

CREDIT ANALYSIS

November 10, 2015

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RATINGS

Agence Centrale des Organismes de Sécurité Sociale

	Foreign Currency	Local Currency
ST rating	P-1	P-1
Outlook	NOO	NOO

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Agence Centrale des Organismes de Sécurité Sociale

The Prime-1 short-term rating of Agence Centrale des Organismes de Sécurité Sociale (ACOSS) reflects its strong links with the central government as demonstrated by its status as a national public administration institution (établissement public administratif or EPA) since its creation. ACOSS is specifically responsible for managing cash flows related to the national funds of France's general social security system (SSS). It benefits from a high degree of oversight from the state and has demonstrated good cash-flow management to date.

Moody's Public Sector Europe (MPSE) does not assign a baseline credit assessment (BCA) to ACOSS because it believes that it should be analysed as part of the central government to reflect the high level of government involvement in its operations and governance, as well as its critical public service role.

Any change in ACOSS's EPA status or any reversal in its long-term financial balance by allowing its deficits to continue to rise without securing appropriate and timely funding would be a credit-negative factor.

This Credit Analysis provides an in-depth discussion of credit rating(s) for Agence Centrale des Organismes de Sécurité Sociale and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on [Moody's website](#).

Issuer Profile

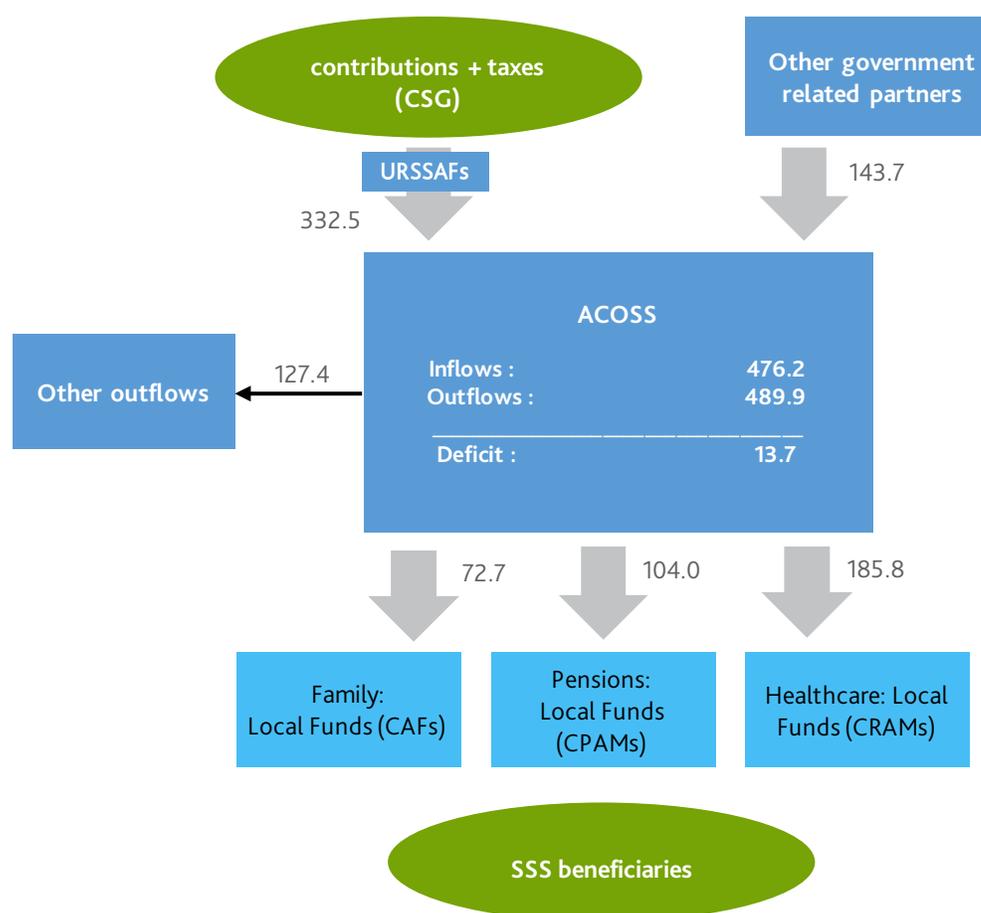
ACOSS was created in 1967 with the specific purpose of managing the centralised cash flows related to France's general social security system (see Figure 1).

ACOSS is responsible for transferring adequate cash flows to each local social security agency in charge of providing allowances and benefits related to specific social risks.¹ Its revenues, largely composed of contributions levied on the income of public and private employers as well as tax receipts dedicated to social security funding,² amounted to €459.6 billion in 2013 and to €476.2 billion in 2014 (+3.6% year-over-year). The contributions are collected by a decentralised network of social security collectors (URSSAFs)³ over which ACOSS has legal and financial supervision. Given that social security expenses have usually exceeded revenues, ACOSS has historically recorded deficits which have been financed with short-term instruments. Aggregated deficits have been reduced on several occasions through transfers to Caisse d'Amortissement de la Dette Sociale (CADES, Aa2/P-1), an administrative agency whose sole purpose is to assume and redeem French social debt.

EXHIBIT 1

Cash Flow Channels of the French Social Security System

(2014, € billion)



Source: ACOSS, MPSE

¹ The general social security system regime (*Régime Général de la Sécurité Sociale*) provides insurance for risks arising from healthcare, pension plans, industrial accidents and work-related illness and family allowances.

² Taxes largely consist of the *Contribution Sociale Généralisée* (CSG).

³ URSSAF: *Union de Recouvrement des cotisations de Sécurité Sociale et d'Allocations Familiales*.

Special Topic

France's "Responsibility and Solidarity Pact for Growth and Employment": Implications for ACOSS

In 2014, the French President announced a number of measures to promote employment and the country's growth and competitiveness. The initial plan represented a total of €50 billion savings over the 2015-17 period. In April 2015, in the 2015-18 Stability Programme, this initial plan was complemented with an additional €4 billion savings to be implemented as early as 2015. As a result, over the 2015-17 period, corrective measures related to the social security system are expected to represent a total €22 billion in savings.

The social security financing law project for 2016 (PLFSS for *Projet De Loi De Financement de la Sécurité Sociale*) presented on 24 September 2015 forecasts the social security deficit at €12.8 billion in 2015 and €9.7 billion in 2016, decreasing from €13.2 billion in 2014. In comparison, the PLFSS for 2015, anticipated deficits at €13.4 billion and €10.3 billion in 2015 and 2016, respectively. Regarding the system's financial equilibrium, it is now scheduled to be reached after 2019 in the 2016 PLFSS.

Key Rating Factors

Institutional Framework

ACOSS benefits from a high degree of supervision from the central government...

ACOSS operates under the dual oversight of the Ministry of Health and the Ministry of Economy and Finance. This oversight includes: (i) the appointment of ACOSS's executive director by the central government; (ii) the requirement that every board decision be approved by the two supervising ministers, who also have the power to call a meeting of the board; (iii) permanent government representation on the board of administrators; and (iv) daily reporting by ACOSS on its cash position and liquidity forecasts to the central government, which also organises monthly meetings on cash management.

Furthermore, ACOSS is subject to the public-sector accounting system and budgetary rules. As a result, collection and disbursements must be carried out by a government accountant under the control of the French Court of Audit (*Cour des Comptes*). MPSE therefore notes that the role of the central government in ACOSS's management is not only embedded in law but also results in active oversight.

...which ensures it has access to suitable funding mechanisms...

In the general social security budget law (*Loi de Financement de la Sécurité Sociale*, or LFSS), the government sets an annual limit (*plafond de ressources non permanentes*) on the maximum outstanding short-term debt ACOSS can have⁴. The government has shown greater flexibility in adjusting these limits in a timely fashion in times of growing social security deficits. ACOSS benefits from a convention with a state-owned financial institution (*Caisse des Dépôts et Consignations* or CDC, rated Aa2/Prime-1) which gives it access to credit facilities. ACOSS also uses several short-term debt programmes (*Billets de Trésorerie* and *Commercial Papers*) to cover its annual deficits.

...and ensures ACOSS's long-term sustainability through the transfer of its deficits to CADES

CADES (rated Aa2/Prime-1) was created by the central government in 1996 with the specific purpose of redeeming French public debt arising from deficits accumulated by the country's SSS. It is thus designed to borrow long term in order to cover ACOSS's accumulated deficits. Between 1996 and 2015, debts transferred from ACOSS to CADES amounted to €231.4 billion (see Exhibit 2). Since 2012, ACOSS transfers its short-term funded deficits to CADES (for a long term financing) on a yearly basis. These transfers are currently limited to €10 billion per year and a total of €62 billion over the 2011-18 period. So far, €34.3 billion have been transferred to CADES between 2012 and 2015, of which €10.0 billion in 2015 (maximum allowed).

However, the new 2016 PLFSS provides for the removal of the €10 billion annual limit and the possibility to anticipate transfers in 2016 from ACOSS to CADES for an amount of €23.6 billion. This measure reflects the low interest rate environment which will allow CADES to minimise its financing costs. The transfer will significantly reduce ACOSS's accumulated deficit, while maintaining CADES deadline to repay the social debt (currently set for 2024).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

⁴ This limit is set at €36.3 billion for 2015

EXHIBIT 2

Debt transfers from ACOSS to CADES

(€ billion)

1996	20.8	Deficits accumulated by the Social Security System (SSS) in 1994 and 1995, and the forecast deficit for 1996
1996	23.4	Deficits accumulated by SSS in 1994 which were assumed by the State and had to be reimbursed by CADES to the State through operating transfers
1998	13.3	Deficits accumulated by SSS in 1997 and forecast deficit for 1998
2004	35.0	Deficits accumulated by Healthcare branch of SSS in 2003 and forecast healthcare deficit for 2004
2005	6.6	Deficits accumulated by Healthcare branch of SSS in 2005 adjusted by overpayment made by CADES in 2004
2006	5.7	Forecast healthcare deficit for 2006
2008	10.0	Healthcare branch and Solidarity Pension Fund (Fonds de Solidarité Vieillesse or FSV) accumulated deficit at year-end 2008
2009	17.0	
2011	65.3	Deficits accumulated by SSS in 2009 and 2010, and the forecast deficit of the Healthcare branch and the Family branch in 2011
2012	6.6	Deficits accumulated by the SSS's Pensions branch over the 2011-2018 period
2013	7.7	Deficits accumulated by the SSS's Pensions branch over the 2011-2018 period
2014	6.0	Deficits accumulated by the SSS in 2013 (old age branch and FSV)
	4.0	Deficits accumulated by the SSS in 2012 (healthcare branch)
2015	5.3	Deficits accumulated by the SSS (old age branch and FSV) in 2014
	2.2	Deficits accumulated by the SSS (healthcare branch) in 2012
	2.5	Deficits accumulated by the SSS (family branch) in 2012 and 2013

MPSE notes positively that France's Finance Act for 2011 reaffirmed the central government's ability to buy securities issued by EPAs. The Public Debt Fund (Caisse de la Dette Publique or CDP), a state agency with a remit to "perform any operation contributing to enhancing the creditworthiness of the State" and the French Treasury Agency (Agence Française du Trésor or AFT), in charge of French public debt management, are seen as efficient instruments to intervene and support ACOSS in case of need.

Financial Performance**ACOSS's cash flows reflect the sustained deficits of the social security system...**

ACOSS's cash flows traditionally reflect the annual deficits incurred by the healthcare and pension branches of the social security system. In the period 1996-2009, ACOSS's cash position experienced occasional improvements consequent to the transfer of ACOSS's debt to CADES (See exhibit 3). In 2011, ACOSS's cash deficit significantly improved to €4.7 billion at year-end, given a lower gap between revenues and payments compared to 2010 and the significant transfers of debt to CADES.

EXHIBIT 3

ACOSS's Cash Flow

(€ billion)

	2010	2011	2012	2013	2014
Surplus (deficit) incurred during the year	-25.4	-20.5	-18.6	-15.0	-13.7
Debt transfers	0	65.3	6.6	7.7	10
of which transfer to CADES	0	65.3	6.6	7.7	10
of which transfer to central government	0	0	0	0	0
Accumulated deficits remaining in ACOSS balance sheet after debt transfers	-49.5	-4.7	-16.6	-23.9	-27.5

Source: MPSE, ACOSS

Since then, ACOSS has continued to incur yearly deficits, albeit decreasing ones, with a deficit incurred during the year of €13.7 billion in 2014, declining from €15 billion in 2013. Nevertheless, given that the debt transfer to CADES is capped at €10 billion per year, ACOSS's accumulated deficit continued to grow in 2014 to €27.5 billion, from €23.9 billion in 2013.

In 2015, ACOSS transferred another €10 billion to CADES, in line with the limit set by the social security financing law for 2011. In line with its latest projections, ACOSS expects an annual deficit of €12.4 billion in 2015. As a result, its accumulated deficit should grow by €2.4 billion by the end of the year, to €29.9 billion.

...but remain structurally predictable in the short term.

ACOSS's cash flows are relatively predictable during the year, although these are sensitive to changes in the economic cycle. We believe that the risk of sharp, unexpected cash swings within the year is relatively low given the following:

- » Expenditures are efficiently foreseen. Around 30% of the allowances bestowed in the general social security system are dedicated to pensions and follow demographic trends. The main variations in expenditures are related to healthcare benefits (around 50% of total allowances), but a committee examining variations in healthcare payments was created in 2004 and is responsible for alerting the government if expenses exceed initial annual forecasts by more than 0.75%.
- » Revenue contributions from the public sector are relatively predictable, while private contributions (57% of total contributions in 2014, collected by URSSAFs) move in line with macroeconomic trends. Changes in economic trends are unlikely to significantly impact ACOSS's cash balances before adjustments can be made because (i) changes in revenue tend to have an average time lag of two to three months; and (ii) volatility usually concentrates in January, following the implementation of new wage policies. Overall, these changes usually have a low impact on ACOSS's cash balances.

In addition, the centralisation of contributions is relatively secure due to (i) ACOSS's strong legal monitoring of URSSAFs; (ii) the diversity of the URSSAFs' banks and (iii) the creation of eight URSSAFs that are specialised in the collection of contributions from large companies, which account for nearly two-thirds of total URSSAF proceeds.

Debt and Liquidity

A diversified debt structure...

In order to fund its deficits, ACOSS uses various short-term financing means. It benefits from (i) credit facilities provided by the state-owned CDC (€10 billion, of which €6.0 billion were used at year-end 2014), (ii) a *Billets de Trésorerie* (BT) programme sized at €25 billion of which €16.2 billion were used at the end of 2014, and (iii) a Euro Commercial Paper (ECP) programme (sized at €20 billion of which €8.0 billion was used at year-end 2014).

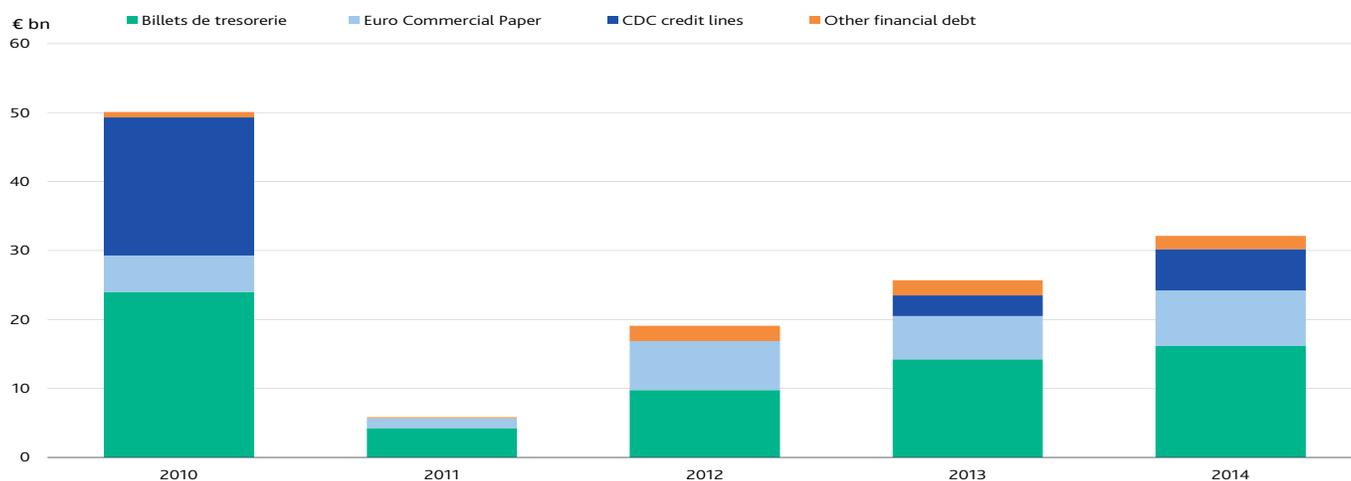
Financial conditions for CDC credit facilities are set in a multi-year agreement with ACOSS, renewed in December 2014 for 4 years. On top of the credit facilities of €10 billion which have a maturity between 3 and 12 months, ACOSS benefits from additional financing of €2.5 billion with a maturity of up to 6 days used to cover cash receipts and disbursements mismatches and €1.5 billion in the form of an overdraft facility (never used to-date) with a maturity of up to 24 hours.

ACOSS's BT and ECP programmes have been created to diversify its short-term funding base following increased borrowing requirements in recent years. On average in 2014, 72% of the BT was subscribed by public entities, including social security institutions and central government-related institutions. Among the two short-term programmes, the ECP programme, which is operated by the Agence France Trésor (AFT - French Treasury) on behalf of ACOSS⁵, has a longer maturity than the BT (average of 91 days in 2014 vs. 20 days for the BT).

⁵ The current mandate ends in February 2016

EXHIBIT 4

ACOSS financial debt 2010-2014



Source: ACOSS, MPSE

In 2015, ACOSS's financing needs are expected to stay under the deficit cap of €36.3 billion set by the government, with its BT and ECP programmes covering the majority of its financing needs. Nevertheless, we also note that the social security financing law for 2015 foresees the possibility of extending the limit to €40 billion through a special decree, if necessary.

...and efficient cash management performances

ACOSS complements good structural anticipation of cash flows with the implementation of policies aimed at improving its debt collection. This is illustrated by (i) a close monitoring of the uncollected debts' rate⁶; and (ii) the fact that ACOSS's cash management has been certified as ISO 9001⁷ since 2003.

We positively note that in 2014 ACOSS started to implement an integrated treasury system which will allow a better cash-flows centralisation going forward.

Governance and Management

The central government is the ultimate decision-maker with regard to ACOSS's institutional framework; MPSE notes that this results in ACOSS's management and organisational structure largely reflecting the government's influence. Management is carried out by a board of administrators, which comprises trade union and employer representatives drawn equally from the three major national funds of the general social security system (healthcare, family allowance and pensions) and government representatives from the supervising ministries (i.e. Ministry of Health and the Ministry of Economy and Finance).

Rating History

Agence Centrale des Organismes de Sécurité Sociale

Date	Rating
July 2010	P-1 to Euro Commercial Paper Programme
December 2006	P-1 to Billets de Trésorerie Programme

⁶ 2.15% of contributions were delayed or uncollected in 2014, compared to 2.29% in 2013.

⁷ The ISO 9001 requirements are meant to ensure desirable characteristics of products and services such as quality, safety and reliability.

Moody's Related Research

Credit Opinions:

- » [Agence Centrale des Organismes de Sécurité Sociale](#)
- » [France, Government of](#)
- » [Caisse d'Amortissement de la Dette Sociale \(CADES\)](#)

Credit Analyses:

- » [Caisse d'Amortissement de la Dette Sociale \(CADES\), July 2015](#)
- » [France, Government of, April 2015](#)

Rating Methodology:

- » [Government-Related Issuers: Methodology Update, July 2010 \(126031\)](#)

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