

## SOCIAL SECURITY

The financial situation of the Social Security system in 2018: a budget close to balance, and expenditure control efforts to be continued

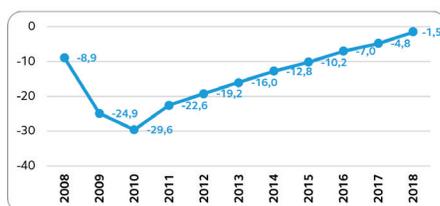
To enable Parliament to have access, prior to the summer recess, to an evaluation of the financial situation of various public institutions during the previous year, the Court decided to submit its yearly analyses of the financial situation and outlook of both the Social Security system and local government in two stages. In this context, this report provides an analysis of Social Security accounts for 2018, expressed on an accrual basis as under the Social Security Finance Act.

The 2018 Social Security budget is close to balance despite a stronger increase in expenditure than in 2017

**This decrease in the deficit is largely due to a strong increase in revenue**

In 2018, the general Social Security scheme and the old-age solidarity fund (fonds de solidarité vieillesse - FSV) took another step towards a return to a balanced budget, with a deficit of €1.2 Bn compared with €5.1 Bn in 2017. The aggregated deficit within the broader area of mandatory basic schemes and the FSV has also been reduced, from €4.8 Bn to €1.5 Bn between 2017 and 2018.

**Evolution in the aggregated deficit of mandatory basic social security schemes and the FSV (2008-2018, in €Bn)**



Source: the Cour des comptes, based on data contained in the June 2019 report from the French Social Security accounts commission (CCSS)

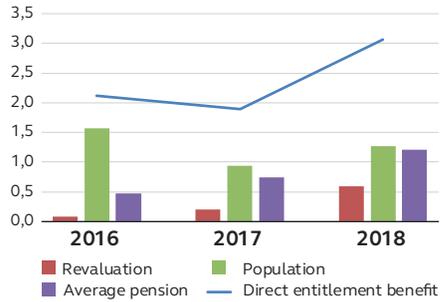
This represents a greater step than was anticipated when the initial Finance Act was passed, under which the general scheme and FSV deficit was expected to reach €2.2 Bn. Wage bill evolutions were more dynamic than anticipated (3.5 % as against 3.1 %) and there was an increase in revenue from investment income; in conjunction with the knock-on effects of tax reductions made possible by the introduction of the single flat-rate levy (PFU), these largely explain this better-than-expected outcome.

This improvement in the general scheme and FSV's budget, compared to 2017, was made possible by a strong and spontaneous increase in revenue. This was due both to a positive and significant number of new measures, which accounted for €1.6 Bn, and to spontaneous growth which exceeded economic activity (3.0 % as against 2.5 %), in conjunction with a good wage bill performance (3.5 % as in 2017).

**Expenditure has increased more rapidly than in 2017, owing particularly to the dynamism of old-age pension benefits**

Expenditure grew at a higher pace in 2018 (2.4 % as against 2.0 % in 2017, based on the same data). Although the growth norm for healthcare expenditure (objectif national de dépenses d'assurance maladie – ONDAM) increased at the same rate as in 2017 (2.2 %), there has been an increase in the growth rate of old-age pension expenditure, driven by the full year effect of the 2017 revaluations and by an increase in the number of individuals taking retirement.

**The various factors that contribute to the evolution of individual rights\* (aligned schemes, in %)**



\*All pension rights, apart from derived rights (survivor's pension).

Source: Department of Social Security

This is a reflection of expenditure which is outpacing potential GDP growth; despite the positive impact of the new measures relating to revenue, the 2018 structural effort was to be modest, in the order of €0.4 Bn. The improvement in the structural balance – including appropriate precautions regarding the single area represented by Social Security – was to remain just below zero, in the order of €2 Bn. Consequently, at least half of the reduction in the actual deficit during 2018 would have been due to the positive economic climate.

Accordingly, reducing the dynamism of Social Security expenditure to a level equal to or below potential GDP growth – which would involve further spending cuts – would contribute to returning public finance to a balanced budget. This perspective emphasises the importance of steering mechanisms such as the ONDAM.

## The ONDAM for 2018 was met against a backdrop of a downward growth trend in hospital activity

In 2018, the ONDAM was respected for the ninth consecutive year, which has made it possible to maintain its annual increase at below 2.5 % during the past five years.

In 2018, on the Court's recommendations, this overall compliance was accompanied by the reintegration of expenditure linked to the Pharmaceu-

tical Innovation Financing Fund (fonds pour le financement de l'innovation pharmaceutique – FFIP) within the scope of expenditure. However, the ONDAM's data remains incomplete, to the extent that certain expenditure – which includes disability allowances and pensions for accidents at work and occupational diseases — continues to be excluded.

**Amounts and growth rates for the ONDAM under the Social Security Finance Act (2013-2018) (in €Bn)**

	2013	2014	2015	2016	2017	2018 (p)*
ONDAM voted	175,4	178,3	181,9	185,2	190,7	195,4
ONDAM observed	173,7	178,1	181,8	185,2	190,7	195,2
Deviation from the objective	-1,7	-0,2	-0,1	-	-	-0,2
Growth rate voted	+2,5 %	+1,7 %	+2,0 %	+1,75 %	+2,1 %	2,3 %
Growth rate observed	+2,1 %	+2,4 %	+2,0 %	+1,8 %	+2,2 %	2,2 %

\* All pension rights, apart from derived rights (survivor's pension).

Source: Department of Social Security

In 2018, compliance with the ONDAM also included various imperfectly controlled trends within the different categories of healthcare expenditure; these were attributable to differences in the pressures exerted on the latter, accentuated by the challenges of forecasting hospital expenditure against a backdrop of a reduction in the activities of healthcare institutions.

The slow growth in hospital activities, already observed in 2017 and belatedly confirmed in 2018, led the regulator to include end-of-year allocations to hospitals and resulted in a reduced mobilisation of the reserves of the French national funding agency for the elderly and handicapped (*Caisse nationale de solidarité pour l'autonomie* - CNSA).

To the extent that it can be assessed at this stage, the implementation of the national health insurance expenditure target for 2018 leaves many questions unanswered. These relate in particular to the causes, consequences and more or less permanent slow growth of hospital activities. They also relate to the pressures anticipated in 2019 – due to the deferral of certain expenses and to the extremely unpredictable patterns of expenditure on medicines – which facilitated compliance with the ONDAM during 2018.

Moreover, prediction limits regarding its implementation have resulted in a reassessment of the merits of carrying out infra-annual checks on healthcare institutions alone. Continuing efforts to control expenditure over the coming years, against the backdrop of an aging population, call for another review of the ways in which all stakeholders can be held accountable, to complement the reform of the healthcare system.

## Further information provided by the certification of the system's financial statements for 2018

The findings put forward by the Court in the course of its duties regarding the certification of the system's financial statements<sup>1</sup> provide these analyses with further useful information. Regarding accuracy in respect of the fiscal year in question: contrary to previous years, the Court did not identify any irregular accounting procedures affecting the result for 2018; however, there were uncertainties with regard to a number of alternative estimates.

This audit also highlighted persistent weaknesses in the risk management systems within organisations; these were responsible for the high incidence of errors in the correct payment of benefits. The residual financial risk indicators, which provide a measure of the effectiveness of such systems, generally deteriorated in the benefits branches during 2018.

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<sup>1</sup> Cour des comptes, *Report on the certification of the General Social Security System's financial statements for the year 2018*, La Documentation française, May 2019, 131 pp., available online at [www.ccomptes.fr](http://www.ccomptes.fr)