retirement and Occupational Health Insurance) / URSSAF : « Unions de Recouvrement des cotisations de Sécurité sociale et d'Allocations Familiales » (Social Contribution Collection Bodies)

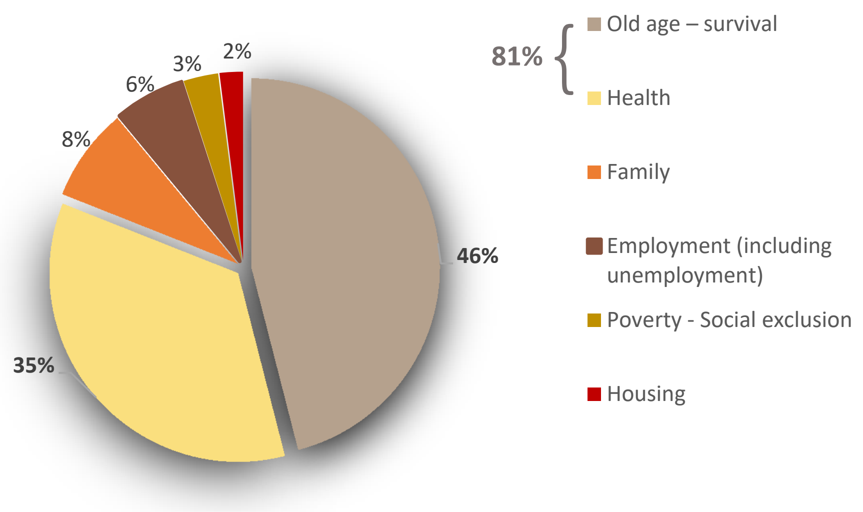
[9] 2019 execution. Monthly accounts, position at 31 March 2020 and 2019 annual result. Available ici

Key figures

France dedicates the equivalent of close to **one third of its GDP to social protection expenditures** (790 billion euros in 2018), which are financed principally by public authorities.

Social Security covers 60% of the payment of its benefits to 67 million insured individuals, amounting to over 470 billion euros, i.e., **more than the State's budget**. Benefits are also paid by the State, Unédic (with respect to unemployment insurance), and private organisations.

Figure 2: Composition of social benefits by risk, 2018



Source: DREES, Social protection accounts

For more information, see "Social protection in France and in Europe in 2018. Results from the social protection accounts", 2020 edition. Available here (French only).

1.3 National solidarity and reducing inequalities in practice

Article L. 111-1 of the French Social Security Code provides that "*Social Security is founded upon the principle of national solidarity*", which implies that **each person contributes according to his/her means and receives according to his/her needs**.

The various forms of redistribution, at the service of national solidarity

The extent of the financial sums that Social Security redistributes in France is considerable.

The French social protection system contributes to the **redistribution of wealth among households and to combatting poverty**. The contributions paid and the benefits received vary depending in particular on household income. Indeed, the social protection system **is not only a system that insures against certain life hazards**. It redistributes income: from the more well-off to those with the most modest incomes, between generations, between family configurations, between households depending upon their status (occupied labour force, unemployed, pensioner, etc.).

There are three forms of redistribution:

- **Vertical redistribution**: transfers from the wealthiest households to more needy households (through targeted monetary benefits and financing mechanisms weighting more significantly on high-income households);
- **Horizontal distribution**: transfers between social groups depending on their objective circumstances (without taking their revenues into account). Examples: healthcare treatment of insured persons by active workers, retirement income of pensioners through contributions by active workers, family allowances by childless households to households with children;
- **Territorial redistribution**: benefits which are almost always based on a national scale. They thus result in considerable redistribution between territories (from more prosperous territories to the most disadvantaged).

Redistribution takes place through two channels: ***via* methods of financing** (contributions, taxes and levies) and **expenditures** (benefits). However, statically observing the correlation between revenues, payments and benefits at the individual level at a given moment is not enough to fully appreciate redistribution levels since contributions and benefits follow individuals throughout their lifetimes. Indeed, benefits received vary with age (due in particular to inter-generational solidarity mechanisms at play in retirement systems, or to differences in health insurance levels and expenditures depending on age).

Redistribution through methods of financing

In 2018, the average revenue of the bottom 10% of individuals with the lowest incomes was €9,300 per year (see table 2 below). For this population, employer contributions (relative to the individual's number of consumption units – CU) amount to 6% of the average revenue, and all employee contributions and social contributions (CSG, CRDS) represent about 8% of the average revenue, compared to 21% and 19% for all individuals combined.

Table 2: Average ratio of social contributions to individuals' revenue decile in 2018

	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10	
	Average revenue decile										**Average population**
	1st	**2nd**	**3rd**	**4th**	**5th**	**6th**	**7th**	**8th**	**9th**	**10th**	
Average annual revenue, after transfers (in euros)	9,300	13,400	15,800	18,100	20,400	22,800	25,500	29,000	34,400	57,100	24,600
Employer contributions per household consumption unit	6%	13%	17%	19%	23%	24%	26%	26%	28%	27%	21%
Other social contributions (CSG, CRDS, etc.) per consumption unit	8%	12%	16%	18%	20%	21%	22%	22%	24%	26%	19%
Total contributions per consumption unit	14%	26%	32%	37%	42%	44%	47%	49%	52%	54%	40%

Source: Insee, 2016 tax and social survey (updated in 2018); Ines 2018 model, Drees and Insee calculations. Scope: ordinary households living in metropolitan France whose income reported to the tax authorities is positive or nil and whose head of household is not a student.

In addition, exemptions exist which are aimed at supporting employment, including in particular:

- **Territorial exemptions**: job creation in rural revitalisation zones (*zones de revitalisation rurale,* or ZRR), employment revitalisation areas (*bassins d'emploi à redynamiser*, or BER), defence restructuring zones, or still yet for companies located in French overseas departments;
- **Programmes targeting vulnerable populations**: employment support contracts, socio-professional re-integration organisations, intermediary associations, integration workshops and initiatives.

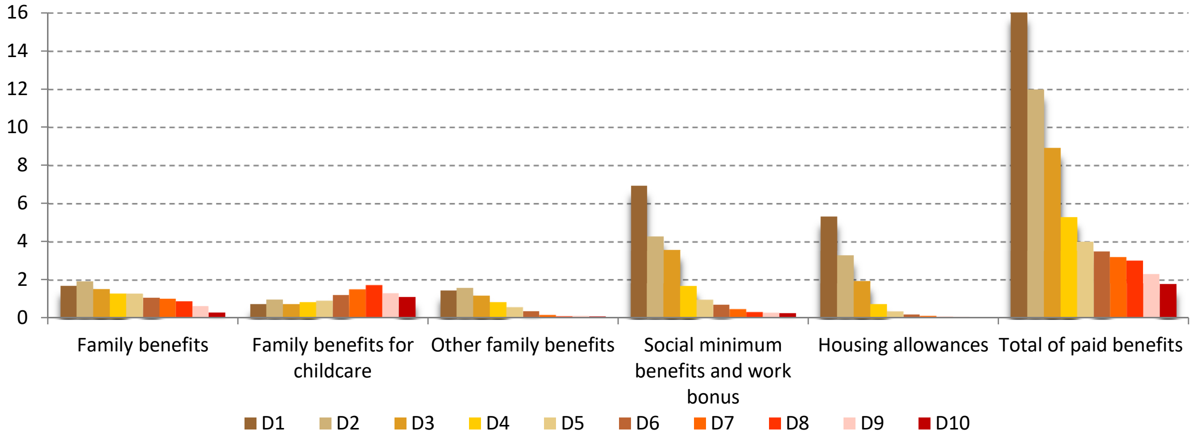
Redistribution via benefits

Social Security ensures a high degree of social risk coverage for all insured persons, and, as a matter of priority, to those whose health condition exposes them to high treatment costs or who live in poverty. The materialisation of a risk, corresponding to an objective situation meeting specific criteria (cf. recognition of a disease, occupational disability or a handicap), triggers the payment of monetary allowances or reimbursements for relevant expenses. Consequently, the actual beneficiaries of Social Security are by definition populations facing additional needs and/or who are potentially vulnerable (see below the discussion under "Social protection underpins the implementation of Agenda 2030", or see table no. 4, page 23, details on fund usage categories). For example, the Solidarity Elderly Fund (Fonds de solidarité vieillesse (FSV)) mitigates the negative long-term consequences of unemployment by validating free of charge non-worked periods as regards their future pension eligibility.

Benefits are therefore more or less contributory. Thus, the degree of contribution is higher for retirement pensions or replacement income paid in cases of workplace accidents. Conversely, it is lower for health treatment reimbursement. Indeed, while the reimbursement for health care treatments (which has been provided for by the universal health insurance benefits scheme (PUMA) since 1 January 2016) is financed by contributions, the extent of such reimbursement does not vary according to the amount of contributions paid, since the associated benefits are charged at a flat-rate ("to all, according to his/her needs").

In 2018, the bottom 10% of persons whose post-transfer living standard was the lowest (1st decile of the population) received 1.7 billion euros under family allowances, 0.7 billion euros under welfare assistance dedicated to child-care, 1.4 billion euros under other family benefits, 6.9 billion under minimum welfare benefits and the work bonus, and 5.3 billion under housing assistance. In total, they received 16.1 billion euros in benefits. Family allowances are notably degressive depending on income.

Figure 3: Benefits paid by decile and standard of living (in billions of euros, 2018)



Source: 2020 proposed social security funding law – PQE financing

Inset 1 – The tools for evaluating redistributive effects

Assessing the redistributive effects of transfers requires micro-simulation models to be used, such as Ines[10], which subtly integrates **revenues (level and composition) and households' family structure.**

The share of social contributions as a proportion of household income increases overall with household living standards. Conversely, the share of social protection benefits (excluding health insurance, as these benefits are not modelled by Inses) generally decrease as living standards rise. This share represents approximately 75% of the income of the poorest 10%, and 24% of the income of the wealthiest 10%. This share for the wealthiest 10% is almost entirely explained by old-age and survivor benefits (pensions).

These cross effects on contributions and benefits mechanically generate a double vertical re-distribution effect. Thus, **the average living standard of the poorest 20% increases by approximately 70%, while that of the wealthiest 20% decreases by 20%.** The re-distributive effect is close to neutral for median incomes. These social protection mechanisms contribute to reducing poverty. Hence, the poverty rate decreases by approximately 8 percentage points thanks to the intervention of the socio-fiscal system, to reach close to 14%. Social protection benefits account for approximately 7 points of this decrease.

The principle of micro-stimulation consists of applying socio-fiscal legislation to a sample of households that are representative of the population. The Ines model, which was developed by Insee and Drees along with CNAF, relies on Insee's survey on tax and social revenues (*Enquête sur les revenus fiscaux et sociaux*). Its scope and its income and redistribution concepts differ from those applicable under national accounting standards. For each household, this model simulates the various monetary transfers depending on family makeup, household member activity and their taxable income, and allows redistributive effects to be assessed, according to living standard for example.

[10] INES is INSEE' microsimulation model on social and fiscal French legislation impacts. To go further: https://www.insee.fr/fr/information/2021951

Social protection underpins the implementation of Agenda 2030

On 25 September 2015, the 193 members of the United Nations committed through the **Agenda 2030 programme to implement 17 universal sustainable development goals** (called SDGs). These goals respond to global social challenges tied to poverty, inequality and health care access.

France developed a national strategy contained in **a roadmap published in September 2019**. The French Social Security system, and, indirectly, CADES' public debt shock absorbing mechanisms, contribute to reaching the SDGs, particularly those relating to poverty, health, gender equality, reducing inequality and sustainable cities and communities.

SDG objectives and targets tied to Social Security	Challenges and priorities from the French roadmap
"End poverty in all its forms everywhere" **1.3:** Implement […] social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable **1.5**: By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to […] economic, social and environmental shocks and disasters **"Ensure healthy lives and promote well-being for all at all ages"** **3.1**: By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births[11] **3.3:** By 2030, end the epidemics of AIDS […] and combat hepatitis, water-borne diseases and other communicable diseases **3.4:** By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being. **3.5**: Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol **3.7**: By 2030, ensure universal access to sexual and reproductive health-care services **3.8**: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all **"Achieve gender equality and empower all women and girls"** **5.6**: Ensure universal access to sexual and reproductive health and reproductive rights […] **"Reduce inequality within and among countries"** **10.2**: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status **10.4**: Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality **"Make cities and human settlements inclusive, safe, resilient and sustainable"** **11.1**: By 2030, ensure access for all to adequate, safe and affordable housing and basic services	**Challenge no. 1** *"Act for a just society by eradicating poverty, combatting all types of discrimination and inequality and by guaranteeing the same rights, opportunities and freedoms to all."* **French priorities:** - Combating unequal access to healthcare services and fighting against non-take up of benefits through information - Account for the diversity in national territories and in mainland France - Zero "living condition poverty" **Proposals to develop:** - Support expenditures tied to maintaining the family, particular under-age children **Challenge. no. 4** *"Act for the health and well-being of all, particularly through healthy and sustainable diets and agriculture"* **French priorities:** - Allow all individuals to have access to facilitated and structured health care, in particular vulnerable people and foreign nationals (through State Medical Aid) - Achieve 100% universal healthcare coverage - Improve the French health care system and combat territorial inequalities (2018 – 2022 national health strategy through the "priority prevention" national health care plan and the "2022 My Health" transformation plan) - Develop health prevention plans and generalise access to health information - Respond to occupational health challenges, mental health and psychiatry road map - Strengthen coordination between health care players thanks to regional health professional communities.

[11] This threshold is already achieved in France. This more generally targets reducing the maternal mortality rate.

1.4 Financing

Social security contributions

Workers accept a downward adjustment in the net compensation they receive which results from the withholding of Social Security contributions. These contributions guarantee coverage if certain social risks occur. **Contributions** grant entitlements **to compensation in the form of benefits** upon the occurrence of a social risk, subject to the insured-contributor meeting certain conditions. Social security contributions are **mandatory payments**, which historically were due as a result of professional activity.

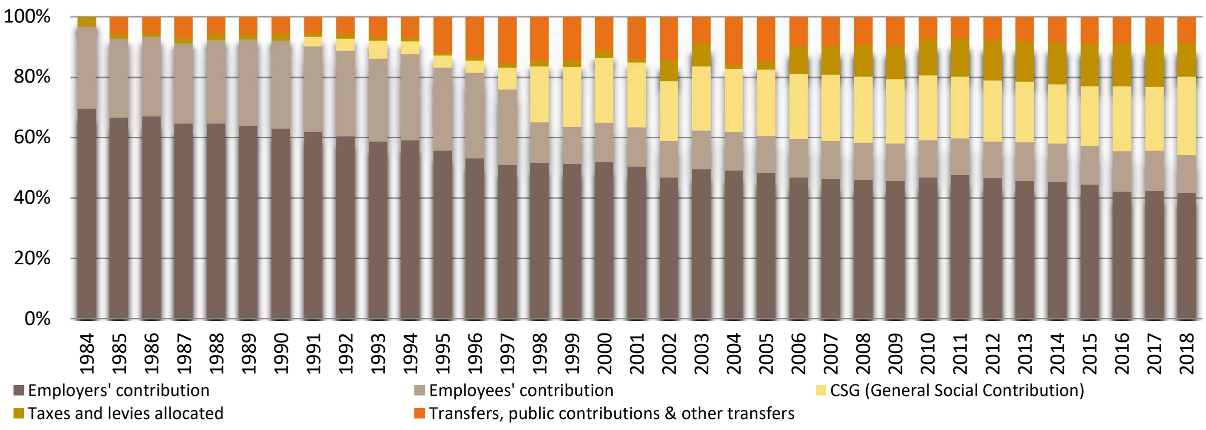
Historically, contributions were tied to the development of salaried employment in France. They were also created as payments **borne both by employers and by employees**. To a great extent, the right to cash benefits (pensions and other replacement income) is acquired through the previous exercise of an activity that is subject to contributions. Contributions later also concerned the self-employed, and subsequently individuals receiving replacement income (pensioners principally).

However, the share of contributions in total financing social protection has significantly decreased in France over the past 30 years, it was compensated by an increased share of taxes and levies: firstly, in order to **take into account the evolution and diversification of household income** (income from salaried employment and self-employment; replacement income; asset and investment income, etc.) **and to make social withholding more equitable**, all while the benefit of Social Security was extended to the entire population; and secondly, in order to **reduce social contributions arising from earned income** and to finance initiatives aimed at reducing employers' social security contributions developed in the context of employment policy.

Among these taxes and levies is, above all, **the general social contribution** (*contribution sociale géneralisée,* or CSG), which is based on all household revenues. **The CSG was created in 1990 and is allocated to social protection exclusively**. Some or all of the proceeds from already existing tax revenues were also allocated to the social domain (behaviour-based taxes on tobacco and alcohol, portion of VAT, etc.). These taxes and levies represent approximately 25% of the Social Security system's revenues.

While in 1990, social contributions represented close to 90% of the Social Security system's revenues, in 2018, these contributions accounted for only 60%. At the same time, the proportion of social contributions, taxes and levies increased from 3% to 30%. These two movements can be explained partly by the ramping up of the CSG, which replaced certain social contributions (in 2018, employee contributions to health and unemployment insurance were eliminated, in exchange for an increase in the CSG).

Figure 4: Structure of the general regime's revenues between 1983 to 2018



Source: Report, Social Security Account Commission

Social Security financing laws

This change in financing method was accompanied by a change in the regimes' financial governance rules, with the role of the State and Parliament being strengthened. Following a reform in 1996, the Parliament votes each year in the fall on a social security financing law (LFSS). The LFSS determines what conditions are necessary for the Social Security system to be financially balanced. The LFSS sets the spending objectives in light of forecasted revenues. However, the LFSSs are not of the same nature as the State's budget laws and do not have a legally binding budgetary scope, although they do serve as a tool for controlling expenditures (see description of ONDAM below) [12].

Financial independence

The independent financial organisation of the branches of the Social Security's general regime is a fundamental principle.

The French Central Social Security Administration (**Agence centrale des organismes de Sécurité sociale (ACOSS)**, which manages the network of Social Contribution Collection Bodies (Unions de Recouvrement des cotisations de Sécurité sociale et d'Allocations Familiale (URSSAF)), **manages the cash pooling of the various branches belonging to the general regime**. ACOSS conducts individualised monitoring of the cash position of each branch, using an approach of financial neutrality. In this system, the surplus cash of one risk coverage branch can only finance the cash deficits of another branch.

Generally speaking, the key principles of public finance - unity, universality, annuality, non-earmaking, etc. - are not directly applicable to social finance. Throughout the history of the financing of the Social Security system, there has been a will to understand **not the precise situation of the Social Security system as a whole but rather that of each of its essential components** (illness, elderly , workplace accidents/occupational disease, family), unlike the case with the State, to which a budgetary universality principle applies ("overall revenues finance overall expenditures", there is no earmaking between a specific tax and a specific expenditure). In light of the systematic matching of strictly identified revenues and expenditures with risk, the Social Security system makes it possible to assess surpluses or deficits specific to each expenditure sector. It is this rationale that underpins the way funds raised by the regimes are allocated (see the section on "fund allocation" in Part II of this document).

1.5 The origin of the deficits

When Social Security was founded in 1945, it had been planned that the system would balance itself and not incur debt, as it was intended to **finance current expenditures and not investments**. Up until 1970, financing for social protection expenditures was carried out without there being any impact on the level of public debt.

The appearance of social debt

Increased **unemployment** beginning at the end of the 1970s **pressurised the social account balance**. **In this context, the 1993 economic recession led to incurring social debt (17 billion euros**). Subsequent economic crises (early 2003, 2008-2009) led to an increase in social debt and to its being taken over and repaid by CADES.

A special structure, CADES, was thus created in 1996 in order to carry this debt, obtain the necessary financing on the financial markets and to repay borrowings through allocated revenues, such that the **debt is isolated within a dedicated structure and financed by specific levies.**

The social debt was principally created by deficits within the **health insurance and old-age branches.**

In parallel, significant efforts were made to control expenditures, notably through the national health insurance expenditures objective (*objectif national des dépenses d'assurance maladie*, or ONDAM) [13].

Expenditure determinants

Benefits (i.e., expenditures) evolve according to three principal factors:

- **Trend evolutions in beneficiary populations** (e.g., the number of unemployed workers or pensioners)
- **Legal mechanisms that annually reassess benefit scales**;
- **Reforms or legislative and regulatory measures** (changes in medical rates and fees, family policy reform, changes in unemployment compensation rules, etc.).

[12] More specifically, article 34 of the French constitution provides that Social Security funding laws "determine the general conditions of [Social Security's] financial balance and, in light of revenue forecasts, sets its spending objectives, as provided for and subject to the reservations contemplated by an organic law". The LFSS does not authorise the collection of revenues – it forecasts the amount of these revenues and can modify them.

[13] Created in 1996 as a part of the LFSS, ODAM is an expenditure objective that is not to be exceeded (even though health insurance does not have any cap on expenditures) in terms of non-hospital and hospital care rendered in private or public institutions, as well as in socio-medical centres.

Sensitivity of revenue to economic activity

In the short term, revenues are **sensitive to changes in employment and wages** (sensitivity to the economic situation, the wage bill in particular).

This sensitivity leads to volatility in the Social Security's account balance, which is offset, however, by the general stability in Social Security expenditures (which is not the case of unemployment insurance expenditures, which are very sensitive to the economic context and add to the account balance's volatility).

COVID-19 crisis

The following was observed in the context of Covid-19 crisis:

- **A decrease in revenues, due first to the postponement of contribution instalments**, some of which may not be ultimately collected as a result of company defaults, and to the cancellation of contributions provided for by law;
- **Lost revenues tied to a shrinking assessment basis for social contributions** (increased unemployment, recourse to the wage subsidy programme (*chômage partiel*), increased wage restraint, etc.);
- **An increase in ONDAM expenditures**, through the increase in the French Public Health Agency's (Santé Publique France) budget for the purpose of restoring strategic product inventories, paying bonuses to the staff of public health institutions, such as old-age homes (EHPAD), and the rise in daily illness allowances extended to individuals who had to look after their children.

These key factors explain the system's anticipated deficits over the next three years. The scale of these deficits as well the impossibility of absorbing them in the short-term without jeopardising the economic recovery justified the transfer of CADES' debt as voted on in August 2020.

2. CADES' mission and role

2.1 Articles & missions

La Caisse d'Amortissement de la Dette Sociale (CADES) is a public administrative agency that was created in January 1996[14] for the purpose of repaying social debt accumulated between 1994 and 1996. CADES is an **autonomous central government entity** and is one of the Social Security system's administrations (ASSO, "*administrations de Sécurité sociale*").

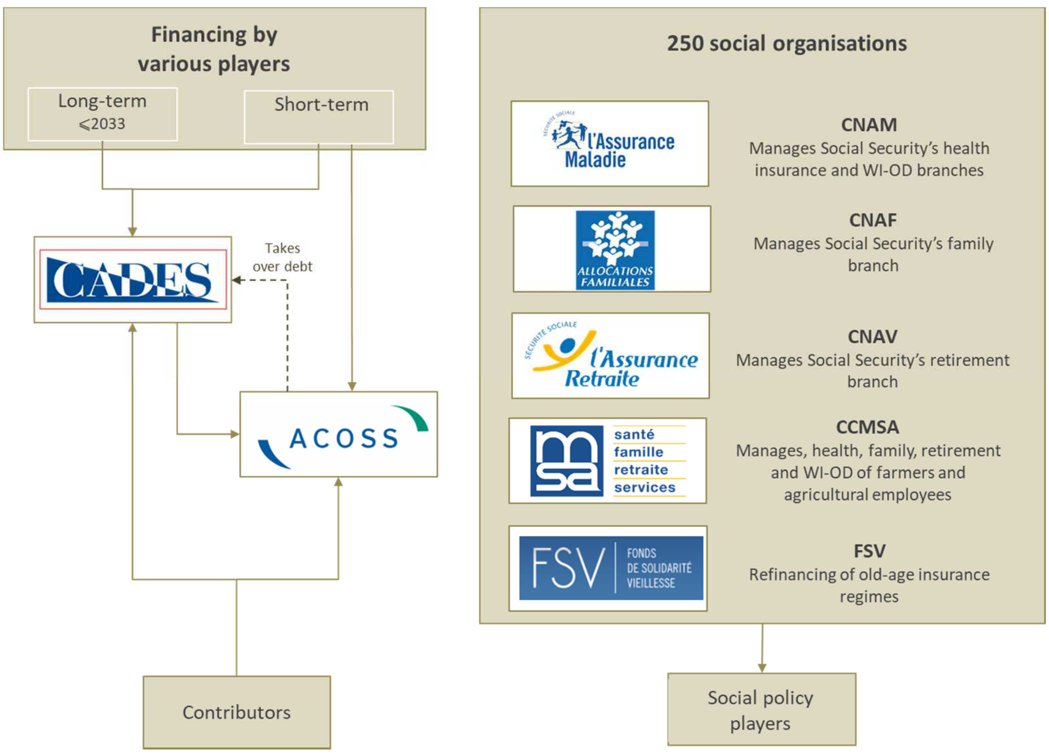
CADES contributes to **rebalancing social accounts**. Indeed, its mission is to **finance and amortise the accumulated debt of the Social Security system transferred to it by law**, and, exceptionally and from time to time beginning 2020, some of the debt of institutions involved in the public health service.

CADES was created to deconsolidate social debt from the State's negotiable debt (through the creation of a dedicated structure, consistent with the autonomy of social finances from the State's budget) in order to allow each contributor to the social security system to clearly identify that the monthly payment of the social security debt redemption contribution (*contribution pour le remboursement de la dette sociale* or CRDS) results from the accumulated debts of the Social Security system.

To carry out its missions, CADES obtains financing from the financial markets through a **wide range of instruments**, which it progressively repays using its own resources, including the CRDS, which was created specifically for this purpose, and a portion of the general social contribution (*contribution sociale généralisée*, or CSG). From its creation and up until 2019, 260.5 billion euros in social debt was transferred to CADES, which has reimbursed 171 billion euros as at the end of 2019.

Technically speaking, the debt taken over by CADES is initially carried by ACOSS. ACOSS manages the Social Security system's treasury and can, in the context of that management, have recourse to borrowings of less than one year.

Figure 5: Financing role of the various players



Source: CADES

[14] CADES was created by order no. 96-50 of 24th January 1996 relating to the repayment of social debt. This order was amended by law no. 2004-810 of 13th August 2004 and by law nos. 2020-991 and 2020-992 of 7th August 2020. See also decree no. 96-353 of 24th April 1996 relating to Caisse d'amortissement de la dette sociale.

2.2 Governance and operational organisation

CADES' operational organisation is consistent with that of financial institutions. It complies with strict separation between market activities ("front office") and post-market activities ("back-office"). It has an "Internal Controls and Risk Control" system. CADES' administrative management and transversal functions are managed by a general secretariat.

Joint supervision

CADES is jointly **supervised** by the Minister of the Economy, Finances and Recovery and by the Minister of Solidarity and Health, which appoint its management and closely control its activities.

Board of Directors

The Board of Directors attends to CADES' business. It decides on all issues relating to the agency's operation, and in particular its financing strategy, budget and half-year and annual accounts.

In addition to its Chairman[15], CADES' Board of Directors has 13 members, including the chairs of the boards of directors of the "Caisses nationales" and a representative of the supervisory board of the pensioner reserve fund (Fonds de Réserve pour les Retraites (FRR)).

Supervisory Board

The Supervisory Board, which is made up of members of Parliament (two senators and two deputies), the chairs of the "Caisses Nationales", qualified individuals and State representatives, issues an opinion on the agency's activity report. The Supervisory Board may be consulted by the Board of Directors on any matter.

Agence France Trésor (AFT)

A reform of CADES' organisation led to the mutualisation of CADES' operational services with those of the AFT, which is a department with national jurisdiction (*service à compétence nationale*) under the supervision of the Director General of the Treasury. CADES is maintained as an independent entity in order to guarantee the effectiveness of the social debt isolation principle, but the personnel assigned to CADES' operating missions are made available to AFT.

Control procedures

CADES has an **Audit Committee** which is responsible for monitoring the preparation of financial information (half-year and annual accounts), verifying the examination and effectiveness of internal controls and risk management systems and, finally, providing regular reports to the Board of Directors and, as the case may be, to the Supervisory Board.

The general controls applicable to CADES are similar to those of the State[16]. As such, CADES has an accounting officer and is subject to the control of the French state audit office (Cour des comptes). Responding to a request made by the Cour des comptes, CADES has had its accounts certified by a **statutory auditor** since 2016.

2.3 CADES' resources and financing

In order to properly carry out its mission, **CADES has available to it resources** that have evolved over time and in light of the social security financing laws. Its ability to repay the debts assigned to it is based on the creation at CADES' inception of **an exclusive and earmarked resource**: the CRDS.

CADES' resources are protected and secured. A 2010 decision of the Conseil constitutionnel[17] enshrined the fact that CADES benefits from earmarked, protected and insulated resources. The revenues allocated to CADES to pay off social debt must be stable and foreseeable and cover all household income. In addition, the allocated revenues must not result in creating or widening the deficit of the Social Security system's mandatory basic regimes.

CRDS

The social security debt redemption contribution (*contribution pour le remboursement de la dette sociale* or CRDS) was created in 1996 especially for CADES. The CRDS rate is 0.5% and is levied upon all earned and replacement income, asset and investment income and on the sales of precious metals and winnings from games of chance. Most of the income exempted

[15] Person selected due to his/her competencies, appointed upon the the joint proposal of the Minister of the Economy and Finances and the Ministers responsible for Social Security. The Chairman is Jean-Louis REY.

[16] Social Security is supervised by several control bodies, such as the ongoing legality and management quality control by the Social Security Directorate (DSS), control of management and account certification by the French state audit office (Cours de comptes), or still yet the controls, inspections and evaluations conducted by the Social Affairs General Inspectorate (Inspection générale des affaires sociales (IGAS)).

[17] Decision no. 2010-616 DC of 10 November 2010

from this tax is replacement income, including minimum welfare benefits and some types of solidarity allowances, which consist mainly of unemployment and pre-retirement benefits and disability and retirement pensions, when these are not liable to income tax.

CSG

The general social contribution (*contribution sociale généralisée* (CSG)) was created in 1991. Until 2008, the proceeds from the CSG were allocated between the Elderly Solidarity Fund (Fonds de solidarité vieillesse), the National Family Allowance Fund (Caisse nationale des allocations familiales), the basic health insurance regimes and the National Empowerment Solidarity Fund (Caisse nationale de solidarité pour l'autonomie). The CSG's assessment basis closely resembles that of the CRDS: it is principally based on earned income, but is also levied on replacement revenues, asset and investment income and winnings from games of chance.

In exchange for the assumption of a debt of 27 billion euros approved by Parliament in the 2009 Social Security financing law and in accordance with the organic law of 2 August 2005, a new resource corresponding to 0.2% of CSG was earmarked for CADES. Law no. 2010-1594 of 20 December 2010 increased the share of CSG earmarked for CADES to 0.48%. Finally, in the context of the rationalisation of allocated financing, law no. 2015-1702 of 21 December 2015 allocated an additional 0.12%, thereby increasing the contribution to 0.60%. Law no. 2020-992 extends this contribution starting in 2024, at the rate of 0.45%.

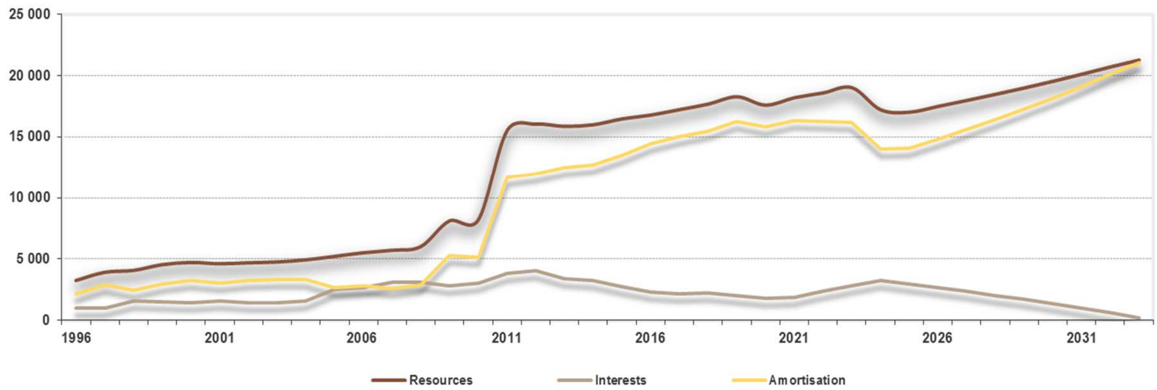
The annual payment by the Retirement Reserve Fund (Fonds de réserve pour les retraites)

The Retirement Reserve Fund (*Fonds de réserve pour les retraites (FRR))* was created in 1999 for the purpose of managing the financial reserves earmarked for supporting pension regimes through 2020. FRR was initially intended to pay for some of the expenses of the general regime and related regimes, in order to pay off the extra costs generated by "baby boom" generation pensions. Since the 2010 pensions reform[18], FFR must make annual payments of 2.1 billion euros to CADES until 2024, i.e., an aggregate payment of 29.4 billion euros. Law no. 2020-992 extends this payment, in an amount of 1.45 billion euros per year, starting in 2025 and up until 2033.

Allocation of resources between amortisation and interest

As recourse to the market is not intended to finance interest, resources may be allocated between the payment of interest and the amortisation of transferred debt (see figure 9 below).

Figure 6: Allocation of resources between amortisation and interest



Source CADES

[18] In the framework of the balancing of the financing of pensions reform, the 2011 Social Security financing law (no. 2010-1594 of 20 December 2010) provided for an annual payment of 2.1 billion euros from 2011 to 2024.

Financing strategy

CADES obtains financing from the financial markets through a wide range of instruments, which it progressively repays using its own resources.

CADES' financing strategy must enable it to have constant access to liquidity under the best financial terms possible. Financing is principally carried out through the issuance of instruments on the capital markets. The strategy is therefore based on CADES' credit-worthiness and on the optimal diversification of its sources of financing.

Financing principles

CADES' Board of Directors, which is responsible for the financial strategy and issuance programme, applies the following financing principles:

- Minimising CADES' financing costs, notably through the priority given to financing through the capital markets;
- Recourse to diverse instruments and markets, given in particular the significant size of the transactions, with foreign currency funding offering very attractive financing opportunities in this regard and allowing pressure on the euro markets to be relieved;
- The positioning of CADES' signature among the **best sovereign or quasi-sovereign signatures**.

Long-term bond financings provide a great degree of flexibility in using a wide variety of products, maturities and currencies. This flexibility allows CADES to adapt itself to investors' needs and to avoid disrupting the market.

Issuances of bonds and similar instruments are carried out through a **borrowing programme** approved by the Minister of the Economy and Finances. CADES is also a major player in the **international short-term papers/ commercial papers market**. This diversity in sources of financing constitutes a safety guarantee in terms of access to liquidity and contributes to establishing creditworthiness. CADES' decision to carry out social bond issuances is part of this diversification approach.

Thus, CADES' financing transactions are initiated with the sole objective of guaranteeing a credible signature: respond to investors' expectations, ensure impeccable execution, optimal visibility and high liquidity. The debt structure reflects the choices made by CADES over the past years in the context of its issuance policy. On a transitional basis, each new debt assumption transaction requires significant cash to be rapidly mobilised, and therefore an increase in short-term debt (essentially in the form of commercial paper). This commercial paper is progressively refinanced by medium- and long-term debt (essentially in the form of bonds).

2.4 CADES' solvency and liquidity

CADES' solvency and liquidity are guaranteed by law.

Article 7 of the 1996 order thus provides that "if CADES' annual revenue and expenditure forecasts with respect to the remaining term of the period for which it was created show that it is not in a position to meet all of its commitments, the Government shall submit to the Parliament the measures that are necessary to ensure that principal and interest is paid when due."

The State is ultimately responsible for CADES' solvency. Rehabilitation and court order liquidation proceedings do not apply to a public agency and, if it is dissolved, any assets and liabilities will be transferred to the collective body that created it (in the case of CADES, the French State).

The law also allows the State to ensure CADES' liquidity. Agence France Trésor is thus authorised by the budget law (law no. 2019-1479) to purchase negotiable Short term bills (NeuCP) issued by CADES.

Ratings

Finally, CADES is rated by two international ratings agencies which are selected by a call for tenders.

CADES' long-term and short-term debt are rated Aa2 and P-1 (stable outlook) by Moody's France S.A.S. (28 April 2020) and AA and F1+ (negative outlook) by Fitch Ratings Ireland Limited (23 May 2020), respectively.

2.5 History of debt transferred between 1996 and 2020

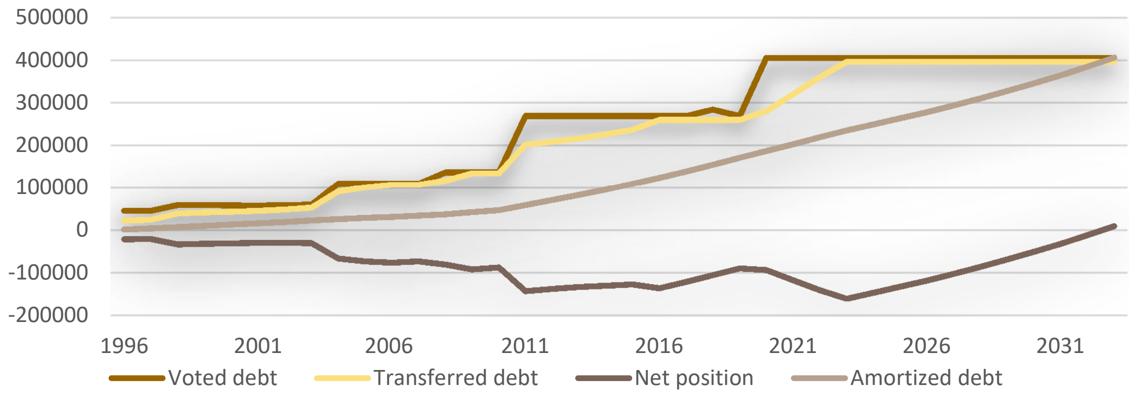
Social debt has been transferred to CADES on several occasions, without there being any predefined schedule. The last transfer was voted on in August 2020 subsequent to the Covid-19 crisis. Before that crisis, CADES was on track to extinguish transferred debt by 2024.

Figure 7: CADES' assumption of debt between 1996 and 2020 (bn€)

	1996	1998	2003	2004	2005	2006	2007	2008	2009	2011	2012	2013	2014	2015	2016	2020	Total
General regime FSV*	20.9	13.3		35.0	6.6	5.7	-0.1	10	17	65.3	6.6	7.7	10	10	23.6	20	251.6
State	23.4																23.4
CANAM**	0.5																0.5
FOREC scope***			1,3	1,1													2.4
CCMSA****										2,5							2.5
Total	44.7	13.3	1.3	36.1	6.6	5.7	-0.1	10	17	67.8	6.6	7.7	10	10	23.6	20	280.3

Note: Negative amounts correspond to regulations of the amounts of assumed deficits favouring CADES.
* Elderly Solidarity Fund (Fonds de solidarité vieillesse (FSV))
** National Health Insurance Fund For Independent Professions (Caisse Nationale d'Assurance Maladie des professions indépendantes)
*** Financing Fund for the Reform of Employer Contributions (Fonds de financement de la réforme des cotisations patronales (FOREC))
**** Central Agricultural Social Mutual Fund (Caisse centrale de mutualité sociale agricole (CCMSA))
Source: Appendix no. 8 of the 2020 draft social security financing law. Available here.

Figure 8: Evolution voted, assumed and amortised debt



Source CADES

In 2020, due in particular to the lock-down measures necessary for containing the pandemic, the pre-existing deficits of the Social Security system's general regime grew, requiring a new progressive transfer of debt to CADES in the amount of 136 billion euros.

The 2020 laws relating to social debt and empowerment

The organic law preamble relating to social debt and empowerment[19] underscores that the health crisis tied to Covid-19 weighed heavily on social finances due to the significant decline in the wage bill, which constitutes the principal assessment basis for social contributions. The crisis led to payment extensions for social contributions and, to a more limited extent, the cancellation of certain social contributions in order to support business affected by the impacts of the lock-down. The crisis also led to an increase in health insurance spending. As a result, with ACOSS's financing needs having grown considerably and due to a significant increase in deficits, the debt of the Social Security system's mandatory regimes is also expected to increase from 2020 onwards.

[19] Draft organic law relating to social debt and empowerment

In this context, in order to ensure the sustainability of the social protection system, lawmakers desired that both accrued and future debt be amortised by CADES. Article 1 of the organic law therefore delays the date by which the social debt is to be repaid (which in 2019 CADES estimated to be 2024) to 31 December 2033. The ordinary law which was adopted by Parliament at the same time organises new debt transfers in an amount that is expected to reach 136 billion euros.

The new amortisation horizon thus determined for CADES also makes it possible to reassess the resources allocated to it in light of the new repayment date. The portion of CSG allocated to the fund will stand at 0.45% starting in 2024, while FRR's annual payment will amount to 1.450 billion commencing 2025.

CADES' assumption of 136 billion euros in social debt as provided for by the ordinary law is broken down as follows:

Table 3: The transfer of debt to CADES voted in 2020

Debts	Details	Amount
Previously recognised deficits in respect of 2019 and prior years	Deficits accumulated as of 31 December 2019 by the illness branch, Fonds de solidarité vieillesse (FSV), the retirement branch of the regime applicable to self-employed farm workers and the pension regime of the Caisse nationale de retraite des agents des collectivités locales (CNRACL)	**31 billion euros** Breakdown: Carried by ACOSS: - 16.2 billion euros for health insurance; - 9.9 billion euros for FSV; Others: - 3.5 billion euros for the old-age branch for self-employed farm workers; - 1.2 billion for CNRACL.
Assumption of debt from institutions that are part of the public hospital service	Coverage for borrowings taken out by public health institutions up until 31 December 2019[20]	Assumption of debt cannot exceed **13 billion euros** Payments will begin in 2021
Provisions in anticipation of deficits in respect of 2020 to 2023	Forecasted deficits of all general regime branches, with the exception of the "workplace accident-occupational disease" branch, FSV and the elderly branch of the self-employed farm worker regime	Within the limit of a provisional cap of **92 billion euros** Breakdown: - The 2020 deficit of Social Security's mandatory regimes - The deficits of the following three years

Source: 2020 laws relating to social debt and empowerment

2.6 Summary: The key role played by CADES

CADES is playing a key role in the current crisis by:

- Allowing, through its assumption of debt, the Social Security system's accounts balance to be restored. During the crisis, the assumption of debts contributes to the Social Security system's **financial viability and to maintaining the benefits it provides**, which are crucial to limiting the pandemic's health and economic impacts. Post-crisis, the isolation of the crisis's financial impact within CADES promotes the clear and comprehensible objective of a return to balanced accounts for the Social Security system.
- Guaranteeing, through the mobilisation of resources between 2025 and 2033, that this debt is amortised in a spirit of **financial responsibility** (and in the medium term, in order to not jeopardise the economic recovery with burdensome levies, but quickly enough so that it does not weigh upon future generations) and **solidarity** (since it is endowed with diverse financial resources contributed by the population as a whole, given that the basis for CSG and CRDS is not limited to earned income but also replacement income – including pensions – and asset and investment income). The strength of this guarantee is illustrated by CADES' credit history which was, just before the crisis, on track to reach its repayment objective (even a bit in advance, as early as 2024, thanks in particular to the downward trend in rates).

[20] According to the Government, the aggregate outstanding borrowings amount to 30.2 billion euros, plus related financial expenses amounting to 8.6 billion euros. The allocation key among the various institutions must still be defined through a contractual framework between the regional health agencies and hospital institutions.

PART II:
CADES' SOCIAL BOND FRAMEWORK

1. The reasons for a social bond programme

The impact on public social budget caused by the health crisis linked to Covid-19, both in terms of revenues and spending, and the decision taken by lawmakers to, in order to ensure the sustainability of the system, organise a new, significant transfer of debt to CADES, constitute both an unprecedent context and the rationale for this social bond framework.

“New social debt” and the extension of CADES’ term in an unprecedented context

The Social Security system’s general regime went from being nearly financially balanced in 2019 (deficit of 0.4 billion euros in the general regime, excluding Fonds de solidarité veillesse (FSV)) to having a deficit in 2020 that is estimated to be more than 50 billion euros. While all branches have been impacted by the decline caused by the Covid-19 crisis, the illness branch has experienced the most spectacular deterioration (forecasted deficit of 31.1 billion euros in 2020), both in terms of revenues and spending (e.g., provisions for medical supplies’ purchases, bonuses and compensation for overtime hours worked by hospital staff, screening tests).

The system’s architecture and financial and operational sustainability are based on an allocation of roles, notably between CADES and ACOSS, with ACOSS being responsible for the Social Security system’s treasury and having a constraint in terms of the maturity of its borrowings (not to exceed 12 months). As discussed in section 2.5 above, a new debt transfer in the amount of 136 billion euros and the extension of CADES’ term by nine years were adopted by Parliament.

Reaffirmed transparency for renewed investor confidence

The crisis requires that CADES’ term be extended up until 2033 and will require significant issuances by CADES. In practical terms, these factors will require that the relationship of trust with investors be renewed. CADES believes that the transparency and pedagogy associated with the social bond format can respond to this need. This format may enable:

- **Renewing dialogue with investors**, by educating them about revenue dynamics, control over spending, what causes deficits and the amortisation of the social debt;
- **Illustrating the “helping hand”**, notably the power of the solidary mechanism and crisis buffer that Social Security serves, and its re-distributive effects (redistribution among households, between territories; between generations, among the employed and persons not working).

This bond framework was drafted in accordance with the *Social Bond Principles* published by the ICMA (2020 edition).

CADES undertakes to follow best market practices and to comply with the Social Bond Principle’s four key principles

- Use of proceeds;
- Selection and evaluation process;
- Proceeds management;
- Reporting.

2. Use of proceeds

The proceeds of CADES social bonds issuances will be allocated to financing and/or refinancing the previous, current, future deficits of the various branches/regimes of the Social Security system. These deficits can be caused by either:

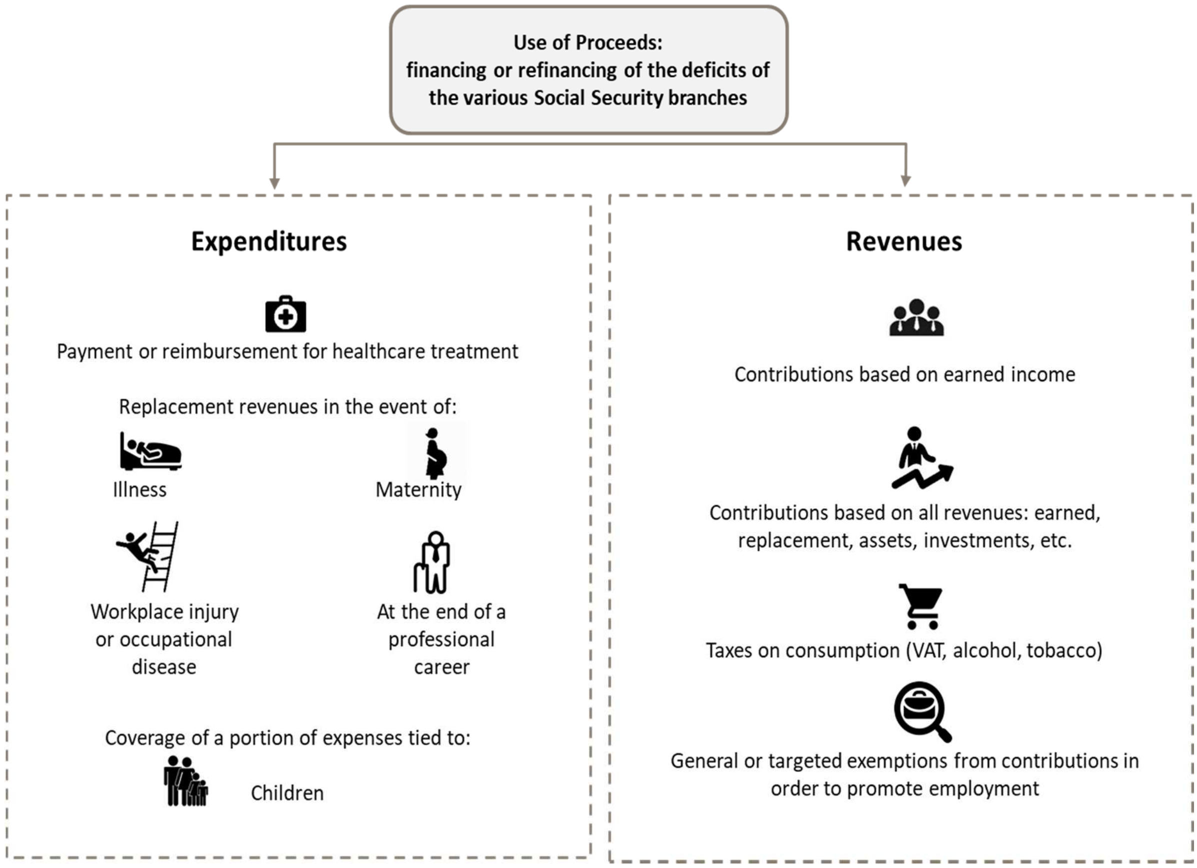
- **Decreased inflows** (as a result of the economic environment or due to deliberate decreases in revenues arising from the deferral of contributions or from exemptions aimed at supporting economic activity and employment).

And/or

- **Increased spendings** (caused by the materialisation of certain social risks, increased take-up of programmes and benefits, or still yet the expansion of entitlements).

The figure below presents a summary view of the use of proceeds categories. For a more detailed description, please see Table 4.

Figure 9: Summary use of proceeds



Source: CADES

Social Security guarantees the entire French population a high level of coverage against social risks. People living in poverty or whose health condition exposes them to high healthcare costs benefit in particular. Social Security benefits are universal in the sense that the entire population can take advantage of them, but their payment is conditional upon the actual materialisation of a social risk, i.e. an objective situation with specific criteria (recognition of an occupational illness or disability, a handicap, etc.).

As a result, in practice, the actual beneficiaries of the Social Security system are in most cases **people who are in a vulnerable situation** or who are no longer in working life (people who have suffered workplace injuries, individuals who are no longer of working age, sick people, etc.). The benefits paid by the various Social Security branches correspond to the ICMA's "access to essential services" (health and healthcare) and "individual empowerment" social bond eligible categories.

Table 4: Detailed use of proceeds

Eligible category for use of proceeds	**Branches**	**ICMA Social Bond Principles eligible categories & target populations**	**SDG**	**Expenditures** (Examples of cash or in-kind benefits)	**Revenues** (Principal determinants)
Financing and/or refinancing of the deficits of the various Social Security branches (Covering each of the general regime, Fonds de solidarité vieillesse and the special regimes)	**Illness**	**Access to essential services (health and healthcare)** *Target populations:* - Sick persons (including long-term afflictions) - Pregnant women - Large families or single parent families - Habitants of low density areas with a scant healthcare offering - Persons living under the poverty line		- Daily allowances in cases of illness, disability, workplace injuries, or occupational diseases - Partial or full reimbursement of healthcare treatment inside or outside hospitals - Partial or full payment for hospital stays - Compensation of lost revenues following an interruption in work due to pregnancy (maternity allowances) - Payment for mother and baby care	Decreases in revenues due to changes in employment and wages (economic environment elasticity, shrinking wage bill) - Contributions - CSG (based on earned income but also on replacement revenues, games of chance, and asset and investment income) - Other impacted contributions, taxes and levies - Social levies on capital income (real estate capital gains, dividends, life insurance savings accounts, in particular) - Deferred contribution payments that are never collected due to company defaults
	Workplace injury	**Socio-economic development** *Target populations:* - Persons suffering from workplace/occupational injuries		- Cash benefits tied to temporary or permanent work interruptions (temporary or permanent disability) - Compensation for harm suffered - Payment for treatment tied to occupational pathologies and compensation for harm suffered	
	Retirement	**Social inclusion & empowerment** *Target populations:* - Most elderly populations who are unable to work or widows/widowers		- Pensions paid to retirees (direct pensions) or to their spouses (widower's pension) - Dependence related benefits	Discretionary decrease in revenues caused by contribution exemption programmes - General (compensation at or about minimum wage) - Targeting certain populations (youth long-term unemployed) - Targeting geographic zones (overseas departments, free urban zones)
	Family	**Social inclusion & empowerment** *Target populations:* - Disabled persons - Youth that are not in school, employed or in training		- Expenditures tied to maintaining the family: ○ Child allowances ○ Benefits tied to childcare ○ Day-care costs	

Scope of eligible debts

This social bond framework will only apply to the financing and refinancing of the Social Security system's "new social debt" that is transferred to CADES starting in 2020.

For the sake of simplicity, clarity and proceeds allocation, "new social debt" is defined herein and limited to debt arising from **debt transfers adopted and effective starting in 2020 and relating to the deficits of the Social Security system's regimes/branches** (the transferred debt from institutions participating in the public hospital service is excluded). The actual amounts of the annual transfers will be defined annually by decree.

Thus, the debts that are eligible within the social bond framework are:

- **Deficits accrued as of 31 December 2019** (corresponding to the 2015 – 2019 period)

- **Deficits to come starting in 2020** (deficits for the 2020-2023 period which will in large part result from the direct and indirect consequences of the Covid-19 crisis; they will be reported at the beginning of year T+1 when the year T accounts of the social security regimes will be definitively closed).

The following debts are not eligible (and are therefore financed outside of the social bond framework):

- Hospital debt (issue of the reassignment exercise in view of the limits set by the look back period).
- Debts financing deficits from before 2015 (5-year anteriority).

CADES introduced an analytical principle of priority allocation of its resources for the 2020 – 2025 period (CSG, CRDS, FRR's annual payment) towards the amortisation of the oldest debt (1996 – 2015), up until the time such debts are totally repaid[21], with a deferral to Year T+1 if the resources exceed debt reaching maturity.

In addition :

- This framework will not apply to the refinancing of bond reaching maturity and that were issued anterior to its original publication (3rd September 2020)
- This framework is dedicated to the "new eligible social debt" starting September 2020.
- Under this framework, "refinancing" per say will only occur when a social bond issuance would refinance social bonds reaching maturity. In other words, the inaugural issuance and a number of the first issuances are to be considered as "financing" of the new social bond eligible social debt. At a later stage, social bonds issuances may occur to refinance the inaugural and/or first issuances which were used for financing.
- Lastly, the notion of look back present in this framework refers to the anteriority of the deficits financed and/or refinanced: the look back period is capped at 5 years, i.e. the "new social debt" eligible to this framework only refers to transfers of social security deficits post-2015.

3. Social deficit evaluation and selection

The selection of deficits that are eligible for financing/refinancing through the social bond framework is specifically defined by the law in article 1 of the ordinary law relating to social debt and empowerment no. 2020-992 dated 7 August 2020.

3.1 The Social Bond Committee

As part of the governance of the social bond programme, CADES created a **"Social Bond Committee"** in order to assess and approve the selection of the eligible social deficits of the various regimes, in light of the criteria defined in this framework document.

The Committee is made up of representatives from:

- The Caisse d'amortissement de la dette sociale (CADES - Agence France Trésor (AFT))
- The Public Policy Department (Service des Politiques Publiques (SPP)) of the General Directorate of the Treasury
- The Social Security Directorate (Direction de la Sécurité sociale (DSS))[22]

This Committee will meet at least twice per year and when the situation so requires.

The Committee will be responsible for:

- **Examining and approving the scope of eligible social debts** in view of the eligibility criteria presented in this framework document;
- Examining and approving **any modifications made to the framework document**;
- **Monitoring the annual mission of the external appraiser/auditor;**
- Examining and approving the **annual allocation and impact report** addressed to investors;
- **Monitoring developments in the social bond market** with respect to transparency/impact reports, in order to be aligned with best market practice.

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[21] The total debt that CADES still needed to amortise as of 31 December 2019 amounted to 89 billion euros (corresponding to the amount remaining to be paid out of the 260.5 billion euros of successive debt assumptions voted for between 1996 and 2011).

[22] DSS reports to the Ministry of Solidarity and Health, the Ministry of Labour, Employment and Integration and the Ministry of the Economy, Finances and Recovery. It designs and implements Social Security policies. DSS's fifth sub-directorate represents DSS on the Social Bond Committee.

In order to produce impact reports on the programmes or on the socio-economic situation, the Committee may rely on the work of the Haut Conseil du financement de la protection sociale (HCFiPS), the Direction de la recherche, des études, de l'évaluation et des statistiques (DREES), the École National Supérieure de Sécurité Sociale, the Inspection générale des affaires sociales (IGAS), France Stratégie, the Haut Conseil pour l'avenir de l'Assurance Maladie (HCAAM), the Haut Conseil pour la Famille, l'Enfance et l'Age (HCFEA), or the Conseil d'Orientation pour les Retraites (COR).

3.2 The mechanisms guaranteeing the system's integrity

CADES finances and/or refinances social deficits (see "Use of Proceeds"). It is subject to a set of controls (see Part I "Control procedures", page 15). However, as regards to the Social Security system, the steps necessary to guarantee the system's integrity, and in particular the efficient delivery on duty (mandatory social security contributions), the rights of insured-beneficiaries, and the control of implementation costs, are incumbent upon a variety of actors, and in particular the revenue collection network which is responsible for obtaining consent for mandatory social security contributions[23].

Effective targeting of benefits to help persons in need

The grant of social benefits is based on the **objective situations of the insured-beneficiaries** (e.g., having paid contributions, being incapable of working, etc.). Compliance with criteria that grant rights to entitlements is essential to guaranteeing the **efficacy of entitlements, reaching target populations** (particularly the most fragile populations) and to combatting low take-up of benefits due to lack of information, access or because of social barriers. This ambition is also addressed by simplifying procedures (one-stop shops) and improved information ("benefits meeting"), and is at the heart of commitment no. 4 of the national strategy for preventing and combatting poverty: "Towards social rights that are more accessible, equitable and that incentivise work."

Combatting revenue and benefits fraud

The fight against benefits fraud and social contribution fraud principally takes place through controls and inspections, outside reports by partners in the social sphere and other players (the courts, polices, consulates, etc.), suspicious transaction reports in the case of social benefits, where these matters are examined by TRACFIN.

This fight has been a major priority of the public authorities for close to 15 years. For this reason, during that period and to an even greater extent over the past two years, **the resources for combatting fraud have been strengthened, modernised and structured**. These resources include the legal arsenal made available to the relevant actors, numerous legislative and regulatory measures (for example, the law of 23rd October 2018 relating to combatting fraud and the law of 10th August 2018 for a State at the service of a society worthy of confidence), increased and automated transmittals of secured data among administrations[24], or still yet the development of internal control systems.

To continue along this path, discussions with the Social Security Directorate (Direction de la Sécurité Sociale) were initiated in early 2020. It led to an inter-ministry mission named the "inter-departmental anti-fraud coordination mission", which is responsible for monitoring the proper coordination of the partners working to combat public finance fraud, whether as regards mandatory tax levies, social security levies, other public entity revenues or even social benefits.

Cost control

First, cost control is based on the Social Security financing laws, which contribute – via a steering system that is based on the branches' balances – to the objective of balance and fully repaying social debt. The search for the branches' equilibrium is also reflected in measures relating to both spending and revenues. Finally, the financial management enabled by the Social Security financing laws is based on reliable financial data: macro-economic assumptions are submitted to the High Council of Public Finance (Haut Conseil des Finances Publiques) for its opinion, differences between forecasts and actual figures are explained each year, the formalisation of this data into actual rights constitutes a guarantee of accuracy.

The implementation of cost controls results notably in management objective agreements entered into between the State and the "caisses nationales" belonging to the general regime, and which define, for at least four years, a strategy and objectives specific to each branch. The attainment of these objectives is measured through concrete commitments and thanks to performance indicators. The management objective agreements also define the multi-year evolution trajectories for the budgetary resources associated with each branch's management costs. The current generation of management objective agreements, which cover the 2018-2022 period, are built around objectives pertaining to increased productivity and improving service quality. The vehicles for achieving these objectives are digital development, mutualisation of activities between "caisses nationales" and reinforced management.

[23] See Part I, "Financial autonomy of the collection network and ACOSS".
[24] For example so that the social security organisations have access to certain databases belonging to the Ministry of the Interior in order to verify compliance with conditions tied to the legality of an alien's presence in France, or so that social security organisations can send one other more regularly and in a more secure way results from controls that permitted fraud to be detected

4. Management of proceeds

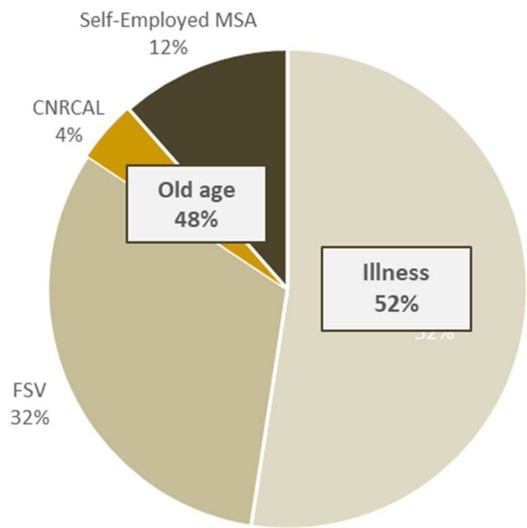
The proceeds raised in the context of each social bond issuance will be managed by CADES. An amount equivalent to the proceeds raised will be allocated to the financing and/or refinancing of deficits identified as being eligible under the social eligibility criteria presented in "Use of Proceeds" of this framework document and specified each year by the Social Security funding law.

The Social Bond Committee will monitor of the allocation of the proceeds raised and approve each year the earmarking of the proceeds raised to the eligible deficits of the various regimes.

CADES has adopted an intra-branch earmarking agreement ("**eligible sub-categories**"): the allocation of proceeds from medium- and long-term social bond issuances will be allocated among the branches pro rata to the deficits that are actually transferred year after year, as defined in the Social Security financing law. These allocation keys will be determined when the 2020 – 2023 deficits per branch are definitively reported (Social Security financing law T+2).

For example, issue proceeds that will be allocated to the financing/refinancing of the eligible social debt relative to 2015-2019 social deficits described in article 1 of the ordinary law relating to social debt and empowerment dated 7th August 2020 will be broken down as follows:

Figure 10: Breakdown of allocated funds



CADES will endeavour to allocate the funds raised to eligible social deficits within no more than 24 months after each issuance.

The proceeds raised will be paid into CADES' general treasury. While awaiting allocation, the unallocated issuance proceeds will be held in cash, in the Treasury Single Account (deposit account held at Banque de France).

5. Reporting

CADES undertakes to publish an annual report on the allocation of proceeds raised through the social bond issuances and on impact indicators, at least until the proceeds have been fully allocated and also in the event of a subsequent significant change in allocation.

The allocation and impact reports will be submitted to the Social Bonds Committee for review and approval. Up until the proceeds are fully allocated, the allocation reports will be audited annually by an external auditor selected by CADES. The assurance report from the auditor will be integrated to the annual reporting.

5.1 Allocation report

CADES undertakes to make the allocation of proceeds public.

The allocation report will be prepared annually and will use a "portfolio approach" pursuant to the earmarking agreement described on page 26, and in light of the systemic nature of CADES' involvement and the unique eligible category for the use of proceeds represented by "financing and/or refinancing of the deficits transferred from Social Security".

An indicative list of indictors is detailed below:

- The aggregate amount of proceeds allocated to date
- The proportion of financing versus refinancing
- The aggregate amount of proceeds awaiting allocation
- The breakdown of proceeds allocated to deficits by eligible sub-categories, and by underlying branch

5.2 Impact report

Principles of the impact report

CADES' social bond reports will apply the following principles and formats:

- **Differentiation by branch or regime**
- **Non-prorating of indicators:** indeed, prorating indicators would be artificial, due to:
  - CADES' systemic role in the architecture of Social Security in France
  - The nature of certain indicators, which cannot be broken down for the purpose of attributing "shares of impact" to deficit amounts. For example, the "household out-of-pocket amounts for healthcare treatments" or "vaccination rate" cannot be split up
- **Use of the most recent data** (the most recent data contained in the PQE[25] (see below on the use of PQE) will be provided, sometimes in year T-1 when available, but this will vary depending on the frequency at which indicators are calculated)
- **Inclusion of long series in order to track the long-term evolution of the indicators** (history of at least 15 years for most indictors), explanations in the event of changes in methodology
- **Inclusion of graphs, tables and maps** (use of geographical data for subjects relating to inequalities between territories and the reduction of disparities)

[25] The Quality and Efficiency Programmes (PQE) are budgetary documents that present on a yearly basis the objectives pursued by Social Security and the progress made. See hereafter for a detailed presentation of the use of PQEs in the impact reports.

Principal resources for the impact report

Quality and Efficiency Programmes (*Programmes de qualité et d'efficience*, or PQE)

Article L0111-4 of the French Social Security Code provides for quality and efficiency programmes (*programmes de qualité et d'efficience, or PQE*) relating to expenditures and revenues attached to the draft Social Security financing law.

There are six PQEs, which cover illness, family, retirement, workplace accidents and occupational diseases, disability and financing[26].

The PQEs allow the performance of Social Security policies to be measured and to measure these policies' impact on the living standards of the French population. Through the monitoring of 159 indicators[27], the PQEs help the Parliament, the various social protection actors and, later on, investors in CADES' social bonds, to assess the ability of health and social policies to reconcile:

- The alignment of benefits with the need for protecting against risks of existence; and
- The viability of the resources that finance those benefits.

The annual production of the six PQEs is carried out under **the responsibility of the Social Security Directorate** (Direction de la Sécurité Sociale) within the framework of the process of drafting proposed Social Security funding laws (LFFS), by involving the social ministry's principal "professional" administrations, statistics departments, the national Social Security organisation funds and other social policy stakeholders (CMU Fund, CNSA, GIP Union Retraite).

The principal factors assessed by the PQEs are:

- **Appropriateness:** Do the Social Security policies reach the target populations (the persons most exposed to the risks they seek to address), is compensation appropriate in view of the need?
- **Quality:** Are the benefits/allowances adapted to the diversity of expectations, and do they allow access to quality services – support, social, health, etc.?
- **Effectiveness**: Does the Social Security system provide incentives that are likely to ensure adequate take-up of services?
- **Sustainability**: Do the resources of each branch permit sustainable financing of benefits?

Each branch's PQEs include **diagnosis elements concerning Social Security policies and their context, the anticipated impact, objectives and the means for attaining them,** and summarise the **principal results obtained**. They specify what actions were implemented in order to continue or influence these results.

For example, the programme relating to the retirement risk includes the number of pensioners and the benefits paid to these persons, while the programme relating to illness tracks indicators such as the number of persons covered or the territorial distribution of treatment offerings. (See table 5 for a sample of indictors that will potentially be included in the impact reports).

Indicators for national tracking of sustainable development goals

Starting in 2015, France launched a project aimed at appropriating the SDG in order to define **a set of major indicators that are adapted to its national priorities and specificities**, which allow, via statistical data, the French public policies that contribute to the SDGs to be monitored.

At the end of a consultation carried out under the auspices of the National Statistical Information Council (Conseil national de l'Information Statistique (CNIS)), a **panel of 98 indicators** constituting the national framework for monitoring France's progress in achieving the 17 SDGs was proposed in mid-2018. Some of these 98 indicators may from time to time be used to provide information for CADES' social bond impact reports, in addition to the PQE.

Report structure

Context and situation section

- Presentation of the **macro-economic situation, the situation of public finances and of social finances**
- Presentation of the **various regimes' balances** (surplus or deficit) and of their **determining factors, both in terms of revenues and expenditures** in N-1
- **Amounts of debt transferred to CADES** and breakdown by branch (final amounts regularised in N+2)

[26] Data, graphs and maps may be downloaded online using the following link: https://www.securite-sociale.fr/medias/mediatheque
[27] The qualities sought for these indicators are the following: ease of interpretation, technical reliability, adaptability and ease of review, non-modifiable nature, comparability on an international scale, manageable production cost, balance between various dimensions

- Overview of CADES' various outstanding social bond issuances (by maturity, currency, etc.)

CADES' systemic impact

Information on CADES' impact on the Social Security system's viability and the redistributive nature of its repayment mechanisms will be provided.

The report will include a presentation of the **service provided and role played** by CADES in the system's architecture:

- Amount of debt assumed by CADES and amount that remains to be paid
- Breakdown of CADES' resources in T-1
- Annual repayments and interest paid by CADES (in billions of euros)
- Amortisation of social debt
- Debt structure and instrument diversity (distribution by currency, distribution of outstanding amount by rate-type, i.e., variable, fixed, indexed, fixed-rate share of indebtedness, inflation-indexed bonds, short-term issuances)
- Evolution of CADES' financing rate (variation of the weighted average rate applicable to its outstanding borrowings)

CADES' indirect but undeniable social impact

The report will include a presentation of the impact of the various regimes on the measurement of the programmes' effects on beneficiaries' income and living standards.

Highlighting of the objectives and resources deployed by each branch:

- **Reminder of the goals being pursued** (e.g., for the illness branch, ensuring equal access to care, developing prevention, improving the quality of care)
- **Context indicators** (e.g., for illness, the principal causes of mortality, life expectancy by socio-professional category and living standard)
- **"Output" indicators relating to the number of beneficiaries, the services provided or the human resources allocated** (persons covered, benefit amounts, e.g., for illness, "Medical and non-medical personnel headcount in health care facilities", "health care spending per habitant")
- **Impact indicators** (of results and performance) including final and comprehensive indicators centred on the impact Social Security programmes have on **beneficiaries' actual situations** and on their living conditions. For example, for illness: "Giving up treatment over the past 12 months for financial reasons: gap between the bottom 20% of the poorest individuals and the overall population", "Rate of participation in organised screening for breast cancer in women aged between 50 and 74 years old". The multi-year results and trajectories will be mentioned, along with the targets for coming years to the extent they exist.
- **Presentation of the latest reforms and measures** adopted since the last report over the year in progress, and contributing to reaching the goals being pursued (e.g., *Ségur de la santé* measures).

From time to time, a **thematic discussion** will be included in order to highlight a particular subject, due for example to its timeliness or because of investor expectations (e.g., childhood poverty, contribution of family allowances to reducing inequalities).

Table 5: Examples of indicators drawn from PQEs that may supply information for future impact reports

BRANCH	GOALS PURSUED	CONTEXT AND OUTPUT INDICATORS	"GOALS-RESULTS" IMPACT INDICATORS
RETIREMENT	• Ensuring a decent living standard for pensioners and guarantee solidarity among pensioners • Improving the insureds' knowledge about their retirement rights • Progressively increasing time worked and increase employment of older workers	• Pensioners in all regimes • Evolution in the proportion of older persons in the French population • Share of retirement benefits in GDP • Average retirement age & length of insurance necessary for retirement at the full benefit amount (number of quarters required)	• Median living standard of pensioners compared to the active population • Percentage of pensioners whose standard of living is below the poverty line • Employment rate of persons between 55-69 years of age • Male/female pension level gap
ILLNESS	• Ensuring equal access to health treatment, notably financial but also territorially (territorial distribution of treatment offering) • Improve the population's health and life expectancy (through the development of prevention) • Strengthen the efficiency of the healthcare system and develop medical controls over spending	• Healthcare expenditures per habitant (distribution between consumption of treatment and medical goods, hospital care, non-hospital care, medical transport, drugs) • Average reimbursable consumption per habitant, of non-hospital care by age (visits and consultations, dental fees, laboratory, drugs, etc.) • Average annual costs broken down by general spending items, for various pathologies and evolution over a long period	• Out-of-pocket healthcare costs per household and corresponding effort rate (by living standard decile) • Childhood and pensioner poverty rate • Treatment needs not satisfied for financial reasons (entire population and the bottom 20% of the poorest) • Flu vaccine coverage rate • Ambulatory surgery rate • Omni-practitioner doctor and specialist density per 100,000 habitants • Time necessary to access emergency care
FAMILY	• Contribute to the financial compensation of expenditures of households • Further help the most vulnerable families (single parent families in particular, which are particularly exposed to poverty) • Promoting a dynamic natality • Promoting finding a work-life balance	• Benefits paid • Family allowances • Allowances aimed at childcare • Other family allowances • Housing allowance • Employment rates of women aged between 20 to 64 • Number of births and fecundity index	• Benefits paid by living standard decile • Capacity of greeting children less than 3 years old on a full-time basis per 100 children (a significant number of which from priority neighbourhoods) • Change in living standard gaps (before/after transfers)

WORKPLACE INJURY / OCCUPATIONAL ILLNESS	• Reducing the frequency and severity of workplace injuries, commuting accidents and occupational illnesses • Improving the recognition of Workplace Injuries / occupational illnesses, and the fairness of compensation	• Breakdown by item of legal compensation (temporary, permanent disability, care, asbestos victims) • Breakdown of work accidents by sector of activity • Occupational illnesses by pathology	• Number of working days lost per 1000 hours worked • Average rate of incapacity due to accidents and illnesses resulting in permanent incapacity • Index of work accidents and occupational illnesses' severity

Source: Quality and Efficiency Programmes (Programmes de qualité et d'efficience (PQE))

6. External verification

6.1 Second opinion (pre-issuance)

CADES has selected Vigéo Eiris as the Second Party Opinion provider to assess transparency, governance and the compliance of this social bond framework with the ICMA's 2020 Social Bond Principles. The results of this assessment are included in a Second Party Opinion which is available on and may be downloaded from CADES' website.

This social bond framework may be amended from time to time, in accordance with best market practices. Any material changes made to this document will be submitted to the review of the supplier of the Second Party Opinion.

6.2 Post issuance verification

Up until the proceeds are fully allocated, an independent auditor will verify the following information annually:

- Allocation of proceeds to eligible debts.

Compliance of expenditures financed by the proceeds raised with the criteria defined in the "Use of Proceeds" and "Funds Management" sections of the social bond framework. The auditor's testimony will be included in the annual reporting.