La Circulaire

Le club U4U

pour les adhérents et sympathisants

N°46 – 23 février 2015

Our pension scheme is a proud ship sailing on calm seas

An alarmist document was distributed to all staff by a union that compares our pension scheme to the Titanic approaching the fatal iceberg.

Nothing could be further from the truth. **Our pension scheme is healthy** and will continue to enable its beneficiaries to enjoy a well-deserved retirement.

U4U clarifies the main characteristics of the pension scheme and dismantles the allegations and errors contained in that document, which constitutes a particularly dangerous attack on our Civil Service. Our analysis, in the following working document, also demonstrates that **those who would suffer the most from the Generation 2004 proposals are precisely those that the union in question claims to represent and defend**. Don't be deceived...

Read our response to the attacks against our pension scheme →

Facts and arguments: The preservation of the European Union staff pension scheme, a priority for staff!

The European Union staff pension scheme constitutes one of the key achievements of the Civil Service Staff Regulations. The principles and, for the main part, the application of this benefit have been preserved throughout the history of the Civil Service, in spite of the concerns about the last two reforms of the Staff Regulations in 2004 and 2014.

Our pension scheme blends the best aspects of the different schemes of the national civil services. It allows recipients to retain, from the moment they retire, 70% of their final salary, and to have this sum re-evaluated on an annual basis thanks to the Method (which takes account of any changes in the purchasing power of the officials of Member States, as well as inflation); furthermore, it does not include deductions for the one-off "crisis" tax and is accompanied by a social protection of very high quality.

These are the reasons why the staff and their representatives have always fought to preserve it.

Is this scheme in danger?

However, and this is a relatively new factor, our scheme is longer being challenged exclusively by external forces. For some years, and more recently (in January 2015) in a document sent to all staff by the trade union Generation 2004, it has been compared to the Titanic in the process of sinking! What is this really all about?

We want to establish the facts[1], as the disinformation and analytical errors nourish the demagogues, encourage attacks against the Civil Service and put all staff in danger, irrespective of their status, seniority and recruitment date, including pensioners.

Contrary to the claims of Generation 2004, our pension scheme, which is the same throughout the European Civil Service, is not a sinking Titanic; it is solid and strong. In spite of the backward steps seen with the last two reforms in 2004 and 2014, this scheme offers fair pensions for all, the amount and adjustability of which are guaranteed by the new Method of updating pay and pensions. The Method, let us repeat, is not a simple price indexation. It guarantees changes in line with the purchasing power of EU staff, for both current and retired employees, and in line with those changes noted in the civil services of Member States. For retirees in a "normal" economic situation, it allows adjustments to the total amount of their pensions that are greater than the increase in prices.

The staff therefore has no valid interest or reason for seeing this case reopened. This idea is dangerous for everyone, is based on a completely erroneous analysis of the pension scheme and must be strongly opposed.

---

[1] *We are supplementing this document with two other texts on the debate with the same organisation already published to allow staff to have a comprehensive view of the problems. As always, that organisation claims to address claims that are common to all staff while using methods and proposals that are divisive and damaging.*
Dividing the staff means fighting against their own interests. Letter to the President of Generation 2004.

Principles that benefit everyone

The importance of the principles of acquired rights and the legitimate expectations of the staff of the institutions

The Court of Justice establishes the principles of legitimate expectations and acquired rights. These fundamental principles guarantee the rights of staff in post against their being suddenly and unilaterally revised, always for the worse, by those Member States who want them to be subjected to a strong challenge.

These principles also constitute protection for those colleagues hired after each reform, in that the preservation of the existing benefits prevents large gaps opening up between generations of officials and justifies subsequent corrective actions.

It is on that basis that, for example, colleagues recruited after 2004 but before 2014 were protected from the change in the retirement age to 66 – a fixed retirement age of 63 was retained for them – and from the decrease in the annual rate of accrual for pensions from 1.9% to 1.8%, applicable to staff recruited from 1st January 2014, following the recent reform of the Staff Regulations.

These two principles affect staff hired after each reform, as maintaining the most import aspects of the benefits acquired for staff in post limits the possibility of creating unduly large disparities with new staff. They legitimate the later implementation of corrective measures to alleviate existing disparities, which end up causing management problems for the institution itself. That is why, with a view to reducing the disparities created by the 2004 reform, the Commission finally resolved to organise internal reclassification competitions, and to employ the unused resources from promotions of the higher grades in a "cascade" that makes additional promotions possible in the lower grades.

These two principles will further protect the staff in post when the Member States take up the issue once more in another attempt 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 erroneous and unduly hasty analysis could conclude that the pension rights accumulated by colleagues from the EUR 15 would be unfairly financed by the new Member States, who would pay for the pensions of officials hired before the expansion of 2004.

It should be remembered that our pension scheme for EU staff is an actuarial scheme that, by definition, is in balance.

It is financed, to all intents and purposes, by indirect wages (employee and employer contributions) paid into the EU budget, which supplies a notional (i.e. accounts-based) pension fund. These contributions can be adjusted annually to cover the updated value of the pension rights acquired during the year. This ensures the permanent balance of the scheme.

The pensions of the retirees are therefore financed by the **contributions paid during their working lives** and accumulated in the notional fund[2].

This is a balanced and extremely consistent pension scheme, much better than most national systems!

A collective guarantee that would only be used in extreme cases

The united and collective guarantee of the Member States (art. 83 of the Staff Regulations) provides additional protection in the extremely unlikely event of the EU ceasing to exist or the EU budget collapsing. This guarantees the pension scheme by protecting officials from the dissolution of the institutions, in a similar way to what happened to retired employees of the pre-war League of Nations, who continued to receive their pensions even after it ceased to exist.

This obligation applies to each new EU Member State, but only in these extreme cases. In normal times, the retirees are financed by the Community budget (section 5), the pension contributions being entered in the accounts of a notional pension fund.

Accumulated pensions that are a deferred salary

In reality, the EU budget pays the pensions on the basis of the theoretical deductions made from the overall salary (employer's social security contributions) during the working lives of agents who are now in retirement. These deductions are accumulated in a virtual notional fund, to which the long-term public debt interest rate is applied. The amount of the pensions is matched by this virtual fund, essentially in balance, which therefore generates neither a profit nor a loss.

New colleagues begin to finance their future pensions from their salary. As already stated, the retirees receive their pensions on the basis of the sums accumulated by them throughout their careers.

The virtual pension scheme initially generates cash, as the Community budget does not fund a real pension. The budget pays the pension due each year, for which the cumulative amount, bearing in mind the age profile of the staff, is of course lower than the total of the deductions accumulated in the notional fund. The Community budget has therefore benefited, since 1962, from significant budgetary savings amounting to several tens of billions of off-budget Euros (in the region of 40 billion), while the annual cost of pensions has gradually increased to just over a billion Euros.

As a result, it is inaccurate to say that the new Member States pay for the pensions of nationals of the long-standing Member States. Furthermore, staff pensions are paid from the Community budget: it is almost impossible to make an accurate calculation of expenditure in accordance with the nationality of the active and retired members of staff! Indeed, it would then be necessary to think in terms of Member States that are net contributors rather than in terms of new and long-standing Member States (in the knowledge that the "pensions" item represents a tiny proportion of the budget). Taking this line of argument is extremely dangerous, as it means attacking the principle of the statutory and budgetary guarantee of pensions that has existed since the entry into force of the

[2] The pensions paid by the Community budget reduce the notional fund, whereas the contributions of active employees, which correspond to the current value of the acquired pension rights, add to the notional fund. The long-term interest rate used in the actuarial calculation is the public debt interest rate. A 12-year rolling average was used to avoid cyclical fluctuations of the interest rate. Under the 2014 Staff Regulations, the rolling average is gradually increased to 30 years, which mitigates the negative effect of the currently low rates.

Staff Regulations and the adoption of the EEC and EURATOM statutes on 1/1/1962. This would be a political error that could backfire and negatively impact all of the staff and institutions.

A fair system

The claim that the contribution rate is out of proportion with the benefits of the scheme and does not take account of the retirement age and the rate of accumulation is false. Also false is the conclusion that this rate should by higher for colleagues recruited before 2004. This suggestion demonstrates complete ignorance of the pension scheme.

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

- Demographic changes: Article 9 para. 1 of annex XII stipulates that the Commission must conduct an annual survey of the ages of the active employees and retirees in order to determine the structure of the population, as well as the average retirement age and the invalidity table;
- The interest rate: Article 10 of annex XII stipulates the use of the average of the average rates recorded for long-term public debt of Member States over the ten years prior to the year in question. According to the new Staff Regulations, this rolling average will gradually increase to 30 years. The Community pension scheme is therefore virtually invested, just like a real pension fund, in public debt securities issued by the Member States.
- The annual variation of the salary scale for European Union officials (article 11 of annex XII of the Staff Regulations) is taken into consideration for the actuarial calculation in order to mitigate the effects of cyclical fluctuations. In this case also, the use of a rolling average over 12 years (previous Staff Regulations) is gradually changing to a 30-year rolling average (new Staff Regulations).

To compare the current average pension in such a demagogical manner with the salary of a contract agent makes no sense, as those officials who are now retired acquired the rights throughout their working lives. It should be noted that by means of the living wage mechanism, in 10 years, a contract agent obtains pension rights equivalent to 40% of the salary of an AST1/1 employee, i.e. a pension of more than 1,000 Euros. However, to bring pensions acquired throughout a career in line with the salaries of staff unfortunately in precarious positions would be a general step backwards that would have the most dramatic impact on those members of staff most recently hired.

A mechanism to correct certain exceptional situations

Are the rewards of pension rights (the "Barcelona incentives”) an individual advantage? This mechanism allows colleagues who have not had a full career to receive a suitable pension. The average age of entry into the institutions has risen considerably since 2004, to more than 35 years of age. **Once again, it is those colleagues recruited after 2004 and after 2014 who have the most to gain from this mechanism, to improve their standard of living in retirement**.

Avoiding double taxation

Is it necessary to put a surcharge on pensions by imposing the special contribution of 6% on salaries? The extension of this contribution would mean retirees having to pay twice, as they have already paid it on their salaries during their careers (the pension is a deferred salary).

The contributions to the pension scheme were calculated for a pension without additional deductions. If a system in which the one-off "crisis" deduction applies to pensions is to be used, the contribution during the working years should have been lower: current retirees would have to be refunded the excess paid in the form of employee contributions during their careers. This is patently ridiculous!

Should we return to a "real" pension fund?

If we followed the proposal to replace this excellent system with a system of contributions to a pension fund invested in the financial markets, the Community budget would have to pay:

- the capital of the notional funds acquired into a real fund for investment in the financial markets;
- the indirect salary (employee and employer contributions) from the annual budget into the real pension fund.

The budgetary authority would have no interest in proceeding with such an operation, as we have seen.

Staff would be constantly worried about the vagaries of the financial markets. A genuine concern, as numerous pension funds of the same type have, in recent decades, seen their capital vanish due to financial crises and investment errors.

In concrete terms, our current pension scheme initially proved to be a cash-saving asset for the budget. The notional fund undoubtedly accumulates a debt for future pensions, but the actuarial calculation of the contributions ensures the balance between the two. Let us stress that as a result of the new recruitments, the proportion of retirees in the total population covered by the Community budget (current and retired employees) has decreased, going from 27.1% in 2003 to 25.1% in 2013.

The deterioration of pay and career prospects, and therefore the foreseeable decrease in pensions paid following the revisions of the Staff Rules in 2004 and 2014, has already resulted in reduced employee contributions to the pension scheme (from 11.6% to 10.1% for employee contributions, and from 23.2% to 20.2% for employer contributions, i.e. a total of 4.5 points on the base salary scale).

Unhelpful and ill-advised reform proposals

Reforming the pension scheme to make it more divisive and discriminatory goes against the fundamental interests of all staff, irrespective of their status, grade or date of recruitment.

- ***A proposal to amend the provisions of the Protocol on the Privileges and Immunities of the European Communities and of the tax regulations to make the best paid retirees pay more taxes***

To get around the obstacle of an amendment of the Staff Regulations in order to impose a special contribution of 6% on pensions, Generation 2004 has aligned itself with the wishes of certain Member States frustrated by the 2014 reform, which in their opinion did not go far enough. Its leaders propose amending the tax regulations in order to tax higher salaries. Article 14 of the PPI states that social security for EU staff must be established at EU level. Article 12 of the PPI provides for the introduction of a Community tax. The tax regulations decided on this basis stipulate a tax scale going from a tax rate of 8% for the bottom of the scale up to 45% for a salary (or pension) above approximately €7,000, which is effectively a progressive income tax (including pensions).

The progressiveness of this tax is among the highest of the Member States, because: a marginal tax rate of 45% is applied to the highest incomes; deductions are not possible; the internal salary scale of the Civil Service is from 1 to 7, which is 3 times less than the maximum gaps proposed by the radical European parties (1 to 20). With the social security contributions and the 7% deduction, the marginal rates of fiscal and parafiscal charges amount to 63.9%.

The Protocol on Privileges and Immunities is an annex to the Community Treaty and requires an Intergovernmental Conference to amend it. Are we seriously expected to believe that it would be appropriate and beneficial to rush into such an amendment making pensioners pay a contribution on salaries? The risk, of course, is that the Europhobic governments will take the opportunity to reduce other provisions of the Staff Regulations, to the detriment of staff, while the hypothetical gains will never be paid to the officials, but rather, and at best, into one of the budget categories.

- ***Proposal to calculate the actuarial balance in a differentiated manner***

The proposal is to **calculate the actuarial balance in a differentiated manner**, in line with the annual rate of accumulation of pension rights and the retirement age of the officials or agents.

The idea is to make officials recruited before 2004 pay a higher percentage of their monthly salary into the pension scheme. This notion of progressive rates for contributions, as innovative as it may be with regard to national rights, could lead the Member States and the Council to require such an increase from colleagues who entered recently rather than the more senior officials who will not be contributing for much longer.

Let us add to this that, although it has gone down, the rate of contribution to the EU pension scheme is still among the highest of all civil service schemes. Some of them do not even have any contributions. So why encourage the Member States to continue in this direction?

Such a proposal, if it were legally and technically feasible, would require an amendment to the Staff Regulations that, in the current political climate, would amount, we repeat, to a form of collective suicide for the officials and agents of the EU.

All these proposals rely on an assumed division between the pre-2004 and post-2004 employees, but what about those colleagues recruited after 2014, whose conditions are even less advantageous compared to post-2004? This appears to be a spiral...

- ***Proposal to raise the pensionable age of officials who benefit from "better conditions"***

Raising the retirement age of officials who benefit from better conditions (in other words, who were recruited before May 2004): this is the first time in the history of Europe, and most of the Member States, that a trade union organisation has proposed raising the retirement age! This

proposal is music to the ears of those Members States that simply want to make savings, to the detriment of a quality Civil Service.

It is obvious that if the Member States asked for a higher retirement age, this could not affect staff in post, but only those recruited in the future, as was the case with the 2004 and 2014 reforms (principle of legitimate expectations). In fact, that could result in penalising those officials recruited from 2014, whose conditions are already worse and who could do without such a concern!

- ***Proposal to replace the notional fund with a real pension fund***

This proposal is without doubt the most surprising. It concerns the replacement of the current notional fund, where the rights are registered but not paid by the EU budget, with a real pension fund invested in the financial markets. To be able to pay, the EU budget would have to be increased by several tens of billion Euros of rights accumulated since 1962. The total amount of these acquired rights comes to 46.8 billion. You can imagine how that idea would be welcomed by the Member States!

This proposal is in complete contradiction to the belief that our pension scheme is a sinking Titanic! If the Council finds the payment of the annual pension service[3] to be too much of a burden on the EU budget, why would it then agree to the creation of a pension fund that would mean:

- either increasing the EU budget by tens of billions of Euros, corresponding to the amounts unpaid since 1962;
- or reallocating amounts already budgeted, which would be to the detriment of certain policies already decided.

Our current scheme is guaranteed by the Staff Regulations, by the budget and, ultimately, by the Member States, in case the EU ceases to exist. Creating a real pension fund would mean investing in the financial markets, with all the risks that this entails. Will the fluctuations of financial and market investments, as unpredictable and erratic as they are, protect the future pensions of the institutions' employees? Do we need to remind you of the crash of numerous public and private pension funds in the United States and elsewhere over recent years? Is this really the model that is being suggested to us as a replacement for a stable and secure system that has made significant savings for the EU budget?

- ***Proposal to use the financial income from a real pension fund to benefit colleagues wanting to leave the institutions***

To finance those few colleagues who want to repatriate their rights in national schemes in order to leave the Commission during their careers ("Transfer out"), the pension fund would be called on to use the financial income of the real pension fund. However, this financial income would, in any case, belong to all the staff!

If there were a pension fund invested in the financial markets, the return would be included in the overall actuarial calculation and could not therefore be used for the benefit of colleagues who want to leave the institution.

[3] about 1 billion/yr on average; for 2015 this amount is 1.567 billion

In conclusion

We note the technical and political weakness of a document from a trade union organisation that proposes to deal with a subject that is fundamental to the needs of European officials. The paper in question is based on erroneous analyses, unfounded assumptions and contradictory arguments, and suggests as a solution to a wrong that does not exist a generalised worsening of the conditions of employment of employees – past, present and future.

On the political front, this document is playing into the hands of the Member States that want to make savings and weaken the European Union, its institutions and its staff by making a Civil Service career, of which the pension scheme is an integral part, less attractive. By a quirk of the calendar, this document puts forward proposals that coincide with those of a group that has just published a paper on the same subject and which openly claims to be Eurosceptic.

The document breaks with the principle of solidarity between staff in post and retirees, and between different categories of staff in post. It develops a category-based and corporatist approach and divides staff instead of attacking those responsible for the 2004 reform: the Council!

It also calls into question the two cardinal principles of the European Civil Service supported by the Court of Justice, namely the protection of acquired rights and the legitimate expectations of staff, which protect staff in post from unduly sudden changes to their conditions of employment.

It tries to set the Member States against each other and against European principles. It sows discord between the Member States and their citizens.

The proposals put forward are not only technically weak, but are also politically dangerous, for as we have already shown, they harm the interests of all staff.

What is more, this attitude reminds us of the position of Generation 2004 during the discussions on the revision of the Staff Regulations in 2013 which, for example, promoted the blocking of careers. However, who will be most heavily penalised by the career blocking they "won"? It will be those employees who were recruited after 2004, as the majority of staff recruited before 2004 have already completed most of their careers!
Yet more serious is the fact that that organisation takes the political risk of playing into the hands of those Member States who would like to see the dismantling of the pension scheme for EU staff, for mainly political reasons.

U4U asks staff not to support such proposals.

Should the Commission also set the record straight?

U4U has also asked the Commission to set the record straight and defend our pension scheme. The silence of the Commission, including at a technical level, helps to leave the way free to all such demagogic proposals.

The Commission and the Vice-President responsible for administration and staff must also:

- continue to monitor the actuarial balance of the EU staff pension scheme, by using the skill and professionalism of our colleagues at EUROSAT, particularly with regard to the adjustment of the

monthly rate of pension contributions (deducted from salaries[4]). It should be noted that since 1st January 2014, the Commission has had the tools required to allow work to be conducted in a more relaxed environment;

- no longer propose increasing the retirement age, which is now fixed at 66 by the Staff Regulations, 66 being the highest retirement age of all the national civil services, particularly with a view to the rejuvenation of the staff of the Commission and the institutions.

U4U is also launching an appeal to the other unions and pensioner associations[5] to work in concert to protect and preserve the EU staff pension scheme, which is an asset that benefits all staff.

20/02/2015

[4] It has been 10.1% of the gross salary since 1st July 2014.
[5] AIACE and SEPS.