

Response of the French social security board concerning the consultation of the IPSAS Board on the information pertaining to the long-term sustainability of public finances

1/ The project presented by the IPSAS cannot be examined without recalling the context as to the operation and principles of French social security:

- **The basic principles of French social security** are set down in particular in Article L.111-1 of the French social security code according to which "the organisation of social security is based on the principle of national solidarity."

This objective falls in line with the principle of intergenerational equity, according to which each generation has rights and obligations with future generations. This principle would as such ensure that each generation retain the same level of resources as the previous generation and protect it in order to transmit it to the following generation.

Intergenerational equity is a fundamental notion in a PAYG pension system. This is now a key subject for all countries that are faced with the aging of the population.

In the commercial sector, past commitments including those implemented in the future, are considered for the seller, which leads to provision these commitments.

However, the objective of social policy is an equitable and intergenerational future productivity in all segments of the population. Indeed, the charges one year ahead are covered by the resources of that same year. There is no obligation for every generation of productive assets to monopolize for itself the resources resulting from his activities as security for costs arising from current and future needs of this generation.

In that sense, French social security is organised into schemes that are financed by **compulsory levies**. The very idea with these schemes is **financing present needs with the receipts from the period**.

The latest report of the compulsory levies board from November 2008 raises the question of the distribution of mandatory contributions amongst the generations, which reverts to the question of intergenerational equity, a notion that is increasingly brought up in economic and social policy debates, especially in assessing the issue of public debt. The link that exists between the sustainability of the main public policies and the distribution of the charge between generations is indeed a determining factor.

- **The setting up of a single chart of accounts** has several times raised the notion of provisioning. One of the issues with adaptation in terms of the General Chart of Accounts is the fact that the provisions concern only disbursement timing differences for which the organisation has a legal commitment in terms of the French social security code. As such, a

provision is made for services only for the amounts actually owed to the insured over the period preceding the closing date of the accounts, not for services due on a later date.

→The current concept of social security is based on financing current needs with current receipts and therefore taking only these actual needs into account on the balance sheet or income statement. Yet, items concerning sustainability must make it possible to obtain better visibility as to the stability and the risks of the current systems.

2/ Attention must be given to the expectations and needs of the decision makers in terms of accounting information:

In the private sector, the **users of this information** are investors, managers, employees, etc. In the public sector, the information concerns the citizens, electors and the users.

• Today, the information that is useful for social security in France does not depend on populating financial statements...

It is important to recall that only events with a short-term nature, exclusively related to rights that are granted over the period and which are not yet entirely known, appear in the annual financial statements (income statement, balance sheet, notes). The future situation has no purpose of being included in these statements, as future rights do not in any case form a commitment over this period. The legislation that applies in N+T is not necessarily that that applies in N. What has been set forth by one law can be undone by another. This position was exposed in the French response of July 2008 in the consultation paper on social benefits.

This facility of adjusting the rules corroborates the fact that this is not the case where a risk is incorporated by making a provision for it but rather information is produced in order to carry out the actions in order to anticipate and foresee this risk.

→The notion of provisioning entails taking the risk into account in the information produced by accounting, yet the needs of the decision makers are not of this order. Parliament needs information that allows adapted and required decisions to be made sufficiently upstream of the potential risk, and for citizens, information on this risk in order to accept a possible revision in the rules with the purpose of saving the system.

• ... but comes rather from the results of the work concerning the development of a conceptual framework, which is still missing today:

Currently, there is no conceptual framework that is proper to social security accounting standards. Yet the latter is substantially differentiated from the rest of the public sphere (State, local government entities) and these differences must be explained and justified.

This lack creates a problem in the context of certifying the accounts of social security entities which apply a set of rules which are of course adapted to their configuration but which at this stage are not formalised enough.

A great deal of work has been carried out since 1996 in order to draw up the accounts of the social security schemes according to the principle of rights observed. This work has first led to a harmonisation of the accounting standards without forgetting the basic elements in how social security operates (many transfer exchanges between schemes, the cash flow result which remains an important parameter in managing schemes, as well as displaying and publishing results).

As such, determining the generating events was based on the legal analysis of the rights of the socially insured parties and the entities within the limit of the information that is known in practice by the funds. This compatibility between a generating event based on the right and its practical application in terms of accounting remains one of the current main points for thought, with in particular the notion of whether or not to attach according to the reliability of the estimates produced.

All of these rules must undergo indispensable explanation efforts, and it is through this that developing a conceptual framework will make it possible to enlighten the producer of accounts, the controlling authority and the certifier as to the accounting methods used.

The conceptual framework establishes the basic concepts of financial information. Indeed, financial information is not an end in itself. It must provide the users of financial reports with pertinent information. The objectives of this information therefore have to be defined first of all according to the users' needs and for the French social security must be able to report on the operating of a system that is universal, mandatory and with solidarity, with high stakes on a financial level (more than the budget of the State) as well as in terms of impact (social security concerns each French citizen who will benefit in their existence from existing services).

→The need for developing a conceptual framework is important in light of the financial stakes as well as the general scope of the social security system. In this sense, the work performed by the IPSAS could form a base for thought that is useful for the French entities involved.

3 – A second level of information exists beyond the financial statements. It was built according to the needs of the two primary recipients which are Parliament and the citizens

Accounting in social security must make it possible to examine and to understand what has been done in terms of forecasts and to prepare the text to be put into application over the following period for the deployment of reforms that are needed to effectively maintain the system.

It is important to distinguish two types of reading:

Communication for the general public concerning the results for the year, for the purposes of information. This category of users can be qualified as the beneficiaries of the social security system.

Another communication for the Government and then for Parliament, more detailed, which for the moment focuses more on the results and is intended to allow for better steering of social finances, by analysing the actual period and the forecasts for the upcoming 3 periods.

• **The information already exists:**

➤ Chaired by the Ministers in charge of social security and assisted by a permanent general secretary, **the accounts commission (CCSS)** meets twice a year (spring and autumn) in order to present an analysis of the accounts of the basic mandatory schemes of social security for the past period. The second meeting is devoted to examining the accounts used as a framework for the draft law on the financing of social security.

The commission is provided with the accounts of the social security schemes drawn up for the prior year and the forecast drawn up for the current year and the following year from the competent departments of the ministries involved who attend the commission's sessions. The commission's reports are given to Parliament. The commission can create, within itself, working groups on determined themes, have experts of its choice participate in its work and entertain any audition that it deems as useful.

➤ The **laws concerning the financing of social security (LFSS)** determine the general conditions of its financial balance and, in light of their forecast for receipts, set its expenditure objectives, in the conditions and subject to the reserves provided by an organic law. The draft law is presented at the same time as the second report of the Accounts commission. It also contains several appendices (cf. infra) which provide targeted information (receipts, star measures, expenses, etc.).

➤ Defined and presented in the law, **the balance tables**, show per branch, the expenses, the income and the balance for all of the basic mandatory schemes, then the forecasts for receipts and the expense objectives over the same scope.

➤ There is also an **alert committee** which meets in June when health insurance expenses are increasing faster than the objective set forth by the law on the financing of social security (ONDAM). It suggests measures that will enable the situation to be re-established by law by the end of the year.

➤ Finally, **programmes for quality and efficiency (PQE)** which form an "objective-results" approach applied to social security policies and a structuring tool in order to determine the objectives and analyse the performance of the social security policies.

Steering and evaluating policies form a central axis in the modernisation of public action. As they commit each year public expenses reaching nearly a quarter of the national wealth, social security policies warrant that special attention be paid to their efficiency. To this effect, law makers wanted, during the reform in 2005 of the organic law concerning the laws on the financing of social security, to annex to the draft law on the financing of social security a document which presents the major objectives pursued by the social security policies and which measures the progress made towards these objectives. Six "programmes for quality and efficiency", covering the major social security policies – health insurance, repairs for industrial accidents and occupational diseases, retirement, family policy, financing social security, coverage for disabilities, handicap and dependence – comprise this appendix 1 of the draft law on the financing of social security for 2010.

This is not a new approach for social security, as it supplements the system of objectives, indicators and results implemented since 1996 in terms of management and services rendered to the users through the agreements on objectives and management signed by the State and the primary Social security funds, which are covered in appendix 2 of the draft law on financing social security for 2010.

The programmes for quality and efficiency have the ambition of globally assessing the final impact of the social security policies on the living conditions of the French. Such an approach, which is set apart from the approach at work in the annual performance projects, complies with the particularities of social security policies, for which the expenses are by nature estimates, and which are implemented by a plurality of stakeholders, making it difficult to identify the contributions of each one of them in the final results of these policies.

The programmes for quality and efficiency include a strategic presentation which recalls the objectives assigned to the social security policies, summarises the main results achieved, and specifies the actions implemented by the Government and the stakeholders in the social security system in order to continue or reorient these results. The progress made in terms of each of the objectives is then detailed by means of a set of 172 indicators, for which the selection is justified from a methodological standpoint. The "objectives/results" indicators are linked to a target that is quantified at a given timeframe or to a simple path of change that is deemed desirable.

The objectives that are retained strive to create a balance between the considerations as to accessibility for the French to the various social security systems, adequacy of the coverage in terms of the needs for social protection, efficiency in supplying the services, and **viability in terms of financing**.

Thanks to the quality of information that they contain, **the programmes for quality and efficiency make it possible to enrich the exchanges between the various** stakeholders who participate in defining and implementing social coverage policies. The Government, Parliament and the social partners can rely on the programmes to identify the orientation for progress for our social security system and the levers for action that are likely to make this progress. Administrative managers, whether administrations of the State or national social security entities, will find assistance here in order to improve the effectiveness of their interventions.

→Information available in a certain quantity and adapted to the needs already exists (CCSS, LFSS, PQE, etc.) and makes it possible to enlighten decision makers as to the orientations to retain. In this way, the public authorities involved do indeed have tools, outside of the accounting field strictly speaking, but which indeed provide support in making the most suitable decisions.

• Thought on this is continuing with the communication of additional information, also linked to the principle of sustainability:

➤Asset and liabilities tables

Beyond the information provided by the CCSS and the balance tables, which are result-oriented, it is planned to supplement the current aggregation framework of the social security accounts with the presentation of the assets and liabilities of all of the basic mandatory schemes as well as those that participate in financing them, in amortising their debt and in reserving receipts for their benefit.

The main interest in this exercise would be to clearly bring out the information that currently appears only sparsely: the cumulative total of deficits, the methods for financing them in the long term (by the CADES) and in the short term (via the non-permanent resources authorised in the LFSS).

This work is planned for the statements for the 2010 period and will as such supplement the information that has already been collected.

→The study of a new type of information does indeed demonstrate the taking into account by the authorities of the need to provide up-to-date elements that are adapted to the needs. The asset and liabilities tables extend the debate items on the balance sheet and as such will form a support which although it stems from the financial statements, will not be assimilated as justly simply accounting information in the strict sense. This approach also shows the need to produce items concerning sustainability that are separate and not globalised, based however on a scope that can be wider than that of financial statements, in particular all of the basic mandatory social security schemes.

4 – The approach seems to be somewhat different than that presented by the IPSAS:

The project as it is currently presented raises several questions concerning the global concept, the scope and the objectives targeted by this notion of sustainability.

• Two general comments on the concept of sustainability and its scope:

As demonstrated hereinabove, the production of a global document is not suited for social security. Indeed, social security is comprised of a set of branches and schemes, which each respond to specific objectives (retirement, health, family, etc.) and to various publics (employees, independent workers, farmers, etc.).

The management for all of these branches and schemes is not globalised, as each has its own specific legal texts and rules. If a piece of aggregate information can in certain cases be given (across all of the basic schemes or by branch), producing a single document, which integrates the financial statements, is not the approach required to meet the expectations of decision makers and to favour the steering of social finances.

In this sense, it is preferable to have an approach which can position above the financial statements (cf. point 2) and which can be ventilated as much as needed according to the different branches or schemes.

The current work on the sustainability for the French social security reconciles a scope by scheme and therefore by financial statements as well as a scope that goes beyond that of financial statements (that of the various basic mandatory schemes and other entities). In certain cases, a scope of information by risk can be useful (for retirement, in particular).

→This entails rather producing elements for sustainability than a report on sustainability. The scope for sustainability elements can be that of financial statements (elements for a branch or a scheme) but it may be wider (a set of schemes).

• **Comments pertaining to the 7 proposals of the IPSAS Board:**

1 – The presentation of the information on the sustainability must comply with the financial information objectives such as presented by the conceptual framework.

It is difficult to connect the objectives of the sustainability elements such as described hereinabove and such as they are fully useful for social security in France, too directly with the objectives provided for in the conceptual framework (pertinence, true and fair view, rapidity of publication, comprehension, comparability and auditability) in the sense that these two notions (conceptual framework and sustainability) do not depend on the same level.

Indeed, the conceptual framework processes accounting information and provides the rules for this accounting information. On the other hand, the elements concerning sustainability do not depend exclusively on accounting information and even if some elements stem from this (the balance tables or the asset and liabilities tables), the criteria and the objectives set forth by the conceptual framework cannot be systematically transposed. The true and fair view in particular remains a principle that is purely an accounting one, which cannot be set down as an objective for actions or thought on a more economic standpoint (PQE for example).

2 – The IPSAS directive should recommend that the information pertaining to the sustainability be presented either through additional statements, or in a literary report.

Although it is not desirable to impose one or the other of the presentations, it can however be useful to mention them as possibilities. Indeed, the reconciliation of these two proposals can end up being more pertinent by living the States with the free choice in terms of presentation according to the needs for additional statements (asset and liabilities tables, PQE indicators), summaries (balance tables) or a literary presentation (CCSS report).

3 – The IPSAS directive should set the rules per entity, and only provide recommendations for consolidated projections.

As indicated hereinabove, the elements concerning sustainability can be presented according to the scope of the financial statements but also according to a scope that goes beyond that of financial statements (that of the various basic mandatory schemes and other entities). In certain cases, a scope of information by risk can be useful (for retirement, in particular).

4 – The IPSAS directive should present recommendations on the indicators of sustainability (pertinence at the level of the entity, etc.)

Limiting the indicators in a way that is too precise in the directive can only reduce the initiatives of each State in meeting its own needs for information. The indicators chosen for France in its programmes for quality and efficiency were as such chosen after an analysis of the needs in the social security sectors. Recommending a reconciliation of these indicators at the level of an entity does not necessarily correspond to the expectations and needs of steering

for each State. Consequently, it is preferable to give freedom for assessment pertaining to this topic. At most, it can be specified in general that the indicators have to meet the criteria for pertinence in the chosen context, for comprehension and for readability for the decision maker.

5 – The IPSAS directive should recommend that the appendix present the deviances to the principle according to which the projections for sustainability are carried out, based on the policies in effect, the hypotheses retained in order to calculate the income, the primary elements of the public policies in effect.

No opposing that this information is presented in a document or in a report or as an appendix of the ad hoc tables.

6- The IPSAS directive should recommend that the appendix contain the number of years retained in the data projection, justification for this duration, the discount rates retained, etc.

No opposing that this information is presented in a document or in a report or as an appendix of the ad hoc tables.

7- The IPSAS directive should recommend that the projections must be prepared or updated within 5 years of the date of publication and that the date for preparing or for updating be indicated in the document.

It is further up to each entity to define its discount period.