Facts and arguments: preservation of the EU staff pension scheme, a priority for staff !

The pension scheme for EU staff is one of the main benefits of the Staff Regulations of the European Civil Service. This benefit has been preserved in its principle and, for the main part, in its terms, throughout the history of the Staff Regulations, in spite of the partial reconsiderations of the last two reforms of the Staff Regulations in 2004 and 2014.

Our pension scheme brings together the best aspects of the different national civil service schemes. It allows the collection on retirement of 70% of the final salary, an annual review of this amount using the Method (which passes on to pensions any changes in the purchasing power of the officials of Member States, as well as inflation), it is not subject to special withholding tax, called 'crisis tax', and it is combined with social protection that is still of very high quality. These reasons explain why the staff and their representatives have always fought to keep it.

Is the scheme in danger?

However, in a relatively new development, our scheme is now under threat not only from the outside. For some years, and as recently as April 2018, the trade union *Génération 2004* has called it into question! What is this really about?

Contrary to what that union claims, our pension scheme is sound. Despite the steps backward seen in the reforms of 2004 and 2014, this system offers pensions that are fair for everyone, the amount and adjustment of which are guaranteed by the new Method of updating pay and pensions. The Method, we repeat, is not a simple indexation on price changes. It guarantees changes in the spending power of EU staff, including pensioners, that are in line with those recorded in the civil services of the Member States. For pensioners in a "normal" economic situation, it means changes in the amount of their pension that are greater than those in prices.

Staff therefore have no interest or valid reason to see this case reopened. This idea, which is dangerous for everyone and which is based on a completely erroneous analysis of the pension system, must be combated forcefully.

Some principles that benefit everyone: the importance of the principles of acquired rights and of the legitimate confidence of the staff of the institutions

The Court of Justice establishes the principles of legitimate confidence and acquired rights. These fundamental principles make it possible to guarantee the rights of existing staff against their sudden unilateral revision by the Member States, each time more negative, who want to call them more profoundly into question. It is on this basis that, for example, those colleagues recruited after 2004 but before 2014 were protected from the change in the retirement age to 66 (they kept a retirement age fixed at 63) and from the decrease in the annual pension accrual rate from 1.9% to 1.8%, applicable to staff recruited from 1 January 2014, after the recent reform of the Staff Regulations.

These two principles protect staff taken on after each reform as retaining the basic elements of situations acquired for staff in post limits the possibility of creating disproportionate discrepancies with new staff. They also legitimise the implementation of corrective measures to mitigate existing disparities, which end up causing management difficulties for the institution itself. These two principles will still protect the existing staff should the Member States return to the offensive and again try to reduce the statutory rights in the context of a new reform. That is why they must be jealously guarded.

A perfectly healthy pension scheme

An incorrect analysis conducted in haste could conclude that the accumulated pension rights of colleagues who are nationals of the EU15 countries would be unfairly financed by the new Member States, who would pay for the pensions of officials hired before the expansion of 2004. We should remember that our EU staff pension scheme is an actuarial scheme that, by definition, is in balance.

It is financed by indirect wages (employee and employer contributions that supply a notional, i.e. virtual, pension fund). These contributions can be adjusted every year to cover the updated value of the pension rights acquired during the same year. This guarantees the actuarial balance of the scheme. The second parameter that makes it possible to balance the scheme is the retirement age.

Each member of staff finances their own pension by their contributions and the contributions that the employer pays for them, throughout their professional life; because it is a pension fund and not a pay-as-you-go scheme. The social contributions are therefore accumulated in the notional fund[1].

It is a balanced and very coherent pension scheme, much better than most national systems!

[1] The pensions paid by the Community budget decrease the notional fund, while the contributions of active workers, which correspond to the current value of the acquired pension rights, increase the notional fund. The long-term interest rate used in the actuarial calculation is that of the public debt. To avoid cyclical fluctuations in the interest rates, a 10-year moving average was used. With the Staff Regulations of 2014, the mobile average is progressively increased to 30 years, which mitigates the negative effect of the currently low rates.

A collective guarantee that would only be used in extreme cases

The collective guarantee of the Member States (art. 83 of the Staff Regulations) provides extra security, in the event that the EU ceases to exist or a budget collapses, extremely unlikely scenarios. This guarantees the pension scheme by providing a safe haven for officials in case of the dissolution of the institutions, like that created for the pensioners of the pre-war League of Nations, who continued to receive their pensions even after it ceased to exist.

This obligation applies to all new Member States of the EU, but only in extreme cases. Pensions are normally financed by the Community budget (heading 5), pension contributions being entered in a notional pension fund.

Furthermore, we can see in the draft treaty between the EU and the UK that the latter will continue to pay its share of the pensions of retired officials and agents after 1 January 2021, under the terms of this guarantee.

Accumulated pensions that are deferred wages

In reality, the EU budget pays the pensions on the basis of theoretical deductions made on the overall salary (employer and social contributions) during the working lives of agents who are now retired. These deductions are accumulated in a notional virtual fund, to which long-term interest is applied at the average interest rate of the public debt. The amount of the pensions is compensated for by this virtual fund, essentially in balance, which therefore does not incur any surplus or loss.

New staff start financing their future pensions from their salaries. The pensioners receive their pensions, as has already been mentioned, on the basis of sums accumulated by them throughout their careers.

The virtual pension scheme generates cash in the first instance, as the EU budget does not finance a real pension fund. The budget pays the pensions due each year. In this way, since 1962, the EU budget has benefited from substantial budgetary savings, amounting to tens of billions of off-budget Euros, while the annual cost of pensions has gradually risen to just a little over 1.5 billion Euros.

It is therefore wrong to say that some States (the new ones) pay for the pensions of nationals of the others (the old ones). Furthermore, staff pensions are paid from the Community budget: it is almost impossible to make a “fair value” calculation in accordance with the nationalities of active and retired staff! Indeed, it would then be necessary to think in terms of Member States that are net contributors and not in terms of new or old Members (in the knowledge that the "pensions" item represents a tiny proportion of the budget). This line of argument is extremely dangerous, as it amounts to an attack on the principle of the statutory and budgetary guarantee of pensions, which has existed since the entry into force of the EEC statutes and Euratom on 1/1/1962. It would be a political error that could backfire on all staff of the institutions.

A fair scheme

The claim that the contribution rate is not proportional to the benefits of the scheme and does not take account of the retirement age and the level of the accumulation rate is false. Also false is the conclusion that the contribution rate should be higher for colleagues recruited before 2004. This suggestion shows a complete lack of understanding of the pension scheme.

In fact, the Staff Regulations define the calculation of the rate of contribution to the pension scheme, which applies to every agent, as the ratio between the cost of the service for year "n" and the annual total basic pay for the same year. It is then adjusted annually to maintain the actuarial balance, on the basis of the following variables:

- Demographic change: Article 9 para. 1 of annex XII stipulates that the Commission must conduct an annual survey of the age of active workers and pensioners allowing it to determine the structure of the population, as well as the average age of retirement and the invalidity table.

- The interest rates: Article 10 of annex XII provides for the use of the average of the average rates recorded for the long-term public debt of the Member States during the last twelve years prior to the year in question. According to the new Staff Regulations, this moving average will progressively cover 30 years. Thus, the Community pension scheme is invested virtually, as for a real pension fund, in the public debt securities issued by the Member States.

- The annual change in the salary scales for EU officials (article 11 of annex XII of the Staff Regulations) is taken into consideration for the actuarial calculation to alleviate cyclical fluctuations. Here also, we are gradually moving from the use of a 12-year moving average (former Staff Regulations) to a 30-year moving average (new Staff Regulations).

Demagogically comparing the current average pension with the salary of a contract agent makes no sense, as officials who are now retired acquired pension rights throughout their working lives. We should note that with the living wage mechanism, in 10 years, a contract worker acquires pension rights equivalent to 40% of the salary of an AST1/1, i.e. a pension of over EUR 1,000. However, aligning pensions acquired throughout a career with the salaries of staff in precarious positions amounts to a general regression, which would, moreover, apply most rigorously to the most recently recruited members of staff.

Avoiding double taxation

Is it necessary to place a surcharge on pensions by applying the special contribution of 6% on salaries? The extension of this contribution would amount to making pensioners pay twice, as they have already paid it on their working salary throughout their careers (the pension is a deferred salary).

The contributions to the pension scheme were calculated for a pension without an additional levy. If we used a system in which the special “crisis” levy was applied to pensions, the contribution during one’s working life should have been lower: current pensioners would have to be reimbursed the excess amount paid as employee contributions during their careers.

Should we return to a “real” pension fund?

In its proposal for a financial framework for 2021-2027, the Commission proposes to study the feasibility of a real pension fund, an approach it prudently distanced itself from in a 2012 report on the pension scheme.

If the proposal to replace the current scheme with a system of contributions to a pension fund invested in the financial markets were pursued, the Community budget would have to pay:

- the capital of the acquired notional fund, for investment in the financial markets (tens of billions of Euros), which the Member States have no intention of paying;

- the indirect salary (employee and employer contributions), from the annual budget to the real pension fund.

The budgetary authority would have no interest in pursuing such a transaction. Any formula combining the present system with a real fund would cost the budget more, as shown in the report adopted by the Commission in 2012.

Staff would have to worry about the vagaries of the financial markets. A very real concern, as in recent decades numerous pension funds of the same type saw their capital disappear in the course of financial crises and bad investments.

In concrete terms, our current pension scheme made (initially) a "saving" of liquidities for the budget. The notional fund certainly accumulates a debt for the future pensions, but the actuarial calculation of the contribution provides the balance between the two effects. We should emphasise that due to new recruitments, the share of pensioners in the total population paid from the Community budget (active staff and pensioners) has fallen from 27.1% in 2003 to 25.1% in 2013.

The worsening outlook for pay changes and career prospects and consequently the foreseeable decrease in pensions following the revisions of the Staff Regulations in 2004 and 2014 has already resulted in a fall in the contribution of active workers to the pension scheme (from 11.6% to 9.8% for employee contributions, and 23.2% to 19.6% for employer contributions).

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