



# MEDIA BRIEFING

*10 September, 2020*

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## RECORD SOCIAL SECURITY DEBT ASSUMPTION

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Existing deficits in the general social security system have been exacerbated by the health crisis

## **Objectives :**

- Relieve ACOSS of cash by transferring €136 billion in social security debts over 4 years
- Secure the financial position of the social security system

# Transfer of €136 billion and postponement of extinction to 2033 organised by two laws

## ORGANIC LAW

End date for repayment of social security debt extended from 2024 to 2033

Extension of resources to finance the transfer of social security debt

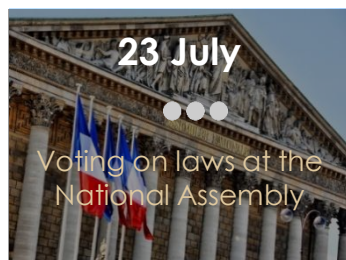
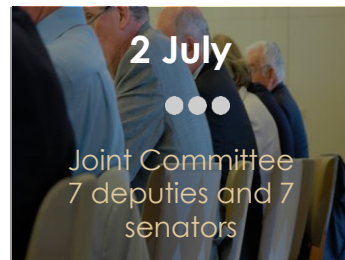
Any new transfer will be accompanied by an increase in revenue to contain the amortisation period to 2033



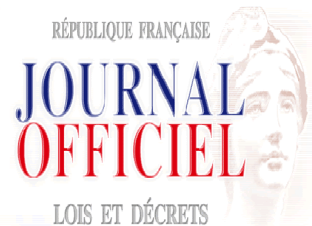
## ORDINARY LAW

CADES assumes 136 billion euros of debt

# An accelerated legislative procedure



**8 August**



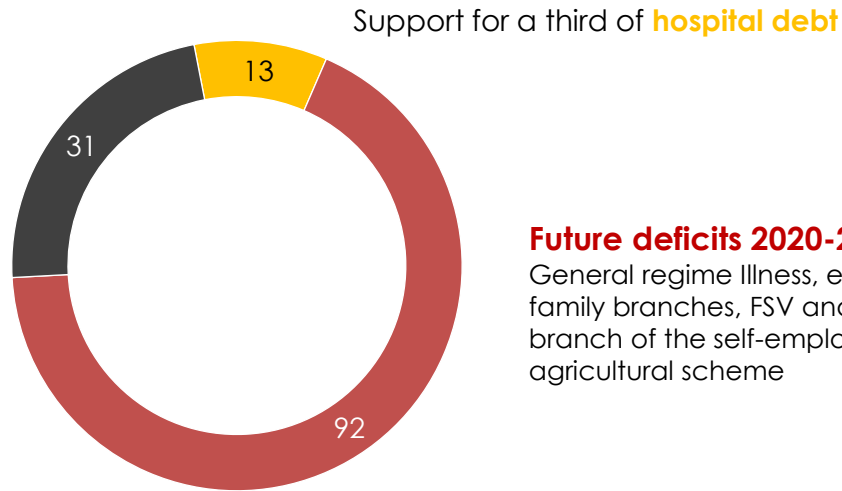
Publication in the  
Official Journal

# Refinancing past and future social security debts

- Breakdown of the €136 bn social security debt assumed by CADES (in €bn)

## Accumulated deficits at 31/12/2019

- Illness branch of the general scheme: 16.2
- Elderly solidarity fund: 9.9
- Elderly branch of the self-employed agricultural scheme: 3.6
- National pension fund for local and municipalities employees: 1.3



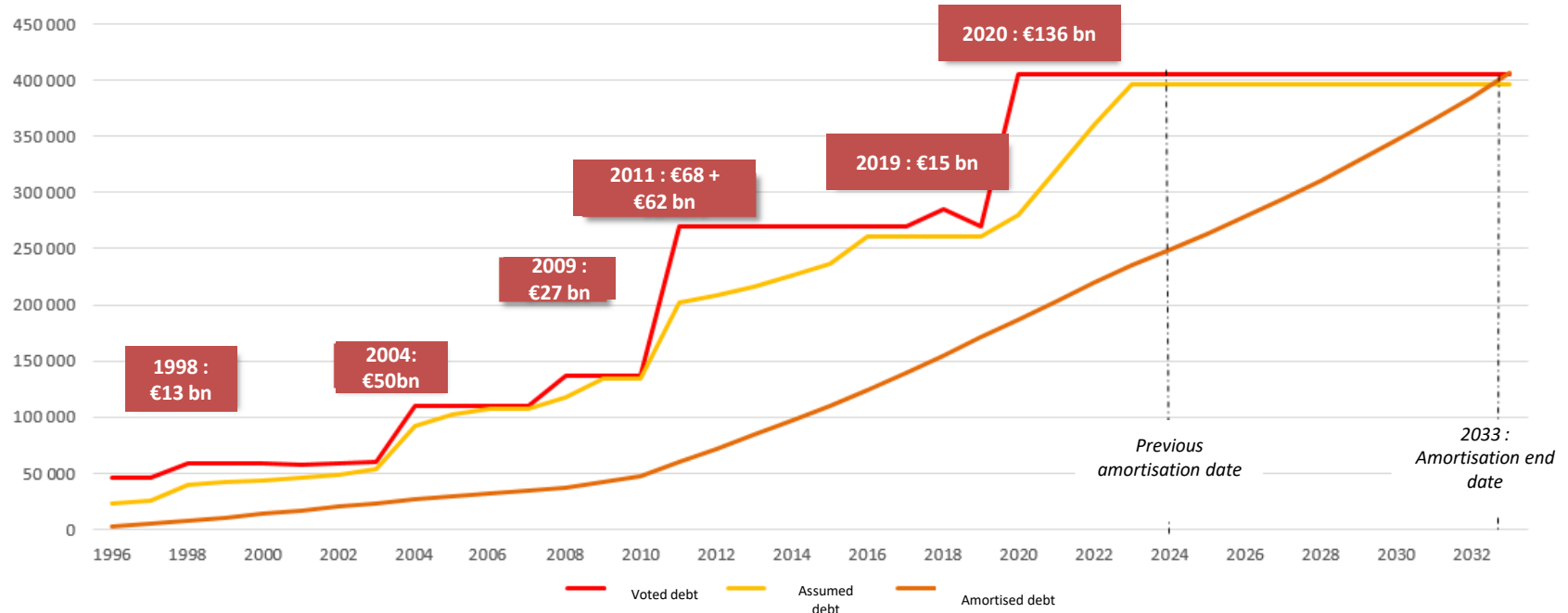
## Future deficits 2020-2023

General regime Illness, elderly and family branches, FSV and elderly branch of the self-employed agricultural scheme

Transfer of €20 billion from 2020 and a maximum of €40 billion per year from 2021 onwards

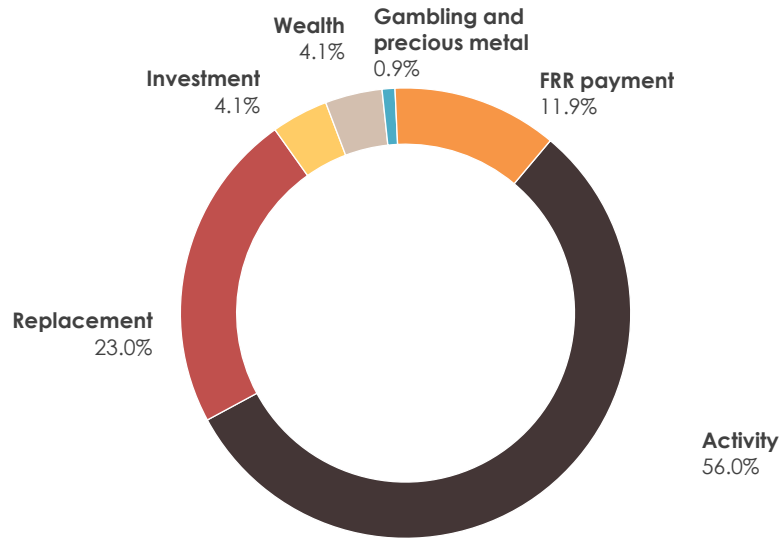
# The end date for repayment of the social security debt has been postponed to 2033

Evolution of the voted, assumed and amortized debt (in €m)





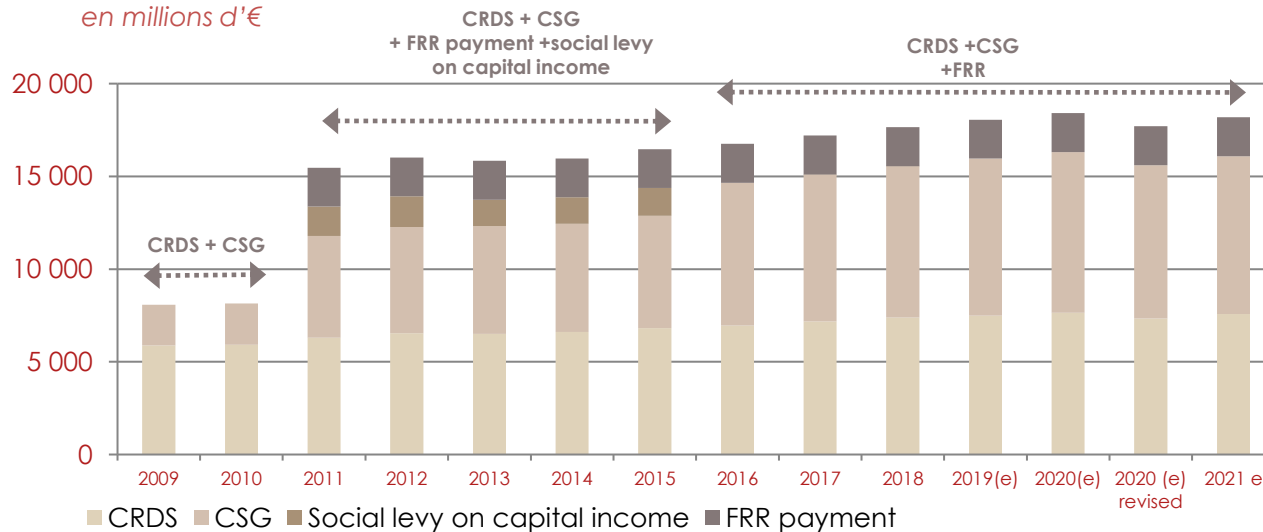
Breakdown of 2020e resources by nature



In %	2020e
Revenue from activity	56.0%
Revenue from capital	21.0%
Revenue from replacement	23.0%

# Impact of the health crisis on 2020 resources at the end of August

## Change in resources since 2004



- Solid resources mainly correlated with the evolution of the wage bill
- Revenue mainly based on income from activity that is less cyclical than financial income
- 2020 breakdown of the resource :
  - > CRDS (0.5%) € 7.3 bn
  - > CSG (0.6%: € 8.3 bn
  - > FRR: € 2.1 bn

**In 2020, estimated resources of €17.7 billion (compared with €18.4 billion initially)**

# Changes in resources from 2024

## ► Evolution of future resources

	Now	2024	From 2025
<b>CSG</b> (in bp)	0.6	0.45	0,45
<b>CRDS</b> (in bp)	0.5	0.5	0.5
<b>FRR</b> (in €bn)	2.1	2.1	1.45



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**2020 : ADDITIONAL FUNDING OF €20 BN**

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# A two-stage financing plan

In 2020

*following a successful €4bn  
programme in H1 2020*

**€ 20 bn**  
*in H2 2020*

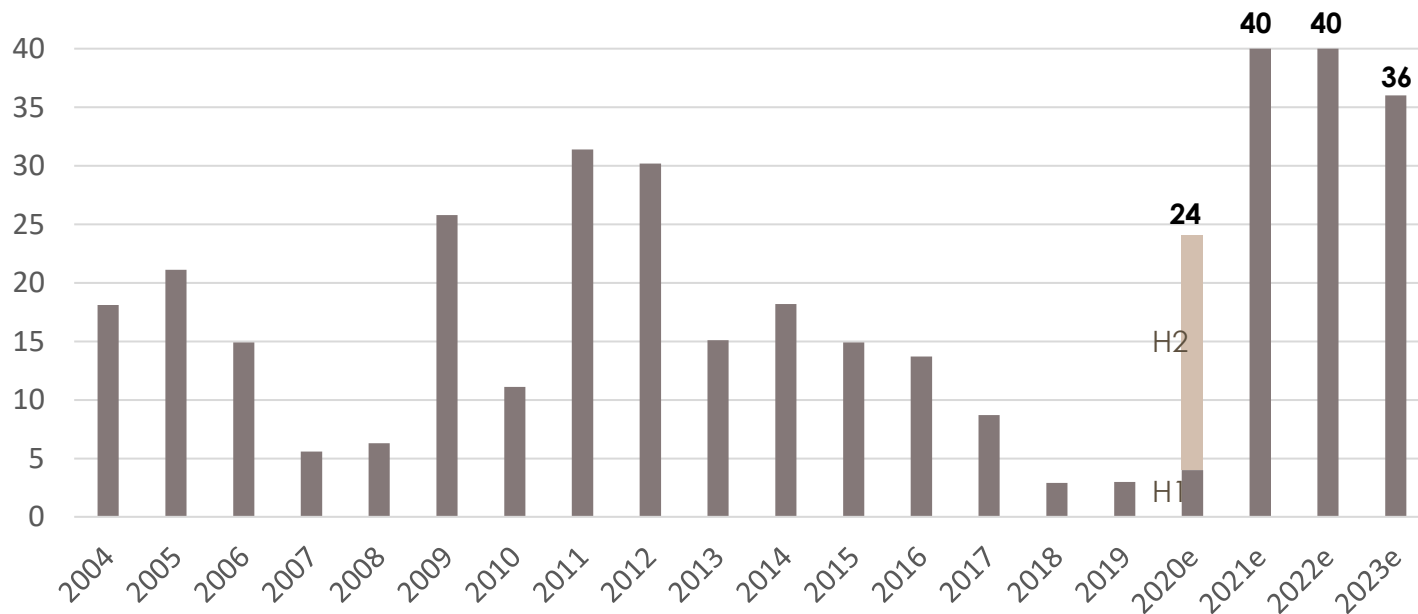
Between 2021 and 2023

*A maximum of*  
**€116 bn**  
*i.e. a maximum of €40bn/year*



# CADES back among Europe's leading debt issuers

- Comparative trends in financing programmes since 2004

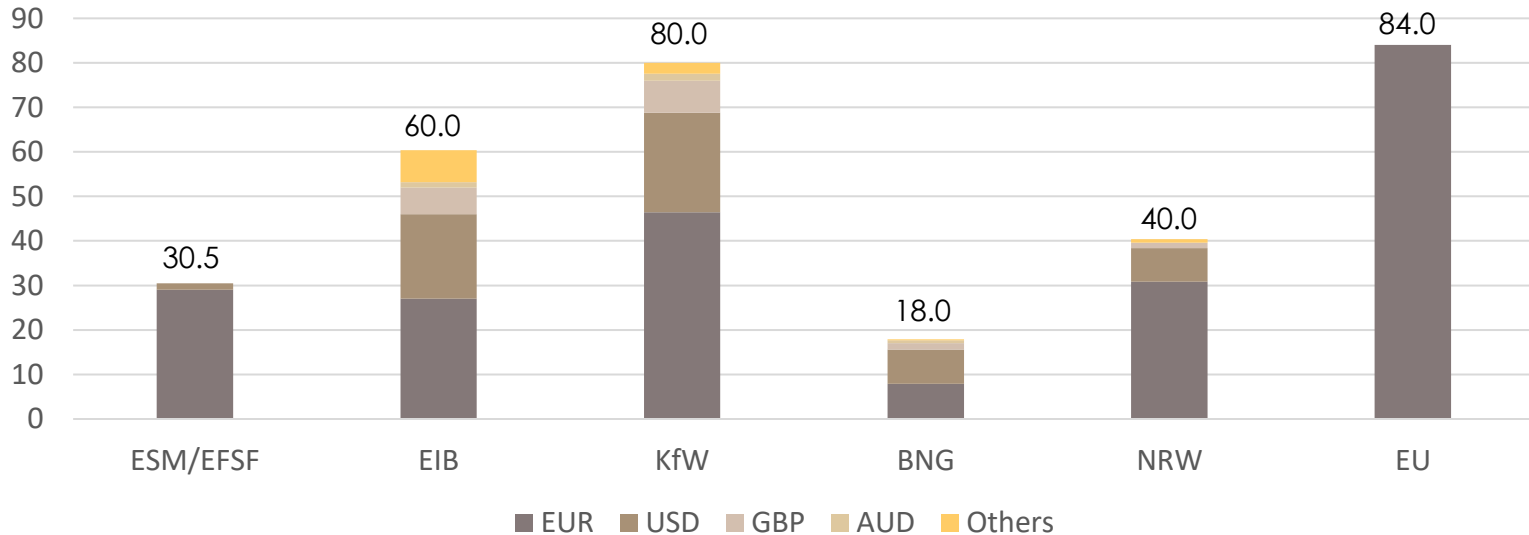




# CADES back among Europe's leading debt issuers

- Comparison of the 2020 financing programmes of the main debt issuers in Europe <sup>1</sup>

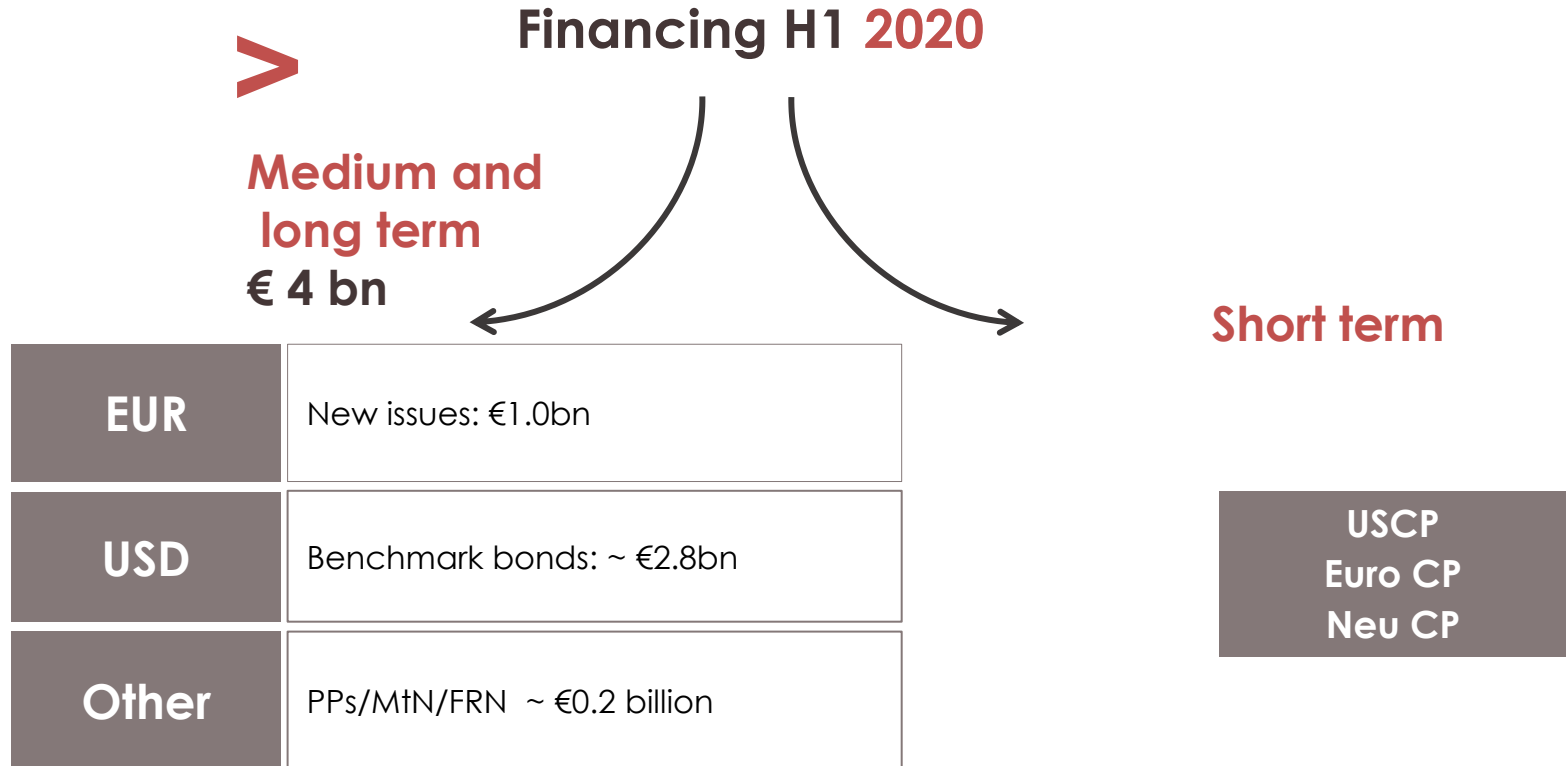
In €bn



Sources: primary dealers

(1) Amount of 2020 programmes and average currency mix 2017-2020 ytd

# 4 billion programme successfully completed in H1 2020

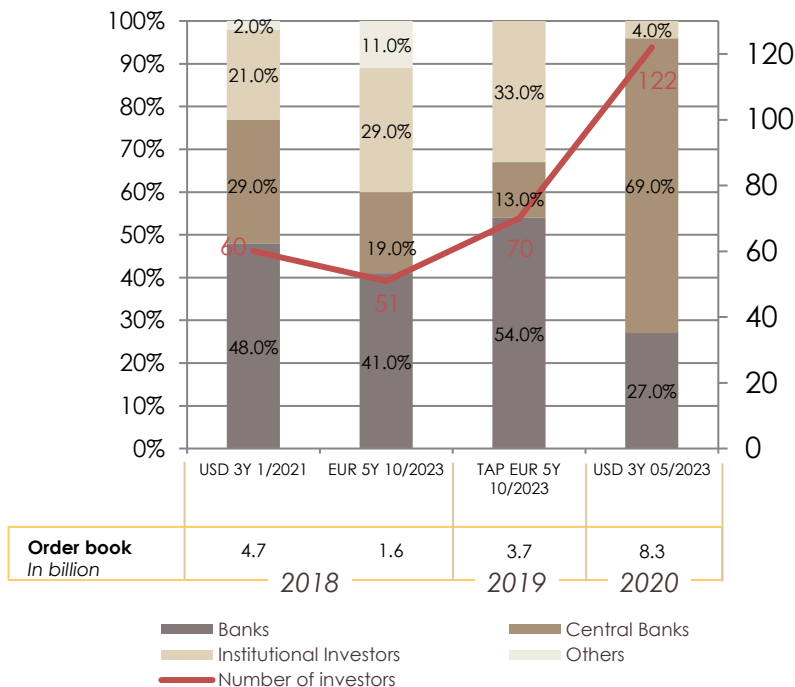




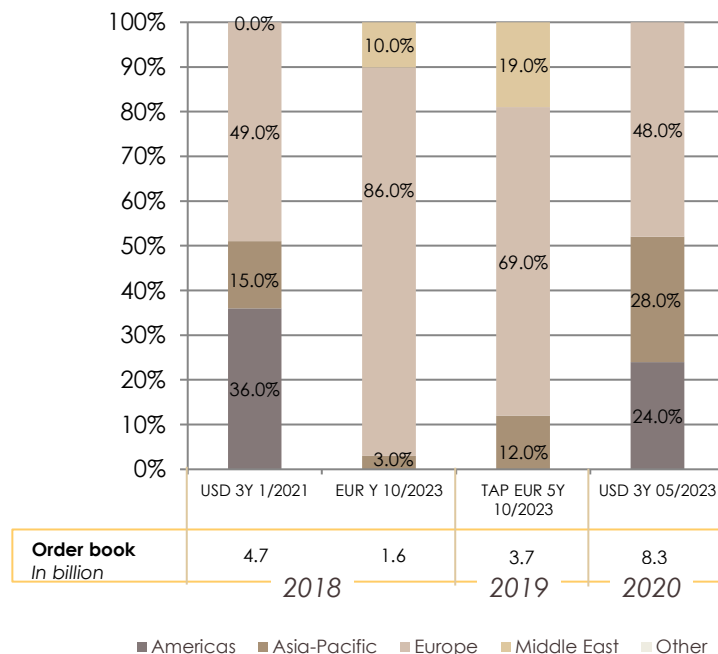


# Record financing for the USD benchmark issue closing in May 2020

Breakdown of demand for loans by type of investor



Breakdown of demand for loans by geographical area



## > S2 2020 programme

**Total MLT issues €20 bn**

**Benchmark bonds :**  
€ 17-20 bn \*

*Potential decomposition \* :*

**EUR** : 9-12 bn (3 issuances)

**USD** : 7-8 bn (3 issuances)

**GBP** : 1-2 bn (2 issuances)

**Diversification loans :**  
€ 0-3 bn\*

Currencies

Private placements

**A FRAMEWORK FOR SOCIAL BONDS**

*(\*) subject to demand and market conditions*



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**A TARGET BOND ISSUE PROGRAMME OF  
€40 BN IN 2021**

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# A target bond issue programme of €40bn in 2021

## Target programme 2021

**Maximum MLT issues €40bn**

**Benchmark bonds :**  
€30-35 bn \*

*Potential decomposition \*:*

**EUR :** 16-18 bn (5 issuances)

**USD :** 13-15 bn (5 issuances)

**GBP :** 1-2 bn (2 issuances)

**Diversification loans :**  
€5-10 bn \*

EUR Top-up payments  
Indexed to inflation

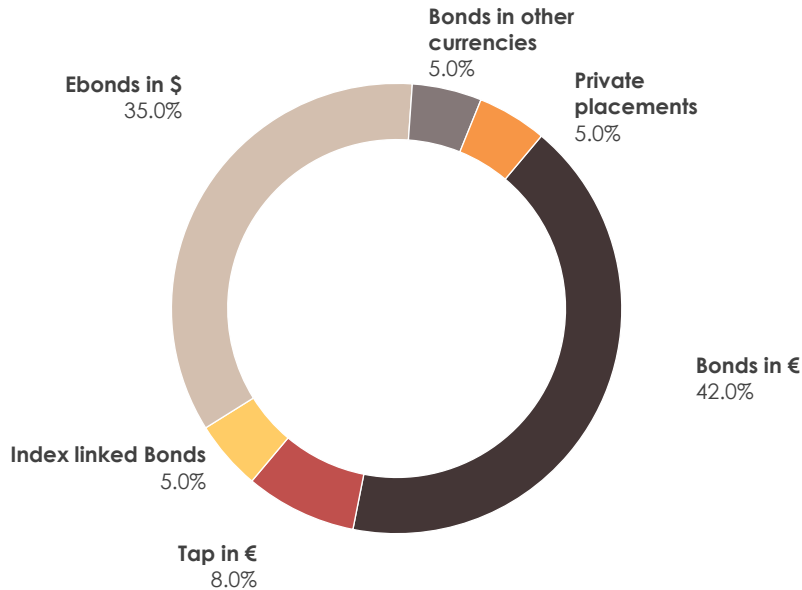
Currencies

Private placements

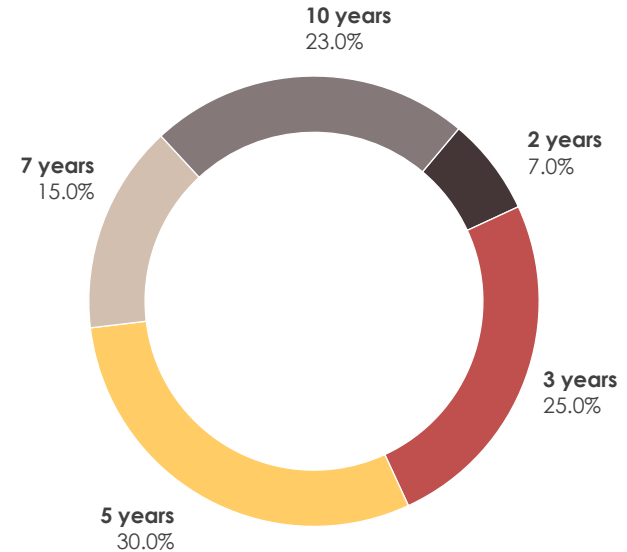
*(\*) subject to demand and market conditions*

# A balanced financing programme

- Breakdown of the indicative 2021 programme by currency

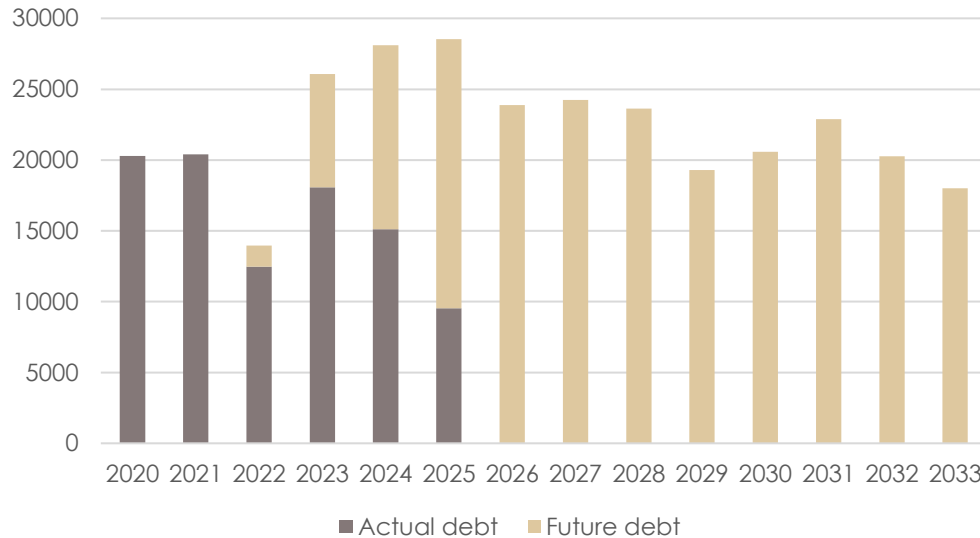


- Breakdown of the indicative 2021 programme by maturity



## ► Borrowing schedule at the end of the debt assumption process

In €bn

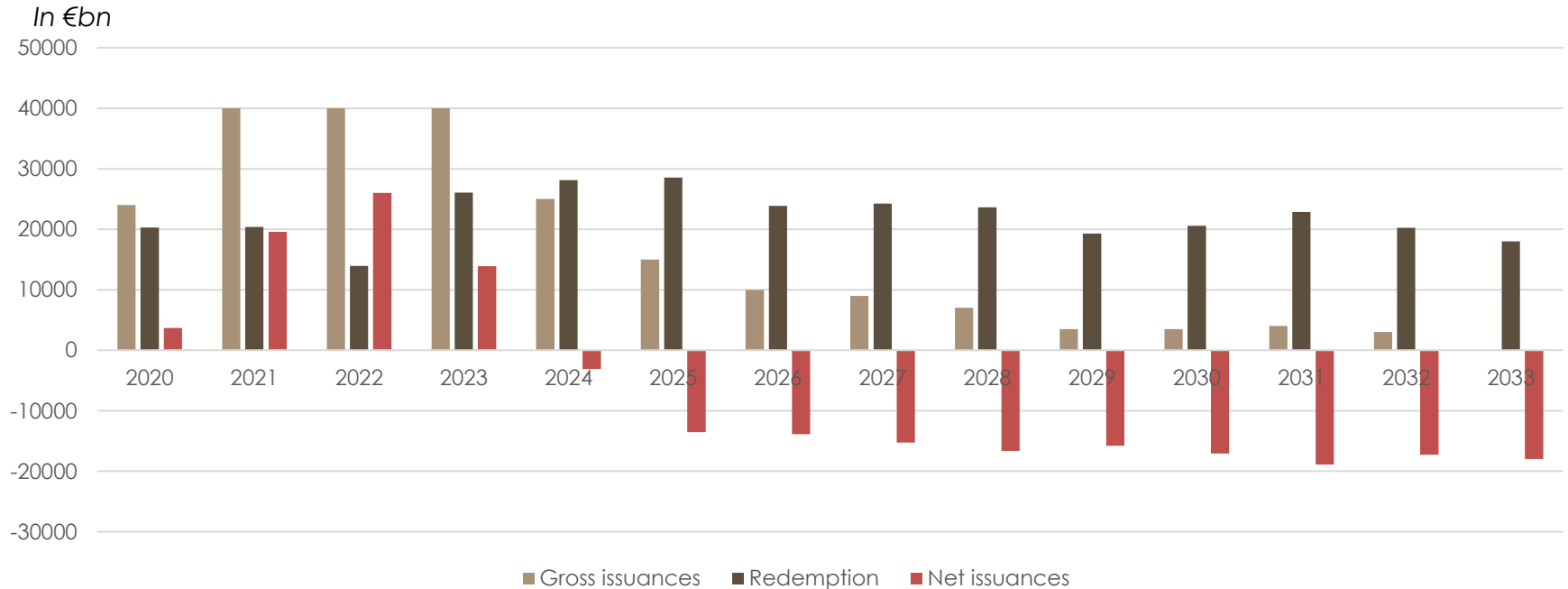


## (Re)financing assumptions

Maturities	% maturity issued per year
2 years	7.5
3 years	25
5 years	30
7 years	15
10 years	22.5

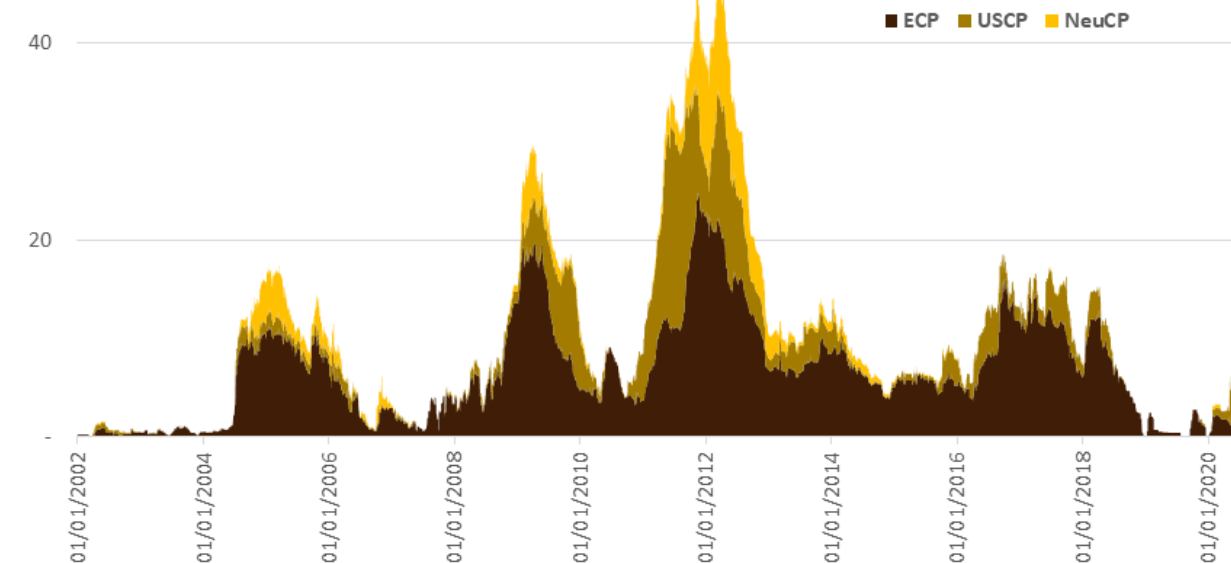
# Emissions volumes concentrated in 2020-2023

Net issue volumes by year



## Short-term outstandings since 2002

bn  
EUR



- Very active on short-term markets when debt is taken over
- Outstandings then decrease as short-term debt is transformed into medium- and long-term debt





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## THE SOCIAL BOND FRAMEWORK

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# CADES is a social issuer by nature

An unprecedented global macro-economic context

- Spectacular rise in unemployment and fall in growth caused by the health crisis
- Significant deficits in Social Security schemes expected in 2020
- New transfer of debt to CADES voted for in July 2020 and extension of its lifespan to 2033

New ESG financing needs

- Increased demand from investors to step up their social investments and help offset the effects of the health crisis

CADES: a social issuer by nature

- A key role in the crisis by guaranteeing the operational continuity of the social security system
- A controlled financing cost for public finances
- Amortisation of the social security debt so that it does not burden future generations



Setting up a social issues programme in response to strong investor demand



# Setting up a framework document for social issues

- Implementation of a framework document built in alignment with the Social Bond Principles (ICMA 2020)
- Second-Party Opinion issued by Vigeo Eiris
- CADES is committed to following market best practice and will communicate transparently on:

## Use of funds (UoP)

*Financing and/or re-financing of the "new social debt" transferred from 2020 onwards*

## Selection and assessment

*Creation of a "Social Obligations Committee" comprising CADES/AFT, DG Treasury and DSS, to validate the selection of eligible deficits.*

## Fund management

*The funds raised will be managed by CADES and the allocation of the funds raised will be monitored and validated by the "Social Bonds Committee".*

## Reporting

*Publication of an annual report on the allocation of funds raised and an impact report at least until the funds have been fully allocated*

### ► The scope of social debt eligible for this framework of social obligations is as follows:

- Deficits recorded as at 31 December 2019 (deficits corresponding to the period 2015-2019)
- Deficits from 2020 onwards

### ► The following are ineligible (and therefore financed outside this social issues programme):

- The financing of hospital debt (the problem of the year of consolidation in the light of the limits set by the look-back period)
- Debts financing deficits prior to 2015 (5 years old)



# Pre- and post-issuance evaluation by an independent firm

## Second party opinion (pre-broadcast)

Second party opinion (pre-issuance) Selection of Vigéo Eiris as second party opinion provider to assess the transparency, governance and compliance of this social bond framework with ICMA's Social Bond Principles 2020.

The results of this assessment are contained in a Second Party Opinion which is available and can be downloaded from the CADES website.

Any significant changes to this document will be subject to review by the provider of the Second Party Opinion.

## Post-issue verification

Until the funds are fully allocated, an independent auditor will verify the following information on an annual basis:

- Allocation of funds to eligible debts
- Compliance of the expenditure financed by the funds raised with the criteria defined in the Use of Funds and Management of Funds section of the framework document

- ▶ The highest level of social security debt assumption in its history
- ▶ A **€24 billion** programme in 2020 and a target programme of **€40 billion** in 2021
- ▶ A return to being one of **the main issuers of social debt in Europe**
- ▶ A financing programme **in the form of social issues**
- ▶ A wide range of **maturities and instruments**



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