Generation 2004

Newsletter no.11

January 2015

Special (Pensions) Edition

TOP STORY

On to 2015

by Stefan Grech, Chair of Generation 2004

Dear colleagues,

Time flies, and it is already one year since I wrote (see here) to you introducing myself as the new Chair of Generation 2004.

2014 has been an intense year where we have seen our association grow on a daily basis and consolidating itself as one of the principle representatives of EU civil servants, particularly those recruited after 01 May 2004.

We now have in place a strong team of colleagues working for Generation 2004 on full or part-time basis, together with a fully-functioning secretariat. We will shortly apply the finishing touches to our offices on Floor 6 at Rue de la Loi 80 (J79).

2015 will be another crucial year full of challenges for Generation 2004:

As we have previously communicated, the new Commission seems to be more sympathetic towards our cause and to redress some of the more general grievances suffered by staff during a decade of maladministration exacerbated by the general indifference of the Barroso Commission. In this respect, we intend to continue being at the forefront in engaging the Commission with **proactive** and feasible proposals which might finally bring redress to post-2004 colleagues.

This year will present **Generation 2004** with several electoral tests, starting with our **first participation at the Economic and Social Committee staff elections** this **27 January** and culminating in the elections for the Commission's (Brussels) Local Staff Committee in June which saw us formally emerging on the scene almost three years ago.

To this end, we intend to conduct a **positive** campaign based upon a **positive** message delivered by **positive** colleagues. In this sense, **our search is on as from now for valid candidates ready to commit themselves by putting forward their name on our lists. Please do not hesitate to come forward and contact us**.

In general, during 2015 Generation 2004 will continue to distinguish itself as *the* **progressive** staff association *par excellence* for whom the status quo is simply not an option; where "out of the box" thinking is the norm and which hones its objectives through a constant dialogue with its grassroots – i.e. YOU. Indeed, over the coming weeks and months we will be embarking upon an intensive series of "roadshows" visiting most Commission DGs and buildings where more than anything else we want to hear what YOU have to say, criticise, suggest ...

On behalf of Generation 2004 I wish you all the best for the exciting year ahead.

Stefan Grech

SOS – Your Pension!!!

If you thought you were already shipwrecked by the 2004 and 2014 staff reforms as regards your career perspectives as well as your salary, you ain't seen nothing yet. Wait until you are old and frail and want to draw on your well-deserved pension. That's when the real trouble starts. In this article, Generation 2004 takes a closer look at the EU pension scheme. Can we avoid the many icebergs that lurk around our pension scheme? In particular, what are the chances that EU Member States (MS) pay the €40 billion pension liability accumulated since 1958? Can we prepare a lifeboat in case the scheme were to founder?

The facts: EU pension scheme for dummies

- Our pension scheme is a “notional” pension fund; meaning that MS collectively guarantee that our pensions will be paid but they do not set aside any money for that purpose. In that sense, “notional” actually means “virtual”.

- Currently, the EU pension scheme has a €40.4 billion liability as of 2013 (see here).

- 90% of this liability is owed to pre-2004 staff; in 2011, EUR 3.8 billion were due to rights acquired by staff recruited after 2004, while the rest was due to staff recruited between 1958 and 2004 (see here).

- Interestingly, MS jointly guarantee the payment of pension benefits, which means that the newer (post-2004) MS have to guarantee a liability that was mostly accumulated *before* their accession to the EU. Moreover, because the GDP of several new MS grows much faster than the GDP of most old MS, the magnitude of their guarantee proportionally grows over time.

- While the liability is still growing, the Commission has (hitherto) not only refused to estimate the maximum value that this liability will reach but it is even behaving recklessly by granting lots of unnecessary and costly promotions to AD12/AD13 through the artificial creation of senior expert posts (see here) … which will further increase the total liability of the pension scheme.

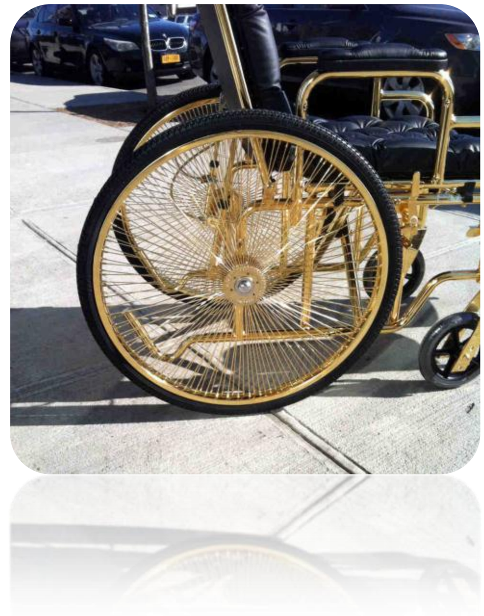
- Pensions are the part of the EU official package that has been most severely cut by the 2004 reform; -30% overall, both because of direct reductions to the pension package and because of delayed career progressions (see here). The cut applied to pension rights in 2004 was thus worse than the cut applied to salaries.

- In 2009, the Council introduced new rules for “transfers-in” of pension rights accumulated in MS before joining the EU Institutions. The new rules are much less favourable than the previous ones, and making such a "transfer-in" an unattractive option for many of us.

- New and very significant cuts are in place since 2014, namely the reduction of the accrual rate of pension rights from 1.9% to 1.8% (pre-2004 staff get a 2% accrual rate) and the postponement of retirement until the age of 66.

- The contributions to the pension scheme are not proportional to the benefits. Everyone contributes the same percentage of one's salary (10.1% since 1 July 2014 - it is this contribution rate that was recently modified by the Council) no matter whether one benefits from a 2% per year accrual rate or a 1.8% per year accrual rate, or whether one will be able to retire at the age of 60 or at the age of 66.

- On average, staff contribute 1/3 to the balance of the pension scheme and MS contribute the other 2/3 (at least theoretically since as mentioned above, the fund is virtual and no money is saved in practice). Those who enjoy the best conditions (pre-2004) actually contribute less than 1/3 to this theoretical balance. Those who enjoy the worst conditions (young post-2004 and post-2014) actually contribute more than 1/3 to this theoretical balance.



- The average pension is already more costly than the salary of most post-2004 officials and certainly more costly than the salary of any contract agent: 70,000€/year on average (based on evidence provided in the 2010 Eurostat study on the long-term budgetary implications of pension costs, see link in footnote 3).

- Indeed, current pensioners have reached high salary levels before retiring and most collect full pension rights (70% of last salary) through favourable transfers-in of pension rights accumulated in their MS before joining the EU institutions, high accrual rates (2% per year) and the so-called Barcelona incentives which give a perk to those who stay in service after the normal pension age (after 60 years under the pre-2004 Staff Regulations).

- The new "method" for yearly salary adjustments introduced in the 2014 reform also applies to pensions. However, pensioners have escaped from the 6% solidarity levy, despite the fact that the solidarity levy is supposed to be the direct counterpart of the "method"!

Generation 2004's analysis: drastic further reductions are looming

The service cost of EU staff pensions is rising very quickly while cost of salaries is decreasing rapidly because of the hiring of new officials at low grades, the massive recruitment of underpaid CAs and the reduction in staff numbers. As a result, Generation 2004 reckons that the service cost of pensions will exceed the cost of salaries around 2025. It is unlikely that MS will accept to spend more on pensions of retired staff than on salaries of active staff. Since MS do not seem to find any value in increasing our salaries, the most likely decision will be drastic reduction of pension benefits.

The EU pension scheme is a barrier to mobility

- For those who choose to leave the institutions before reaching 10 years of service, "transfer-out" of pension rights to a private scheme is possible but under very strict conditions that limit the range of financial products available for the transfer (see here). In particular, the available private schemes charge a high entry fee because they are fully aware that their customers have no viable alternative.

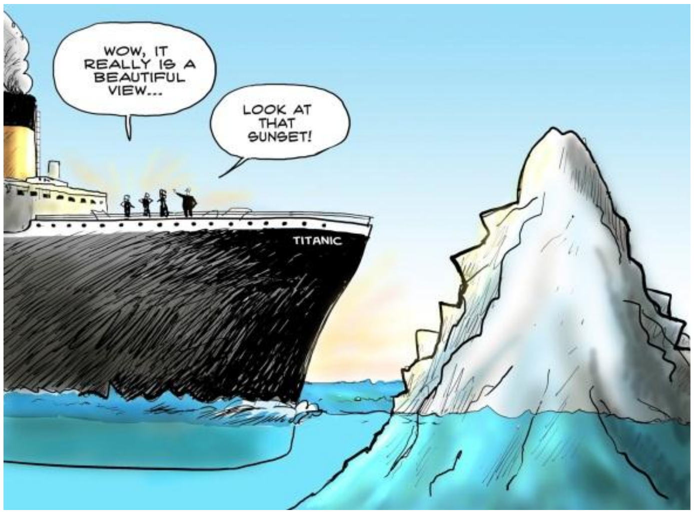
- For those who remain for more than 10 years in service, the "transfer-out" of pension rights can only be back to national systems where the applicable conditions are left to the discretion of national authorities. In particular, there is no transparency on the amount of pension rights that the "transfer-out" will generate in countries where pensions are based on an annuity principle (countries where in order to get a pension, you need to have contributed for a number of years).

- If one keeps one's rights in the EU system and acquires pension rights elsewhere after leaving the institutions after more than 10 years of service, it is very likely that the country in which one moves will grant no further pension or a very small additional pension on the grounds that the potential beneficiary already has access to the EU pension scheme.

- As a result, there is little flexibility for "transfers out". For those who decide so or are forced to leave the institutions, tough luck for their pension!

- Contract agents in executive and decentralised agencies, many of whom will serve more than 10 years, will be the primary victims of this barrier to mobility.

So be prepared: the EU pension system is like a ship heading at full speed among a pack of icebergs. The staff regulations, essentially designed in the 1950s and 1960s, make no provision for a life-boat in case the ship sinks, which will leave many EU civil servants, particularly those from new MS, stranded on an icy sheet or drowning in a sea of bureaucratic coldness, which we know only too well.



- A first indication of what might be coming was the proposal by 8 MS during the (2012/2013) negotiations on the latest reform to calculate pension rights on the average of the career instead of the last year. Similar measures have been imposed by the Commission on MS as part of fiscal consolidation. How on earth could the institutions' own staff be spared?

- Senior officials of the Commission managed to deflect the pressure during the reform of the Staff Regulations last year by introducing measures to reduce pension rights of newcomers and young staff. However, the reform did nothing to rescue the pension scheme as it will produce its effects only in the very long term (i.e. long after 2025 when the situation of the pension scheme of EU employees becomes critical).

- Obviously, those who negotiated the deal with MS (including the Rapporteur in the EP, who happens to be the spouse of the former DG who led the 2004 reform) made sure they will not suffer from the reform. Their strategy has been to postpone the problems until they are too old or dead to care.

- If you think this is scaremongering, look at article 14 of Annex XII of the 2014 Staff Regulations: a new reform of the pension scheme is already planned for 2022. Don't be fooled by the somewhat obscure complexity of the annex. Changing the parameters that ensure the actuarial balance of the pension scheme is nothing but a reform of the scheme. Just remember how the supposedly minor changes in the method for annual salary adjustments have led to a €3 billion-worth reform of the staff regulation last year.

G2004 is exploring SOLUTIONS

- **Other institutions,** in particular the European Investment Bank**, have already taken precautionary measures.** Indeed, the EIB recently switched from a notional pension scheme similar to the pension scheme of EU officials to a fully-funded pension scheme (see here).

- Some more clairvoyant managers (as well as younger managers) are trying to move the lines on pensions. The Commission reviewed in February 2012 four scenarios to create a *real* pension fund (see here).

- The basic idea behind these scenarios is to move beyond the current "notional" fund, for instance by allocating all new pension contributions to a real pension scheme. However, the inertia of the pension scheme is such that MS and the decision makers in general, failed to take any action during the reform. In practice, setting up a real pension fund would mean that MS would have to pay real money to this fund, which is difficult to do while they are paying the huge cost of pensions of those who are already retired. However, some measures (see below) could help to kick-start a *real* pension fund.

In this context and in order to avert a potential disaster for our EU service pensions, Generation 2004 requests that without further delay, the Commission explores the following options:

1. Introduce some form of **special levy on current pensions**. As this would formally entail a new reform of the Staff Regulation, which the current senior management of the institutions (in liaison with the old unions) will oppose at all cost, one possibility would be for the Council and the EP to introduce changes to the EU protocol on privileges and immunities. Indeed, the protocol specifies the rates of community tax. The protocol could be modified so that high pensions would be taxed at higher rates than salaries. A reform of the protocol, which is totally outdated anyway, could be carried out without opening again the Pandora box of the staff regulations.
2. Introduce a **separate calculation of the actuarial balance**[1] of the pension scheme according to the pension benefits that one can anticipate: those with a high accrual rate[2] of pension rights (2%/year), a low retirement age (60), and who benefitted from favourable conditions for "transfers-in" (before 2009) should contribute a higher fraction of their salaries to sustain the actuarial balance of the pension scheme than those who ended being lumped with the worst conditions. As long as the staff as a whole, 1/3 contributes overall to the actuarial balance of the pension scheme, changing contributions of different categories of staff to the scheme could be "internal cuisine" that could be implemented without touching the staff regulations (in particular without touching its Art 83). Differentiated calculation of actuarial balances would be a way to ensure that those who have already paid the price of the 2004 and 2014 reforms do not pay again to sustain the pension rights of those who are more privileged in the likely event that MS embark on a new wide-ranging reform.
3. A **review of the retirement age** is foreseen for January 2019. The retirement age could be **differentiated** according to the pension benefits that one is entitled to (those who receive the highest benefits would be asked to work longer).
4. Introduce a **fully-funded pension scheme**. Such a scheme could either replace the current notional fund - like in the EIB (requiring a new reform of the staff regulations) or could supplement the current notional fund. In the latter scenario, the notional fund could become a first pillar and the fully-funded one a second pillar, as is in place in many MS. The second pillar could be designed so as to allow transfers-in/transfers-out in a more flexible and fairer manner than what is currently possible with the notional fund. This would allow newcomers (actually anyone who has not yet transferred-in pension rights) to transfer-in their rights under decent conditions and those who leave (either voluntarily or because their contract comes to an end) not to be penalised.

[1] The annual pension contribution of the staff as a whole is designed to finance one third of the service cost under the pension scheme, i.e. a series of payments that will arise in the future. For that purpose, the series of payments for European civil servants has to be evaluated at its present value (using an interest rate "discount rate"). The computation is thus an actuarial valuation.
[2] Pensions rights amount to 2% of the last salary accumulated per year of service for the pre-2004 staff, 1.8% for the post-2014 staff, 1.9% for the rest of the staff who presently represent the majority of staff members.

5. Notwithstanding the proposal above, the Commission should propose a **financial product** to which employees who in total have worked **less than 10 years in the Institutions** could subscribe to when “transferring-out”. Such a fund would obviously be of use to the many precarious colleagues under contract and temporary agent conditions. It would also be of use to the ever-growing number of officials who are actively considering leaving the institutions and looking for better opportunities elsewhere. ECFIN already manages funds for the Commission and could propose a fund that would be much more favourable than the few funds that are currently available from the private sector (which are in most cases run by small financial institutions that might no longer be around when comes the time to pay the pension). Moreover, the possibility to transfer-out to several funds should be offered, so that no one would be forced to put more than €100,000 into any individual fund (€100000 being the guarantee provided by MS on deposits in the EU in case of bankruptcy of a financial service provider).

6. **We particularly invite the new Commissioner for Human Resources – Vice-President Georgieva -** as well as all responsible policymakers in the European Parliament and the Council to explore these proposals with us. In order to fuel the debate, Generation 2004 welcomes additional suggestions from its members and will study them in depth. In particular, those who have a good knowledge of their national pension schemes are invited to contact us as it is becoming more and more obvious that the senior management of DG HR has no clue as to how the national pension schemes function. In order to negotiate a solution with MS, it is important to understand how their schemes function and to understand how their reform could lead to a reform of our own pension scheme. Let’s not wait until our pension scheme hits the iceberg to think about whether there is a life-boat!

Promotions Exercise 2014 in the Commission

As we have promised in our last newsletter before the holidays, Generation 2004 is working on a draft Article 90 complaint template which we will offer to you over the coming days (WATCH OUT for more info in a dedicated communication soon).

In line with our philosophy, we will be sharing this template with ALL Commission staff; however we can only offer guaranteed personalised assistance in reviewing complaints prepared by Generation 2004 members.

Whilst it is our intention to help also non-members wherever possible, this will be strictly subject to time and resources left available after all member's complaints have been treated.

…… and finally some lighter moments ☺☺☺

Generation 2004 would like to congratulate Mr Horst Reichenbach for his appointment as head of the EBRD bank. For those who don't know, Mr Reichenbach (see more here) was the DG in charge of HR in the Commission 10 years ago when he engineered the 2004 reform of the Staff Regulations and promoted the principle of ~~divine~~ acquired rights at the (negligible) expense of equal treatment of staff. In a true spirit of family entrepreneurship, Mr Reichenbach's achievements were consolidated by the 2014 reform of the Staff Regulation with the support of his spouse, Ms Roth-Behrendt, rapporteur for the EP during the reform (see also here). We wish good luck to the staff of the EBRD, at least to those who already are in place (for those who have yet to join the EBRD, tough luck, they will not be treated as equals to the rest of staff). To be fair, Generation 2004 recognises that Mr Reichenbach is consistent with his views on retirement age noting that he is still labouring hard at 69. True to the pre-2004 spirit: "just can't get enough !". To him therefore, goes the:

G2004 message song of the month (*with kind permission*) especially requested by LS from DG BUDG – click **here** 

sit back, turn up the volume and listen well (P.S. don't forget to work for an extra 3 minutes 36 seconds before you go home today).

Got any ideas for the G2004 song for next month? Send them along (with "Newsletter" in subject) to our DJ here, together with any letters, ideas, articles, poems …. and other assorted forms of expression.

If you identify with what you have read, and share our objectives, **please give us your support TANGIBLY by becoming a member here.**

Whilst **Generation 2004** is the home of **EVERYONE** who believes in equality, justice and solidarity, it is

✓ **the *natural* home of ALL staff recruited after 01 May 2004**

and *de facto*,

✓ **the *natural* home of ALL staff recruited from the "new" (2004+) Member States**

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