

SUMMARY OF THE UNEMPLOYMENT INSURANCE SYSTEM'S **2019-2022** FINANCIAL FORECASTS REPORT



September 2019

SUMMARY

Since 2015, pursuant to article L. 5422-25 of the French Labor Code, each year, Unédic sends to Parliament and the government a report on the Unemployment Insurance system's financial forecasts.

The French law on "the freedom to choose one's professional future" (dated 5 September 2018) did away with Unédic's obligation to produce this annual report. However, given in particular the growing role played by Parliament in determining the Unemployment Insurance system's resources, Unédic's Bureau wished to keep this good practice in place.

It should be noted that the Unemployment Insurance system is particularly sensitive to economic fluctuations, close to four times more than the other social welfare regimes. When the dynamism of employment and salaries lessens or improves, the consequences can be seen both at the level of revenues and of expenditures. In addition, one of the foundations of the system's social utility is its role as an economic and social buffer, which the Social Partners seek to have the system play in periods of crisis. Significant corollaries exist: accept deficits in times of crisis, finance debt on the financial markets so as to benefit from the best terms, and adjust financial strategy in line with the prospects of a return to surpluses and to de-leveraging.

This report is therefore a major tool for the financial supervision of the Unemployment Insurance system. Moreover, the Social Partners managing the system pay close attention to the forecasts and analyses described in this report. In addition to updating revenue and expenditure forecasts over a three-year horizon, the report also delves into various factors that are determinative of the system's medium-term financial balance.

The latest financial forecasts were presented during Unédic's July 2019 Bureau. However, as the financial trajectory through 2022 will be significantly modified by the decrees announced in connection with the reform of the Unemployment Insurance system, it seemed preferable to await their publication - which took place at the end of July 2019 - to finalize the report on financial forecasts through 2022.

THE REGULATORY CHANGES AND THEIR FINANCIAL EFFECTS

The reform of the Unemployment Insurance system initiated by the French law relating to the freedom to choose one's professional future dated 5 September 2018 resulted in two decrees. Decree no. 2019-797 dated 26 July 2019 relating to the Unemployment Insurance system sets out the new rules on unemployment benefits, the first measures of which will come into force starting 1 November 2019. That decree creates:

- ▶ new terms for acquiring entitlements to benefits, setting the required period for contribution to the Unemployment Insurance system to six months (instead of four months for acquiring entitlements to benefits and 150 hours for entitlements renewals) and setting the period over which contracts are researched in order to confirm that period of contribution to 24 months (instead of 28, with the period remaining at 36 months for persons aged 53 and over); this measure comes into effect on 1 November 2019;
- ▶ degressive benefits for beneficiaries aged less than 57 years who had a gross salary exceeding €4,500; after six months of compensation (183 days of benefits used up), their benefits will be reduced by 30%, with this decrease being limited by a floor (€2,261 (net)); this measure comes into effect on 1 November 2019;
- ▶ new methods for determining the reference salary, which will no longer be calculated on the basis of the number of days worked over the last 12 months but rather on the entire period starting with the beginning of the first contract to the end of the last contract held in the last 24 months, starting 1 April 2020 (see detailed discussion below); as for the benefit calculation formula, that formula will remain the same;
- ▶ starting 1 November 2019, compensation under the *aide au retour à l'emploi* benefit for employees who resign due to a plan for professional retraining or to create a business (subject, in particular, to the genuine and serious nature of their plan being certified by a joint commission). Only persons who were employees on a continuous basis during the five preceding years will be entitled to this new right;
- ▶ starting 1 November 2019, a benefit for independent workers whose businesses stop trading due to court-ordered rehabilitation or liquidation proceedings, subject to certain conditions, such as, in particular, prior revenues of at least €10,000 per year over the two preceding years;
- ▶ a bonus/penalty system for companies with 11 employees or more and operating in seven sectors in which employees are most frequently let go; the modulation of Unemployment Insurance contributions, varying between 3% and 5.05%, will become effective starting 1 March 2021; in the interim, and for companies which are not concerned by the bonus/penalty system, the contribution rate is set at 4.05%;
- ▶ specific contributions for customary short-term contracts (CDD d'usage) commencing 1 January 2020: a 0.5 point additional contribution in respect of short-term contracts lasting less than three months for entertainment workers and a flat-rate fee of 10 euros for other customary short-term contracts (excluding entertainment worker contracts);
- ▶ an increase in Unédic's contributions earmarked for financing Pôle Emploi, from 10% to 11%, starting in 2020.

Decree no. 2019-796 (relating to new compensation rights, various measures regarding workers deprived of employment and experimentation with a job search journal) provides clarifications on the independent worker benefit and on the "genuine and serious nature" criteria of the professional plans of resigning employees.

THE EFFECTS OF THE DECREE ON THE REFORM OF UNEMPLOYMENT INSURANCE

As with every change in regulation, in order to estimate the impact of the reform on the Unemployment Insurance system's financial trajectory, Unédic evaluated its financial effects and the effects on the persons and companies concerned by the reforms.

The changes to unemployment benefits will come into force starting 1 November 2019 or 1 April 2020, depending on the measure, and will apply to employees who lose their employment after those dates. More specifically, the end date of the last job lost will determine which rules apply to the calculation of entitlements. These changes will not impact

beneficiaries whose entitlements are already running. As the measures will apply to new jobseekers, these measures will therefore be ramped up gradually.

Overall effect of the measures linked to benefits during the first year of implementation

The two measures that have the most significant impact - on a financial level and on the number of persons impacted - are those that modify the conditions applying to acquiring entitlements to benefits (as of 1 November 2019) and the methods for calculating the salary used as a reference for determining the benefit amount (starting 1 April 2020).

During the first year in which all measures relating to benefits are implemented - from April 2020 to March 2021 - among the 2.65 million individuals who would have acquired entitlements to benefits under the 2017 rules, we believe that:

- ▶ 50% will not be impacted by any of the rule changes (due to the end of an employment contract predating 1 April 2020 with respect to 7% of them).

The others can be broken down as follows:

- ▶ 9% will not acquire entitlements to benefits during this first year because they were not contributing to the Unemployment Insurance system for at least six months;
- ▶ 16% will be impacted only by the change in the calculation of the reference day salary (RDS) and would have experienced a decrease in their net daily benefit of 20% on average;
- ▶ 12% will acquire entitlements to benefits, but only later (five months later on average) because they did not immediately satisfy the necessary six-month criteria; they would have also been affected by the change in the method of calculating the RDS;
- ▶ 11% will acquire entitlements to benefits on the same date, but for a shorter period (by less than one month for half of them) since part of their time as contributors to the Unemployment Insurance system would not have been taken into account due to the reference contribution period being reduced from 28 to 24 months; 8% would have also experienced a decrease in their RDS;
- ▶ 2%, who are less than 57 years old, will have degressive benefits if they used up more than six months of their entitlements.

Overall impact in 2022

At the outside end of the financial forecast, in 2022, setting aside the broadening of access to benefits to certain resigning employees and independent workers, the number of individuals with running Unemployment Insurance entitlements (persons to whom benefits may be paid) will have increased by about 40,000 persons by the end of the year. This result is the product of two opposite effects:

- ▶ upwards: longer entitlements periods due to a change in how the RDS is calculated, which decreases the daily benefit and prolongs the duration of entitlements;
- ▶ downwards: fewer new beneficiaries due to new conditions on acquiring entitlements.

However, the number of beneficiaries to which benefits will be paid at the end of 2022 will decrease by 70,000 individuals, i.e., a 2% decrease compared to the change if no reform had taken place, due, here too, to two opposite effects:

- ▶ downwards: less beneficiaries receiving benefits overall;
- ▶ upwards: longer entitlements periods, due to the change in the way the RDS is calculated.

Moreover, regarding beneficiaries who will receive benefits in 2022, the benefit received will be 6% lower on average (due to the effect of the way the RDS is calculated and degressive benefits for former employees with higher salaries). In the aggregate, benefit expenditures will decrease by approximately 10% (fewer beneficiaries receiving benefits, amounts paid lower, on average).

OVERALL FINANCIAL IMPACT OF THE REFORM

The changes to compensation rules, and in particular the conditions applying to acquiring entitlements to benefits and the RDS calculation, will lead to a significant decrease in benefit expenditures starting 2020.

In the aggregate, over 2019-2021, lower benefit expenditures amount to -€3,420M in total (excluding new entitlements). The net effect of all the measures combined is +€2,270M from 2019 to 2021.

For their part, new rights (persons resigning, independent workers) will generate additional benefit expenditures – approximately €440M per year starting 2020. This amount will be further increased by additional expenditures linked to the increase in Unédic’s share of the financing of Pôle Emploi.

The contribution modulation provided for under the bonus/penalty system is designed to be neutral from a financial point of view within each sector in question and will be implemented starting 2021. It therefore has no impact in 2019 and 2020. Once the measure becomes effective, the financial effects should be weak by design, but will be accompanied by a decrease in the separation rate in the relevant sectors.

The upholding of a 4.05% contribution rate beyond October 2020, which had been provided for up to now by the 2017 convention as an exceptional measure, will generate additional contribution revenues, as will the additional contribution and the tax on customary short-term contracts.

Overall, the net effect of the reform will amount to +€480M in 2020, +€1,790M in 2021 and +€2,050M in 2022.

These effects do not account for behavioral effects. The new compensation rules will no doubt progressively change the behavior of jobseekers, employees and companies. These effects are difficult to estimate before the fact, as the reactions will be diverse. They also will depend on possible carry-over effects on other measures, such as the activity bonus (*prime d’activité*) and the minimum solidarity allowance (RSA).

In order to assess the various effects of this extensive reform, it is essential that monitoring and evaluation be conducted starting in the coming months.

Financial impact of the 2019 reform, in millions of euros					
		End 2019	2020	2021	2022
Expenditures linked to new benefit rules	Conditions on acquiring entitlements to benefits	-10	-900	-1,000	-1,000
	Reference salary	0	-250	-1,100	-1,300
	Degressivity	0	-20	-140	-220
	Subtotal	-10	-1,170	-2,240	-2,520
Expenditures linked to new entitlements	Resigning employees	0	+300	+300	+300
	Independent workers	0	+140	+140	+140
	Subtotal	0	+440	+440	+440
Contributions	0.05 % contribution after October 2020	0	+80	+320	+320
	€10 fee on short-term contracts (ex. entertainment contracts)	0	+40	+40	+40
	0.5% surplus-contribution on short-term contracts in the entertainment industry	0	+10	+10	+10
	Bonus-Penalty	0	0	0	0
	Subtotal	0	+130	+370	+370
Expenditures linked to financing Pôle Emploi (10 % → 11 %)		0	+380	+380	+400
Aggregate effect (revenues – expenditures)		+10	+480	+1,790	+2,050

Source: Unédic.

FOCUS: THE CHANGE IN THE CALCULATION OF THE REFERENCE SALARY

The new methods for calculating the reference salary have the consequence of modifying the amount of the daily benefit and the maximum duration of entitlements. Remuneration will now be taken account with respect to the two years preceding the end of the last employment agreement (the last three years for beneficiaries aged 53 years or more) and not the last year only.

To obtain the daily reference salary, the remuneration received over the 24 months preceding the loss of the last job will now be divided by the number of days included between the first day under contract and the last day of the last contract over that same period. Therefore, this period will include both days covered by the employment agreement and the days not worked between two jobs. Days not covered by an employment agreement will increase this divisor and will therefore contribute to a decrease in the RDS and in the daily benefit, when compared to the 2017 rules.

Change in the amount and duration of compensation of beneficiaries acquiring benefit entitlements in the 1st year under the new RDS calculation method, depending on the work rate over their reference period (excluding persons who do not acquire rights that year due to the new eligibility conditions)

Workrate over the reference period	Entrant breakdown	Number of entrants	Monthly benefit amount*			Duration of entitlements (in months)		
			Before the measure	After the measure	Difference	Before the measure	After the measure	Difference
Entrants not impacted by the measure	11 %	250,000	€915	€915	0 %	11.5	11.5	0 %
All entrants impacted the first year	37 %	850,000	€905	€708	-22 %	12.1	17.7	45 %
Between 25 % to 49 %	8 %	190,000	€868	€431	-50 %	7.6	19.4	156 %
Between 50 % to 74 %	12 %	280,000	€897	€679	-24 %	10.7	16.9	59 %
Between 75 % to 99 %	16 %	380,000	€929	€869	-6 %	15.5	17.2	11 %
All entrants not impacted in the first year (work rate = 100%)	53 %	1,230,000	€1,022	€1,022	0 %	20.9	20.9	0 %
Continued full-time employment over 24 months (or 36 months)	23 %	530,000	€1,271	€1,271	0 %	25.6	25.6	0 %
Continued full-time employment over less than 24 months	10 %	230,000	€1,046	€1,046	0 %	13.2	13.2	0 %
Continued part-time employment over their reference period	20 %	470,000	€729	€729	0 %	19.6	19.6	0 %
Total	100 %	2,330,000						

*The monthly benefit amount assumes that a new employment contract is not entered into, and is obtained by multiplying the amount of the daily benefit by 30.4.

Note: The work rate is calculated over the reference period that is used to calculate the RDS and that determines the duration of entitlements, i.e., the period between the first and last day of work within the last 24 months (or 36 months for seniors). Several thousand beneficiaries who acquire entitlements had a work rate of less than 25% over their reference period (0.1%) – they are seniors who are 53 years old and up.

Source: FNA, Unédic calculations (TELEMAC), rounded at 1/100.

Scope: Unemployment Insurance beneficiaries (excluding annexes 8 and 10 of the Unemployment Insurance convention, which relate to entertainment workers) acquiring entitlements to benefits between April 2020 and March 2021, i.e., approximately 2.3 million individuals.

Interpretation: The persons impacted by the measure will see the duration of their entitlements increase by 45% on average and a 22% decrease in their benefit, on average.

Effects of the change in the calculation of the RDS

The change in the calculation of the reference salary concerns beneficiaries who acquire entitlements to benefits the first year and whose working periods were not continuous over the course of the last 24 months. This rule change has impacts on a number of levels.

- ▶ The reference daily salary is lower than was the case under prior rules.
- ▶ The period over which benefits are paid is longer than before because it is equal to the period between the first day of the first employment contract and the last day of the last contract over the last 24 months. Previously, unemployed periods between two contracts were not taken into account in this definition.

It should be noted that a one-off short contract at the beginning or end of the 24 months preceding the loss of employment can significantly change the characteristics of compensation (daily amount and duration).

- ▶ The combining of a fraction of the benefit with earnings from re-employment will be possible less often. Indeed, beneficiaries with a benefit/earnings combination will have deducted from their monthly benefit 70% of the income generated from the employment taken up during the month. Since the amount of the benefit is lower, this combination will be less frequent.

Change in benefit and duration

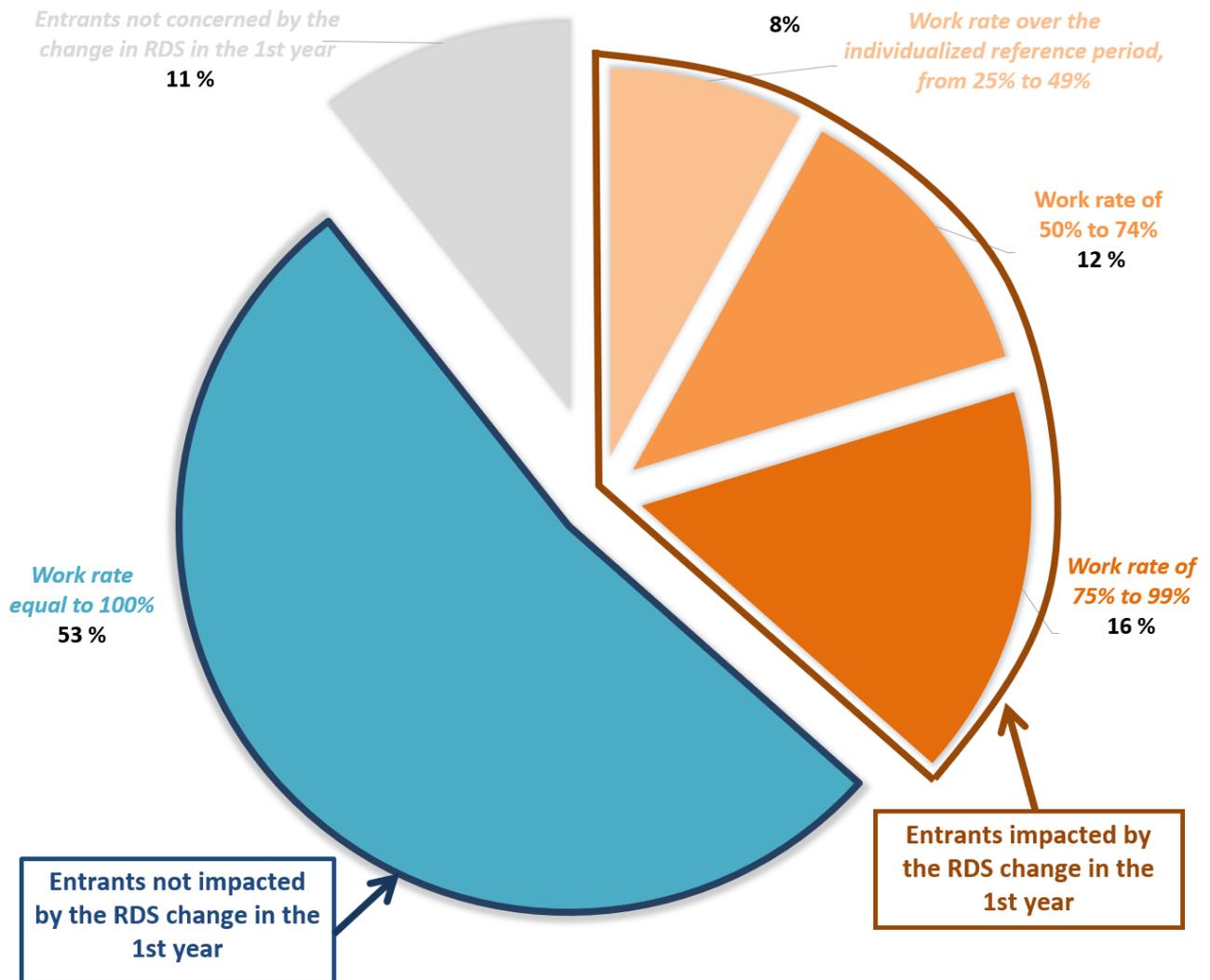
Changes to benefits and entitlements duration are more significant when the work rate is low over the reference period (24 or 36 months). For individuals who did not work continuously over that period (work rate of less than 100%), the benefit will be lower and the duration longer than is the case under the current rules. Benefits will remain unchanged for persons who worked continuously over such period (work rate = 100%).

During this measure's first year of implementation, 37% of incoming beneficiaries will be affected by the new RDS calculation, i.e., about 850,000 persons. These individuals are beneficiaries who did not make contributions to the Unemployment Insurance system continuously during the period preceding the acquisition of entitlements to benefits. A little more than half of them will be affected by a decrease of over 25% in their RDS.

During this first year of implementation of the measure, among the persons who will acquire entitlements to benefits between April 2020 and March 2021, a small percentage will not be impacted by the new measure because the end of their last employment contract predates 1 April 2020.

Approximately one-half of incoming beneficiaries from April 2020 to March 2021 will receive benefits without there being a change in their benefit or in the duration of their entitlements (53%, i.e., 1.23 million beneficiaries). These individuals are the beneficiaries whose contributions to the Unemployment Insurance system are continuous over the reference period preceding the acquisition of entitlements to benefits. Some of these individuals may nevertheless be concerned by the degressive benefit measure.

Breakdown of beneficiaries acquiring entitlements to benefits in the 1st year under the new method for calculating RDS, depending on the work rate over their reference period (excluding persons who do not acquire entitlements that year due to new entry conditions)



Note: The work rate is calculated over the reference period that is used to calculate the RDS and to determine the duration of entitlements, i.e., the period between the first and last day of work within the last 24 months (or last 36 months for seniors). Several thousand beneficiaries who acquire entitlements to benefits had a work rate below 25% during their reference period (0.1%). They are seniors aged 53 years or more. They are not represented in this chart.

Source: FNA, Unédic calculations (TELEMAC), rounded at 1/100.

Scope: Unemployment Insurance beneficiaries, excluding annexes 8 and 10 of the Unemployment Insurance convention which relate to entertainment workers, acquiring entitlements between April 2020 and March 2021, i.e., approximately 2.3 million persons.

Interpretation: 53% of beneficiaries acquiring entitlements in the first year following the measure will not be impacted by that measure because their work rate equals 100%.

THE UNEMPLOYMENT INSURANCE SYSTEM'S RESOURCES

Progressive replacement of employee contributions by a fraction of the employment income based general social contribution (CSG activité)

The French law on the freedom to choose one's professional future and the finance laws of 2018 and 2019 amended the way the Unemployment Insurance system is financed. Employee contributions were replaced by a fraction of the revenues from the employment income based general social contribution (CSG activité)¹.

Up until 2017, social contributions paid directly by employees and companies contributing to the Unemployment Insurance system represented the near totality of Unédic's revenues. 2018 was marked by the implementation of the partial and then total elimination of the employee's contribution to Unemployment Insurance, with such amounts being entirely offset for Unédic by revenues from the employment income based general social contribution. Starting in 2019, the employee contribution to Unemployment Insurance was then formally abandoned with the "professional future" law and replaced by a fraction of the revenues from the employment income based general social contribution.

Thus, beginning in 2019, the system's resources come from two places:

- ▶ principal contributions, which are made up almost completely by employer contributions;
- ▶ financing arising from the employment income based general social contribution decided by Parliament during the annual vote on the social security financing law (SSFL).

The final version of the 2019 SSFL set the rate of the employment income based general social contribution at 1.47%, in line with the government's framework document dated 25 September 2018, which ensured that during the 2019-2021 period, this change in the nature of revenues was financially neutral for Unédic. In fact, this rate allowed the €14.2B loss in revenues linked to the elimination of the employee contribution to Unemployment Insurance to be fully offset.

Extension to Unemployment Insurance of the decrease in employer contributions in respect of low salaries and specific exemptions

The 2019 SSFL also provided for the extension of the decrease in employer contributions to Unemployment Insurance in respect to low salaries starting 1 October 2019. This general reduction is applicable degressively to compensation that is lower than an income of 1.6 times the annual full-time minimum wage in France (*Smic*). For Unédic, the resulting loss in revenues, which is evaluated at approximately €3.7B over a full year, is fully offset by Acof. The 2019 SSFL also provides for four specific exemptions to be extended to Unemployment Insurance contributions, the amount of which would also be fully offset. The collection proceeds are evaluated at close to €300M per year. Starting 2020, the exempt employee contributions will represent 10% of total contributions.

The assessment basis of the employment income based general social contribution is less dynamic than that of the private sector

The change from fully financing Unédic through social contributions to partial financing through the employment income based general social contribution has consequences on Unédic's financial management; first, because the assessment basis of the employment income based general social contribution is broader than the wage bill that contributes to the Unemployment Insurance system. In fact, the assessment basis includes private sector employees, public sector employees and independent workers. It also takes into account certain remuneration elements such as profit sharing and employee shareholding, as well as supplementary retirement and welfare contributions, which do not fall within the scope of the assessment basis for unemployment contributions.

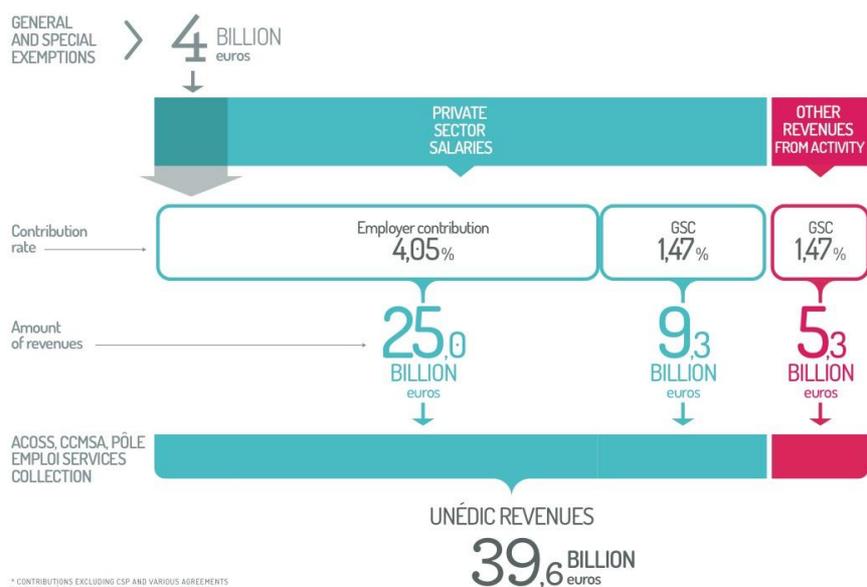
Moreover, the public sector wage bill is less dynamic than that of the private sector but less sensitive to the economic context. Revenues of non-salaried individuals are less dynamic than salaries in the private sector and are more volatile, as they are more sensitive to the economic context. In sum, the lower dynamism of the assessment basis for the public sector and for non-salaried employees over the last two decades should continue and the assessment basis for the employment income based general social contribution should continue to be, on average, less dynamic than the private sector wage bill.

¹ In total, the contribution rate is 6.45% of gross salary since October 2017, of which 2.4 points constitute the employee's share.

Unemployment Insurance contributions largely remain based on private sector salaries.

The replacement of this employee share by the employment income based general social contribution modifies the weight of private sector salaries in this financing. In 2020, the employment income based general social contribution will cover approximately 37% of Unemployment Insurance contributions. Unemployment Insurance contributions remain largely based on private sector salaries. In 2020, private sector salaries represented approximately 86% of the assessment basis for Unemployment Insurance contributions, compared to 100% in the past.

Financing of Unemployment Insurance in 2020 (forecast)



Source: Unédic, Unédic Forecast.
Scope: contributions, excluding CSP and various agreements

ECONOMIC AND FINANCIAL FORECASTS FOR 2019-2022

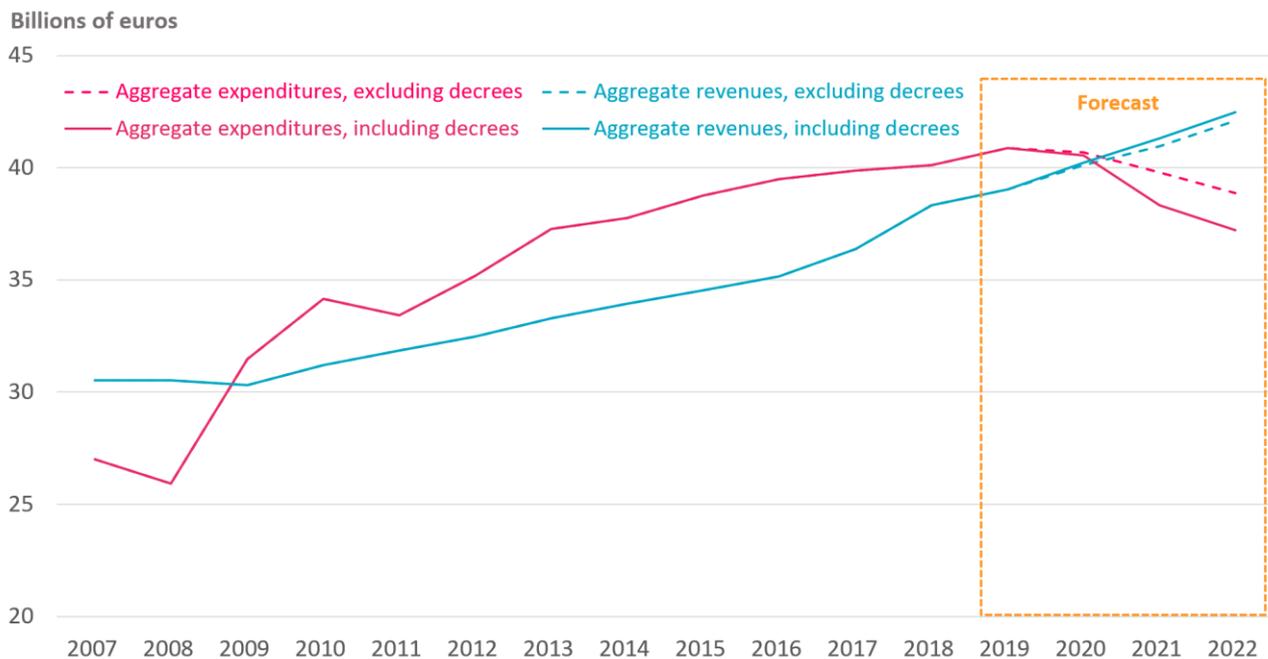
As in the past, the updated financial forecasts for the 2019-2022 period are based on the growth and inflation assumptions of the consensus of economists and on Insee’s forecasts regarding the working population. They only take into account changes in public policy that have been the subject of decisions. Thus, the last forecast exercise presented in July 2019 took into account current financing terms, but not the effects of the end-of-July decrees on the reform of Unemployment Insurance. The financial forecasts presented here are based on this estimate, which was updated to add the effects of the decrees and the financial information from the months of June and July 2019.

IMPROVEMENT IN THE FINANCIAL BALANCE, ACCELERATED BY THE REFORM

In 2018, the financial balance improved: -€1.8B, following -€3.4B in 2017. Half of this improvement results from liquidity effects, which are notably connected to changes in contribution payment frequency since the implementation of the nominative social declaration for the social security system (*Déclaration Sociale Nominative*). In 2019, this balance reached -€1.8B due to the consequences of these same liquidity effects (this year the effects of the decree are not yet strongly felt).

Regarding subsequent years, the financial balance should continue to improve as a result of the combined effects of the economic context and the reform of Unemployment Insurance. The return to balance will be effective in the second half of 2020, i.e., several months earlier than if there had not been a reform. In 2020, Unédic would record a deficit of -€0.3B. Subsequently, the surplus would be +€3.0B in 2021 and +€5.3B in 2022

Total revenues and expenditures



Source: Unédic, Unédic Forecast.

Benefit expenditures, which depend on the number of unemployed persons receiving benefits and the progression of the daily benefit paid, increased by +0.6% in 2018. They should continue to rise by +1.9% in 2019. Starting 2020, benefit expenditures should decrease more rapidly than if there had been no reform, due to the economic environment and the reform (changes to the conditions on acquiring entitlements to benefits and calculation of the daily salary, degressive benefits above a lost gross monthly salary of €4,500), despite the new categories of persons covered (independent workers and resigning employees), which lead to supplemental benefit expenditures of approximately €440M per year starting 2020.

Finally, the expenditures linked to the financing of Pôle Emploi, which up to now correspond to 10% of the annual contributions collected by Unédic during year N-2, and then 11% commencing 1 January 2020, should increase over the 2020-2022 period (1 point equals about €380M per year).

Principal macroeconomic changes

	2018	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Growth, Price, Employment, Wages, Unemployment (yearly average change)					
GDP	+1.7%	+1.3%	+1.3%	+1.4%	+1.4%
Consumer price index	+1.8%	+1.2%	+1.4%	+1.6%	+1.6%
Total employment	+0.8%	+0.9%	+0.6%	+0.6%	+0.6%
Employment affiliated with the Unemployment Insurance system	+1.3%	+1.2%	+0.8%	+0.8%	+0.8%
Average salary per person in the private sector	+2.0%	+1.6%	+2.2%	+2.1%	+2.1%
Wage bill in the private sector	+3.5%	+2.9%	+3.0%	+2.9%	+2.9%
ILO unemployment rate	8.8%	8.3%	8.0%	7.7%	7.4%
Unemployed workers compensated by Unemployment Insurance (ARE, AREF, ASP, AREP, ATI)	+0.0%	+0.3%	-1.7%	-4.2%	-1.6%

Table ctd	2018	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Employment, Unemployment (change over period)					
Total employment	+182,000	+229,000	+169,000	+170,000	+171,000
Employment affiliated with the Unemployment Insurance system	+178,000	+217,000	+151,000	+152,000	+153,000
Jobseekers, Cat. A	-44,000	-149,000	-79,000	-84,000	-111,000
Jobseekers, Cat. B, C	+26,000	+50,000	+29,000	+37,000	+25,000
Jobseekers, Cat. D	+8,000	+35,000	-7,000	-8,000	-10,000
Exempt from seeking employment	-2,000	-1,000	0	0	0
Jobseekers categories A, B, C, D + exempt from seeking employment	-11,000	-64,000	-57,000	-55,000	-96,000
Unemployed workers compensated by Unemployment Insurance (ARE, AREF, ASP, AREP, ATI)	+91,000	-23,000	-132,000	-68,000	-33,000

Sources: Insee, Pôle emploi, Dares, Acoss, Unédic Forecast.
Scope: entire France, CVS data

In millions of euros, at 31 December

	2018	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Total revenues	38,322	39,031	40,218	41,316	42,472
Of which principal contributions	37,658	25,432	24,978	25,687	26,415
Of which levies of all natures		12,958	14,644	15,060	15,488
Total expenditures	40,126	40,878	40,541	38,333	37,215
Of which beneficiary expenditures	36,201	36,877	35,922	33,738	32,448
Balance = Revenues - Expenditures	-1,805	-1,847	-323	2,983	5,257
Exceptional items	22	20	15	5	0
Financial balance	-1,783	-1,827	-308	2,988	5,257
Net financial indebtedness position	-35,530	-37,357	-37,666	-34,678	-29,421

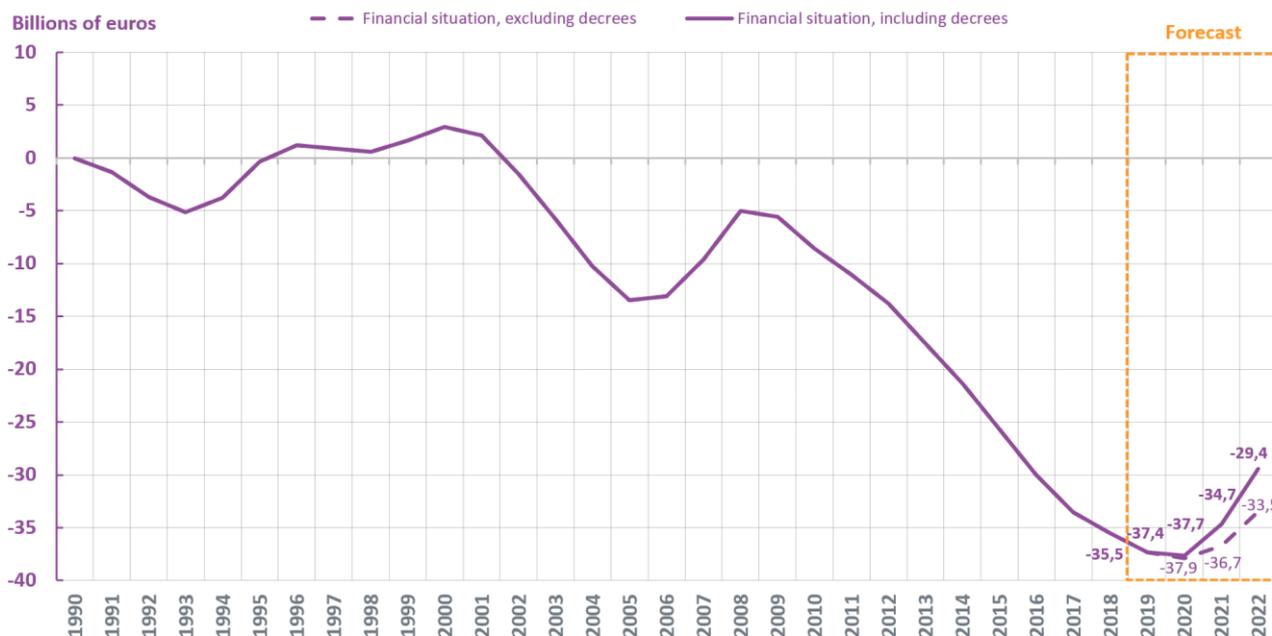
Source: Unédic, Unédic Forecast.

The Unemployment Insurance system's Financial Balance



Source: Unédic, Unédic Forecast.

The Unemployment Insurance system's net indebtedness (debt)



Source: Unédic, Unédic Forecast.

Interest expense on borrowings should continue to decrease and reach 0.64% of the system's revenues in 2022

Due to the counter-cyclical nature of Unemployment Insurance, Unédic's debt has the particularity of tending to increase during negative periods of the economic cycle, when interest rates are low; once the economy picks up, as is the case today, the system's financial balance improves and rates are likely to rise. Thus, during the past few years, in a context of increasing indebtedness, Unédic benefited from very favorable interest rates. The expense represented by interest paid remained at less than 1% of revenues between 2013 and 2018. The continuation of an accommodating monetary policy in the Euro zone should nevertheless maintain low rates in a situation where improvement in the economic environment and savings measures should allow the financial balance to return to surplus during the second half of 2020.

Regarding the next few years, current forecasts anticipate surpluses in the range of €5.3B by 2022. This trajectory allows a strategy to be envisaged that consists of adjusting financing needs and repayment terms to the level of surpluses by using medium-term financings. The forecasted amount of borrowing repayment terms is therefore in line with forecasted surpluses that should be generated by the system during the peak of its cycle. It should be noted that Unédic has already financed 82% of its needs through 2022. Given the decrease in its debt levels, interest expense should decrease during the 2019-2022 period, where it will represent 0.74% of revenues, on average.

STRUCTURAL BALANCE AND ECONOMIC CYCLE

The Unemployment Insurance system, which limits the loss of income for employees who are out of work, is by its nature very sensitive to the economy and employment. In order to better grasp the Unemployment Insurance system's financial situation, one needs to understand the position of the French economy within the economic cycle and its impacts on the structural situation of Unédic's finances.

Since 2015, Unédic produces analyses of the breakdown of its financial balance between its cyclical component and its structural component. In this context, Unédic uses the same method each year. This standard method is based on the use of the output gap, which is estimated and regularly updated by the European Commission. This method consists of subtracting from the system's overall financial balance a share that is due to the economic environment, called the cyclical balance, and items considered to be out of scope (interest expense and temporary and one-off measures). The remaining balance is the structural balance, that is to say, the balance considered as resulting from the regulation of Unemployment Insurance and the job market. While far from perfect since it can be subject to significant revisions, this measure is an analytical tool that is useful for the management of the system.

The latest estimates of the output gap indicate a more advanced position in the cycle than anticipated last year. Indeed, today, the European Commission considers that observed GDP has caught up with its potential level since 2017, even though it estimated last year that this would take place in 2018 only.

Unédic experienced an average structural deficit of -€1.8B between 2010 and 2017

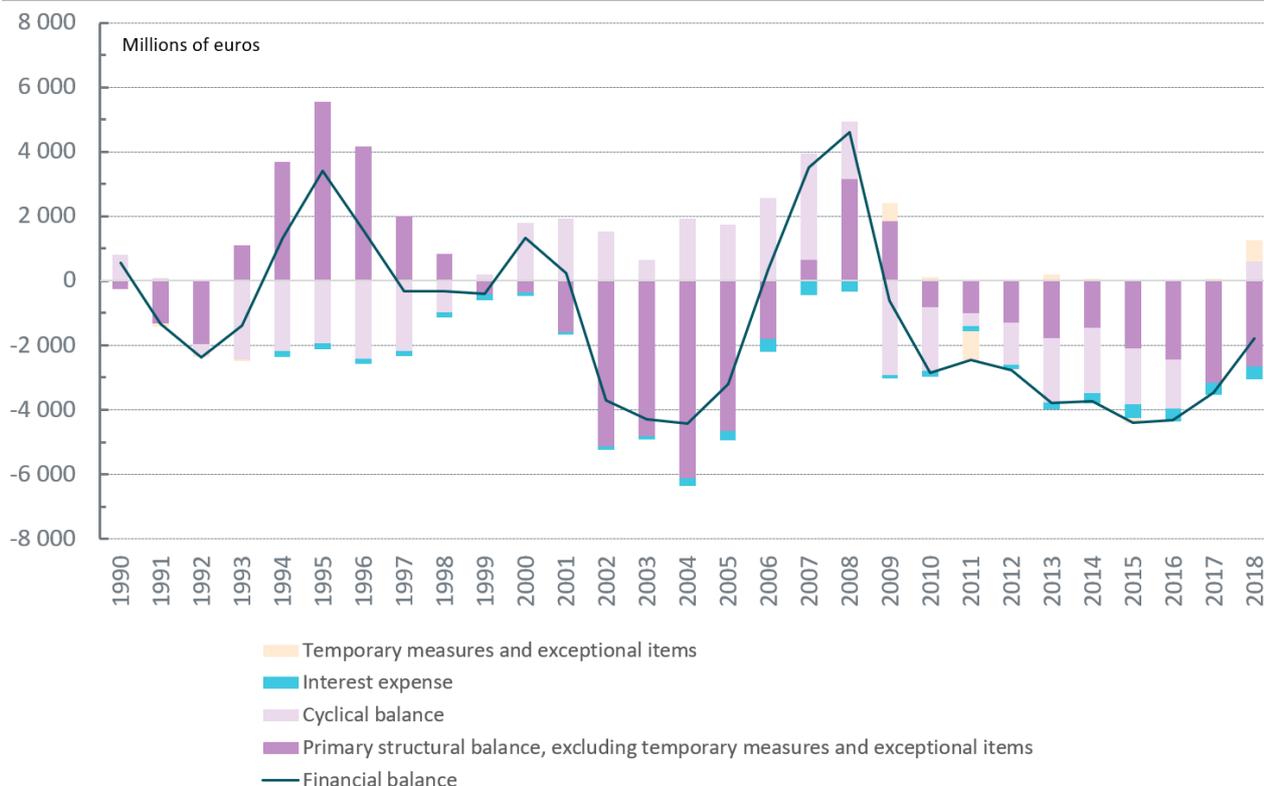
The update of the output gap over the entire analyzed period leads one to observe that the structural balance deteriorated in the amount of -€1.8B over the 2010-2017 period. Between 2010 and 2017, this deficit tended to increase under the combined effects of:

- ▶ the pensions reforms of 2010, which, through extending the minimum ages and the full rate for retirement, broadened the population that can potentially be compensated and increases benefits expenditures more than it improves contribution income;
- ▶ the increase during the period in the number of compensated frontier workers, whose average benefit amount is also significantly rising.

The structural balance subsequently improved in 2018, due to savings measures introduced by the 2017 convention.

Negative between 2009 and 2016, the cyclical balance became positive again starting in 2017, due to improvements in the job market since 2016.

Breakdown in the balance of Unemployment Insurance since 1990



Sources: European Commission, Unédic. Unédic calculations.

Note: The structural balance is referred to as primary since it does not count the expenses connected to borrowings taken out by Unédic to finance debt. Temporary measures and exceptional items are also excluded from the structural balance.

Interpretation: In 2018, the estimated primary structural balance was -€2.7B, the cyclical balance amounted to +€0.6B, interest expense amounted to -€0.4B and temporary and one-off measures represented +€0.7B. In total, the financial balance for 2018 is estimated to be -€1.8B.

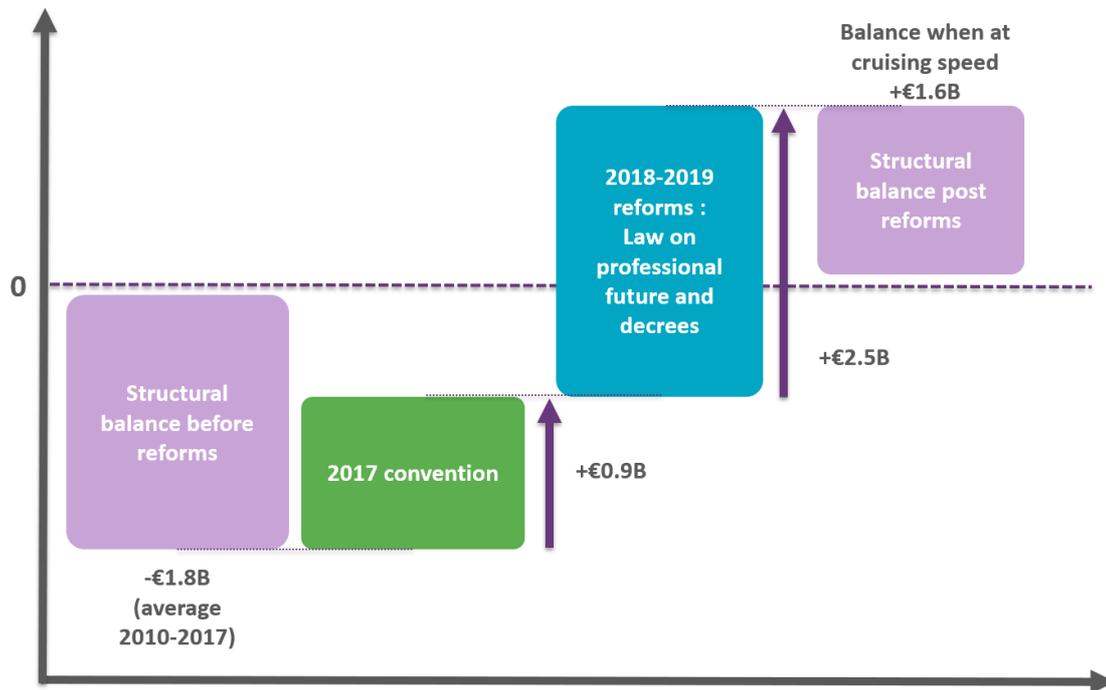
The Unemployment Insurance system’s structural balance should become positive again in the future

The structural balance (excluding interest expense) amounted to -€1.8B on average between 2010 and 2017. As a reminder, this balance takes into account savings realized thanks to the 2014 convention (€450M at cruising speed). The structural balance will decrease under the effects of the successive reforms.

First, the 2017 convention will allow this balance to improve by €930M when totally ramped up, that is, in 2021-2022.

Finally, the new measures introduced by the decrees dated 26 July 2019 will, in the aggregate, have a positive effect on Unédic’s structural balance. They should improve the structural balance by about €2.5B per year once cruising speed has been reached, i.e., in 2023/2024. Thus, in view of information known to date, the Unemployment Insurance system’s structural balance should be in surplus and reach +€1.6B, i.e., approximately 0.5 months of revenues, once the new Unemployment Insurance rules have been ramped up.

Effect on the structural balance of regulatory changes made and to come



Source: Unédic

Other regulatory and legislative changes are also likely to affect Unédic’s structural balance in the future:

- ▶ the shoring up of controls over employment searches and a change to the range of sanctions (decree dated 28 December 2018);
- ▶ new European rules that may potentially reduce in the future the net cost for Unédic of paying benefits to frontier jobseekers. Regarding this last point, on 18 April 2019, the initial 2016 plan was rejected by the European Parliament, which decided to postpone the issue to the next legislature. So long as the European Commission does not withdraw the proposal, discussions may continue. We can consider that all the proposals making up this project would have improved the Unemployment Insurance system’s financial system by about €600M per year had they been applied starting in 2017.

FOCUS ON NEGOTIATED DEPARTURES

Use of negotiated departures has doubled in 10 years

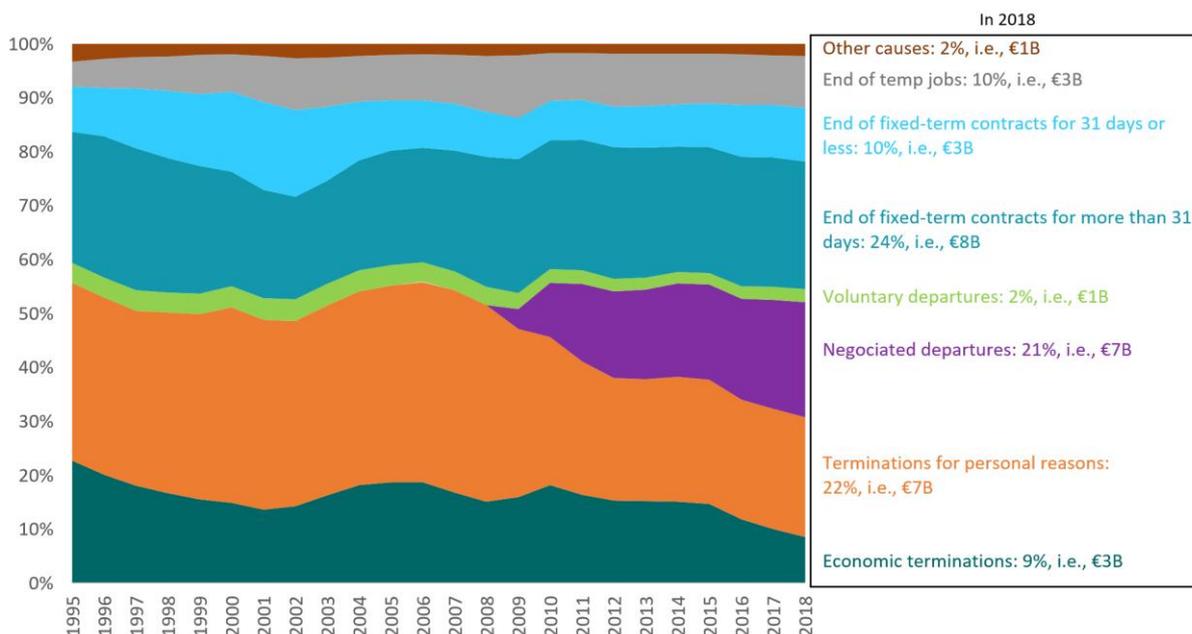
Negotiated departures were introduced by the law modernizing the job market, dated 25 June 2008. The objective was to keep in line with changes in professional mobility needs and to support the transformation of employment in light of technological changes within a secure framework from a financial point of view.

Since their introduction in August 2008, the number of negotiated departures has doubled. In the first half of 2019, 39,000 requests were recorded each month, compared to approximately 21,000 at the end of 2009. Most are approved (94%). Almost all departures subsequently give rise to registration with Pôle Emploi along with the acquisition of entitlements to Unemployment Insurance benefits. Finally, more than eight out of ten negotiated departures result in benefits being paid.

In 2018, 10 years after having been put in place, negotiated departures represented 21% in benefit expenditures in respect of 15% of the beneficiaries indemnified over that same year. The salaries lost by beneficiaries after the negotiated termination of an indefinite term contract are often higher than those received by beneficiaries at the end of a fixed-term contract or temporary posting, and the same is therefore true for the level of benefits paid. Moreover, their entitlements generally last longer. On average, beneficiaries receiving benefits after a negotiated departure are younger and have more degrees. They occupied more highly qualified and better paid positions than persons who were terminated. Most often, they have plans to create businesses.

Several studies underscored the special nature of negotiated departures in light of other grounds for terminating an indefinite term contract. Negotiated departures more frequently take place in the middle or end of a career. The share of resignations in terminations of indefinite term contracts diminishes with age, contrary to dismissals. More negotiated departures take place in small establishments, and more terminations on grounds other than economic grounds take place in large companies. Resignations and dismissals on economic grounds depend little on the size of the company.

Breakdown of allocation expenditures based on grounds for loss of employment



Note: The other causes include in particular the end of an assignment, national service, apprenticeship contracts, temporary layoffs following a decrease in business. The “economic terminations” category includes Professional Security Contracts (Contrats de Sécurisation Professionnelle (CSP)).
Source: National beneficiary file (Unédic/Pôle Emploi)

Scope: All of France, including payment of company creation assistance (Aides à la création d'entreprise (ARCE)).

Interpretation: In 2018, expenditures linked to negotiated departures represented 21% of the Unemployment Insurance system's benefit expenditures, i.e., €7B.

What can we conclude with respect to possible substitution effects?

Irrespective of whether the employee or the employer (or both) are at the origin of the contract termination, the reasons for having recourse to a negotiated departure are varied. The distinction between the various grounds for a negotiated departure is an important one for Unemployment Insurance as it allows for a better understanding changes to its structural balance.

The ramping up of this system, which intersected with the financial and economic crisis that began at the end of 2008, makes the development of this system difficult to analyze. The potential effects of substituting other methods for terminating an indefinite term contract that could have had an effect on benefit expenditures cannot be directly observed. However, although substituting a negotiated departure with a dismissal does not lead to an additional cost for the Unemployment Insurance system, this is not the case when substituting with a resignation since certain resignations would not have given rise to entitlements to unemployment benefits.

The economic literature is divided on the substitution effects at play between negotiated departures and other grounds for ending an indefinite term agreement. Various studies have addressed the issue, particularly during the first years after negotiated departures were introduced. Some studies do not find any substitution effect with resignations, while others measure effects of varying degrees. The same is true for substitutions with dismissals. Therefore, it is difficult to come to a conclusion regarding these effects. However, a relative consensus does exist in the economic literature on the existence of a surplus of contract terminations linked to the introduction of negotiated departures, but not on the level of that surplus, which, depending on the study, varies between 5% and 28% of all negotiated departures.

While economic studies have highlighted an increase in professional transitions, it is not possible to assess the net impact of this arrangement on the Unemployment Insurance system's expenditures excluding substitution effects in relation to the various types of dismissals and voluntary departures. Similarly, while an environment that is favorable to professional mobility can have a positive impact on the use of this arrangement, conversely, it is also not possible to evaluate its significance in coming years, especially since interactions with new forms of contract terminations are probable, such as collective negotiated departures or the new right to benefits for resigning employees.



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