

Zentraler Vorstand . Central Executive Committee . Bureau Central

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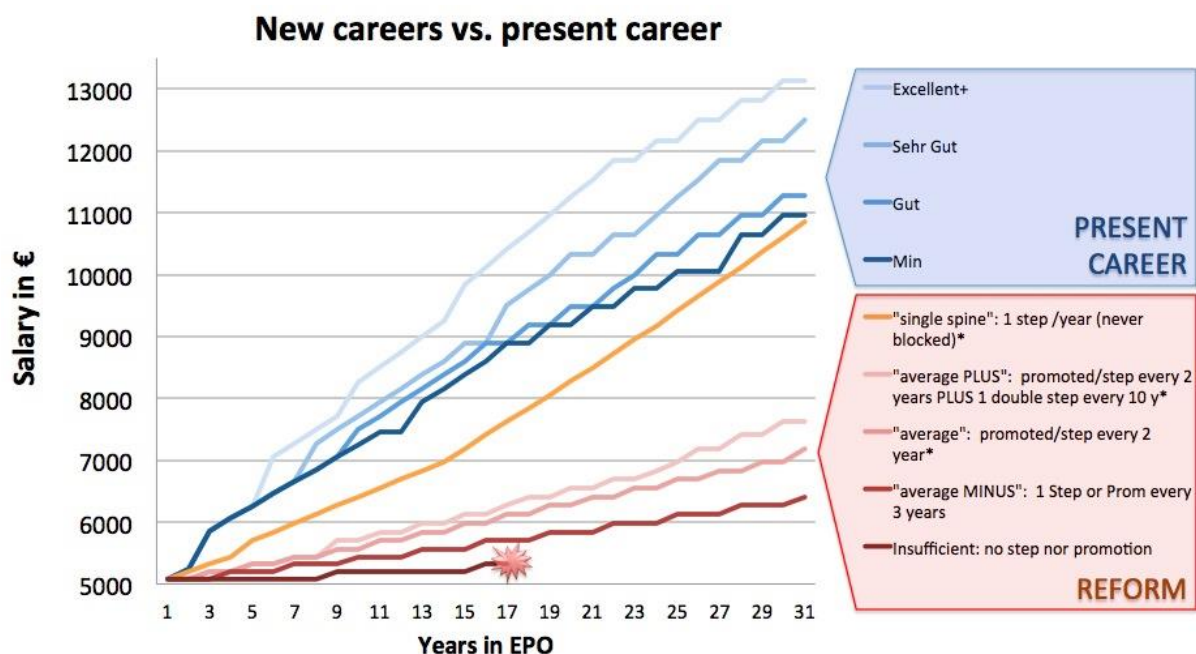
IMPACT ON CAREERS – GCC/DOC 6/14

A preliminary financial analysis

This presentation compares the current career at the EPO with the proposal tabled to the GCC early October. While the scales seem to be clear, the rules on how these will be used are not yet fully defined/disclosed. The constraints put on the new system are however clear enough to allow drawing preliminary conclusions¹.

COMPARISON OF THE CAREER PATHS

The following graph shows the statistically relevant (see *Annex II*) career paths of an A grade starting in A1 and leaving the office after 31 years.



¹ Source: [GCC/DOC 6/14](#) and the PPT of the Management Meeting of 8 October 14 (published as annex to [sc04714mp](#)) - The naming of the career "types" have been added to ease comparison.

NOTE: All result are BASIC SALARIES

The simulations show clearly that proposed career paths are well below existing paths. The types of the new career are defined as follows:

CAREER	SPEED		
„Type“ ²	Avg. number of years per steps or promotions		Definition ²
7	3	<i>Average minus</i>	1 Step or Prom every 3 years
5-6	2	<i>Average</i>	50% promoted/step per year
4	1,7	<i>Average plus</i>	50% promoted/step per year PLUS 1 double step every 10 years
3	1	<i>Single spine</i>	1 step /year (never blocked)
2	0,9	<i>Rapid</i>	never blocked PLUS double step every 10 years
1	0,8	<i>Outstanding</i>	never blocked PLUS double step every 5 years

1. HOW MUCH MONEY ARE WE TALKING ABOUT?

In the best possible scenario no budget restrictions are introduced in the new career system. The following table shows the salary development in the new career (best scenario) and the comparison with the current career based on a very good performance:

1.1. GENERAL COMPARISONS WITHOUT BUDGET RESTRICTIONS²

career:	7	5-6	4	3
End salary:	6.409 €	7.191 €	7.622 €	10.858 €
Total Salary	1.052 k€	2.422 k€	2.702 k€	3.393 k€
DC 3,75%	289 k€	336 k€	364 k€	686 k€

Difference to current career

career:	7	5-6	4	3
End salary:	-4.551 €	-4.090 €	-4.872 €	-2.279 €
Total Salary	-2.054 k€	-759 k€	-662 k€	-128 k€
DC 3,75%	-411 k€	-401 k€	-448 k€	-380 k€

1.2. IMPACT OF BUDGET RESTRICTIONS – EVEN WORSE!

The proposal in GCC/DOC 6 /14, p. 27 indicates the following budget approach:

² Assuming all staff have a comparable career „type“; ex: Very Good (VG) is fast in both careers – Defined Contribution (DC) capital estimated with the 3,75% target return over inflation

Budgetary envelope approach

1) Global envelope for steps, promotions and bonuses, based on the same current budget of ca. 15 mEUR:

- **Step/promo:** 50% of staff
- **Bonus:** Possible use of **bonuses** as an additional incentive linked to performance for specific groups of staff (not permanent or pensionable)



On average Staff is offered **one step or a promotion every second year**, that is a promotion speed of 0,5 step (or promotion) per year = 2 years per step (or prom.)

To arrive at such an average “speed”, the following populations can be expected:

PROPOSED CAREER								<u>Average</u>
<i>Avg. years / Step-Prom</i>	never	3	2	1,7	1	0,9	0,8	2
<i>Estimated populations?</i>	4%	25%	46%	17%	5%	2%	1%	



Translating the old system in the new would therefore mean (see Annex II for details):

		Current Career			
		„Good“	„Very Good“	„Excellent“	„Excellent+“
New Career	7	100%	11%		
	5-6		81%		
	4		8%	71%	
	3			29%	
	2				65%
	1				35%

The percentages show the part of the population to be transferred from the current group³ to the new career types.

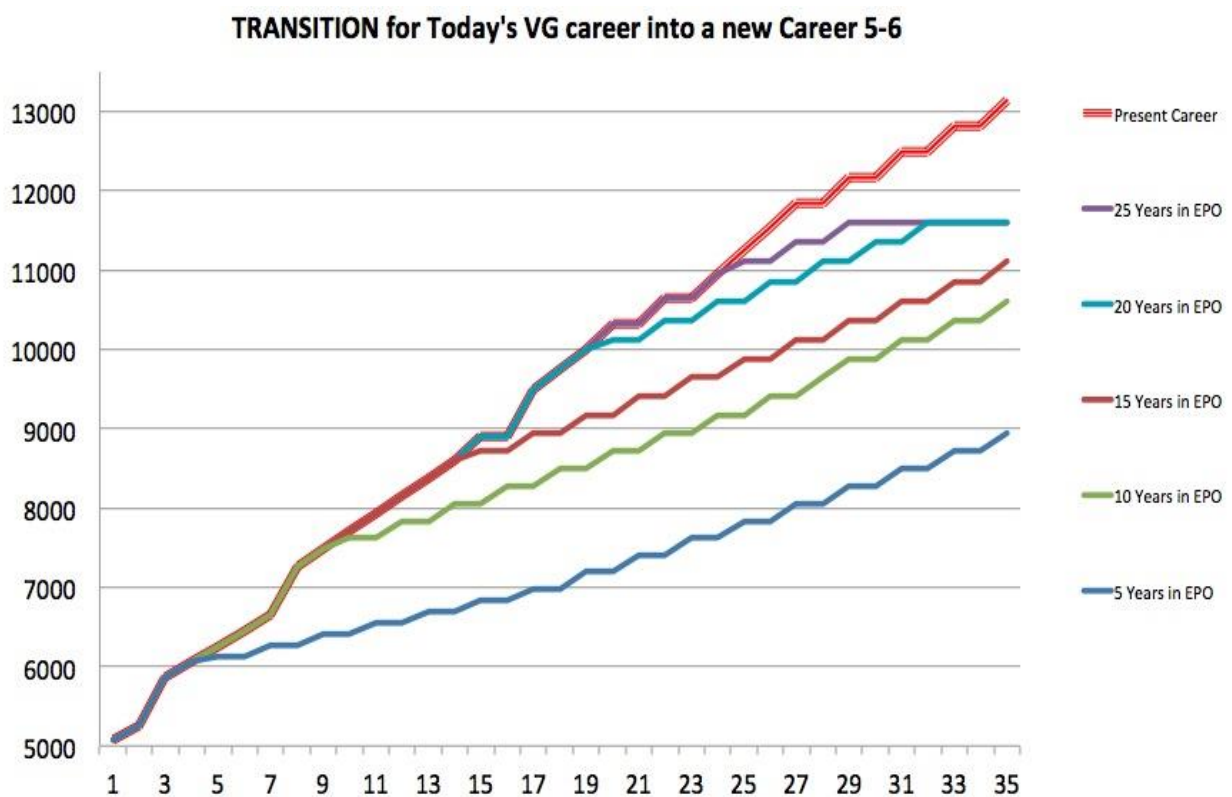
³ The present group of careers correspond to the present career opportunities **defined by the promotion windows of Circ.271**: respectively promotions are foreseen for „Good“ after 2/9/22 years, „Very Good“ after 2/7/16/24 years and „Excellent“ or „Excellent+“ after 2/6/11/18 or 2/5/9/14 years – these names stem from the last career negotiation which led to an agreement in 2002.

2. EFFECT ON TODAY'S STAFF – A NEWCOMER PROBLEM?

The differences between the old and the new career are the largest for newcomers, because they will be exposed the longest to the new career system. What about the existing staff? The following graph shows the examples of A grades with different seniority in the office (for further comparisons see *Annex I*).

2.1. CAREER PATHS

The graph below corresponds to the optimistic situation where all individuals have the competence needed for being promoted and are not blocked at the end of their grade.



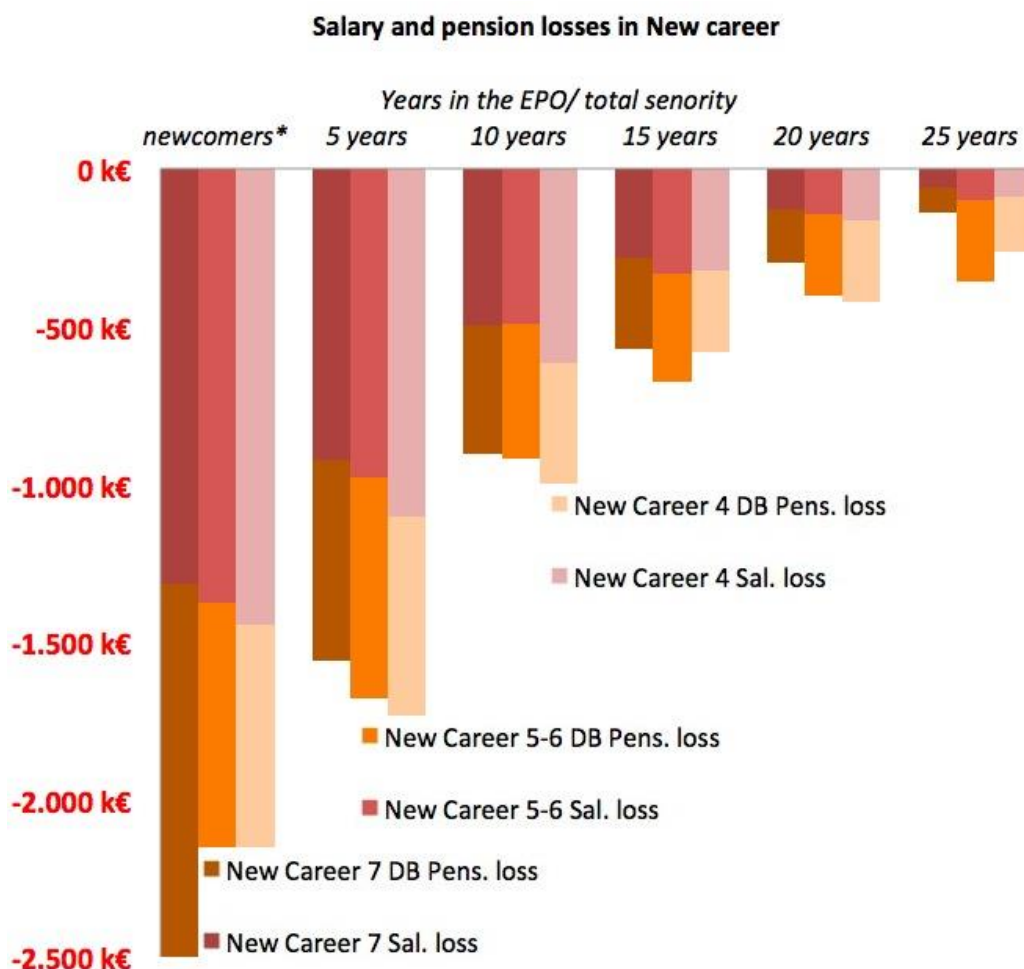
It can be clearly seen that this reform has a very important impact on all of us⁴!

⁴ Please note that this applies only to A4/1 non-managerial careers.

For some very happy few, like **young A5 (under step 4) and A6&A7 (under step 6)** the transition will represent a **net increase** up to respectively **11%** and **16%**. Even if this population is statistically irrelevant, it does represent a very small but remarkable group of estimated 20 young A5s and 1 (or max 2) **young A6**.

2.2. INCOME DIFFERENCES FOR EPO STAFF

The following tables show the salary/pension projections of the new career compared to the current career according to the seniority of the Staff member when the reform is introduced.



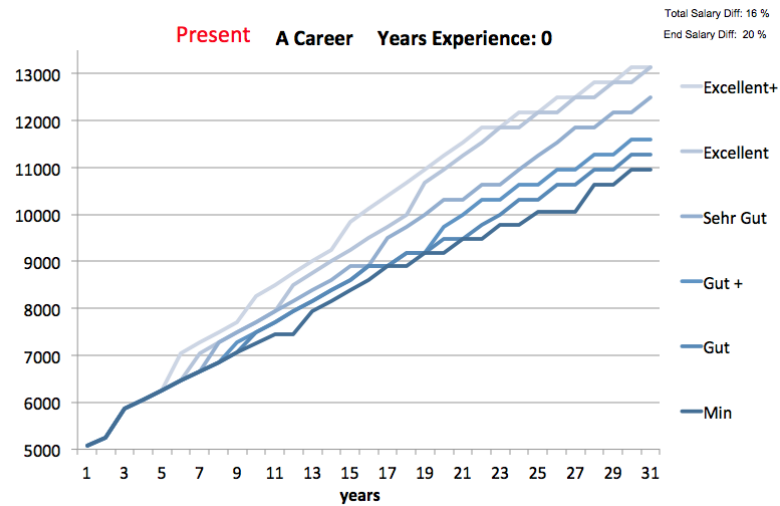
Performance related bonuses (50% of budget) foreseen may compensate in part for the indicated losses. They are however only temporary and will have no effect on pensions⁵.

Conclusion – The new career

1. offers much slower careers and lower pensions
2. is further worsened by additional budget constraints
3. generates considerable transition issues for EPO staff (above 500k€ total income/pension loss for most)

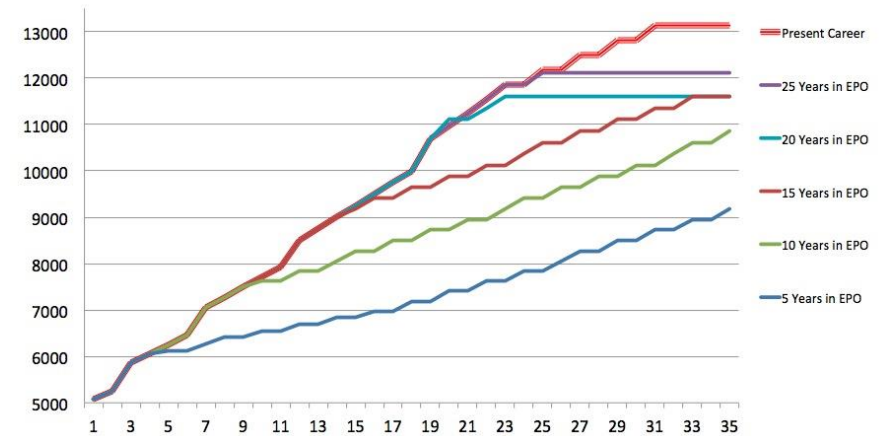
⁵ The stacked diagram represents the **BASIC pension losses added to BASIC salary losses**. These estimations are based on an A staff with no previous experience and 35 years in total in the EPO and 20 years in pension. (*) for the sake of the comparison, the theoretical impact on an equivalent Defined Benefit (DB) scheme is estimated for staff employed after 2009 and for newcomer (after new reform) - for orientation of the DC losses see section 1.1

ANNEX I – CAREER COMPARISONS



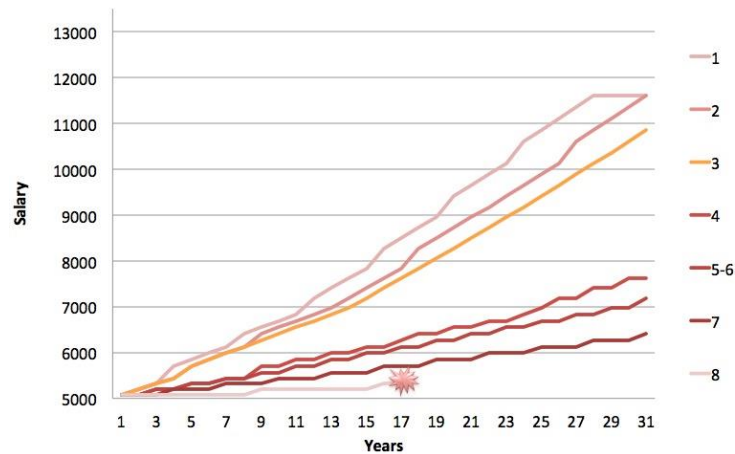
a) Present career Prospects (Basic Sal.)

TRANSITION for Today's Excellent career into a new Career 4



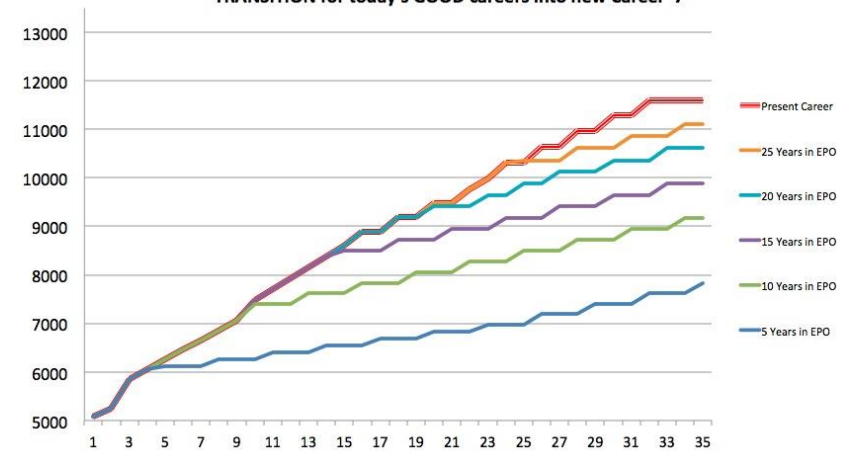
c) Transition for EPO staff with today's Excellent career (Basic Sal.)

New careers DG4 10 2014



b) New career prospects (Basic Sal.)

TRANSITION for today's GOOD careers into new Career 7



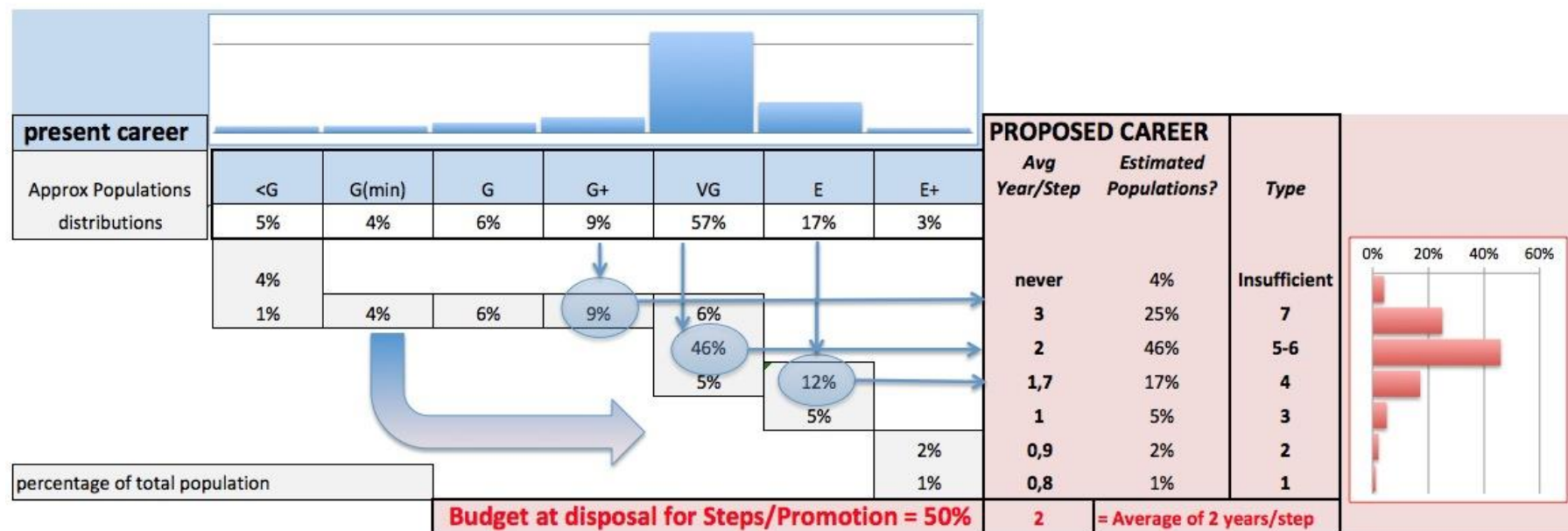
d) Transition for EPO staff with today's Good career (Basic Sal.)

ANNEX II - DISTRIBUTION WITH BUDGET RESTRICTIONS

Today we estimate that a very small minority⁶ of A-Staff are either blocked from a step or a promotion.

As mentioned above, the new career proposal sets a budget restriction of about 50% of today's budget for steps and promotion.

If compared with today's estimated distribution⁷ of career types, the following correspondence table can be drawn for the new career⁸.



Only very good or better stand a chance to get access to the end of the scales even if so they lose considerable life time income.

⁶ Staff in "double steps" are not *blocked*, merely slowed down with 1,5x step every second year. Ca. 5% of staff are in the last (double) step of their grade: only a portion of which is effectively blocked

⁷ Such a distribution is **derived by the average and is only exemplary**: if the distribution were to introduce more high-fliers (like double and triple step **per year** for ex), it would require an even larger very slow population (under 2 year **per step**)

⁸ A 50% budget means roughly in average 50% staff be promoted every year: that is for **each** person promoted with a **double** step per year (speed=2sp/y), **four** will need to wait **4 years** (speed=0,25sp/y), assuming the steps have the same value, or 8 will need to wait 4 years if the step is half that value (example G14Step=2xG7Step). In the light of the older age pyramid, more expensive steps are needed.