Zentraler Personalausschuss
Central Staff Committee
Le Comité Central du Persoı

Munich, 16.10.2020
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16 for me and 1 for you

Fairness as defined by the administration

Background

In the last three years, the administration has transferred a portion of the annual cash surplus of the Office into both the RFPSS (Reserve Funds for Pensions and Social Security) and the SSP (Salary Savings Plan). We met with the administration in the GCC-SSPR sub-committee on the 6th October to discuss the proposal for cash injections for 2020.

This year, the administration has proposed a cash injection into the pension schemes, amounting to €125m into the RFPSS and €1.925m into the SSP. They further propose that **the amount to be transferred into the SSP of each NPS member is proportional to the contributions paid into each account in 2020**, following the same logic as the three previous years, despite the President having previously committed to discussing alternative solutions. Staff representation objected to the method of distribution that was previously used on the grounds that disproportionately large amounts are being transferred to those in the highest grades when compared to those in the lower grades. This year is no exception. In fact, the issue has got even worse, and is expected to continue deteriorating.

Distribution Methods

Fig 1 illustrates the proposal from the administration for the distribution of the cash injection into the individual SSP accounts, wherein the distribution is equal to the 2020 SSP contributions. The chart shows the ratio of contributions between staff in various grades, with the cash injection into the SSP of a colleague in G7.1 taken as a basis or normalisation. It shows that **for every 1 euro that is transferred to the account of a G7.1 colleague, 16 are transferred into the account of a G17.1 colleague!** Considering that those in lower grades are usually at the beginning of their career, this can have a notable effect on the final lump sum of the SSP when taking into account the compound interest.

The chart in Fig 1 speaks for itself. There is evidently a vast inequality of treatment between those in lower grades and those in higher grades built into the method of distribution chosen by the administration. We should also bear in mind that the few colleagues that are in the NPS *and* are in the highest grades are from upper management. Some of these colleagues are the very same who also happen to be tasked with deciding on this distribution. Therefore, this proposal could be perceived as self-service.

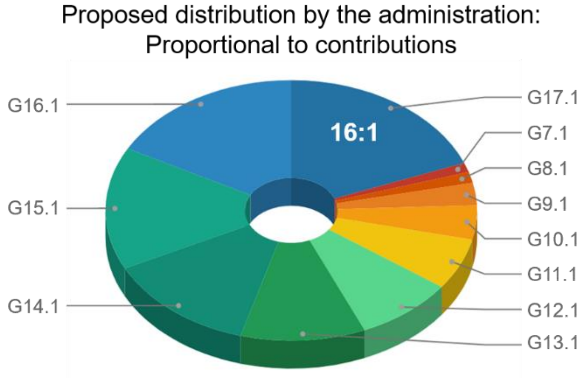

Fig 1: Administration distribution proposal

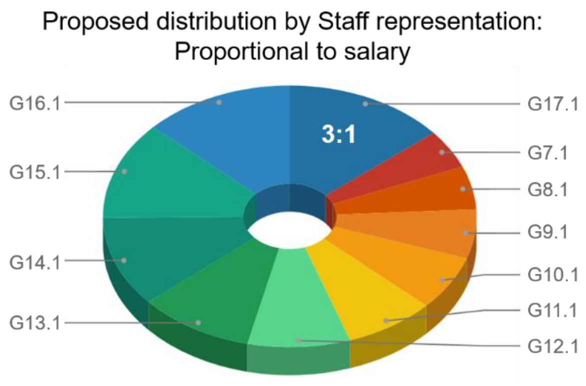

Fig 2: Staff Representation distribution proposal

It should be noted that this distribution method detailed above is not the only one, neither can it be considered the most apt in the opinion of Staff representation. One condition that the distribution should fulfil is that the cash injection into the SSP should reflect, as far as is possible, the benefits provided by the injection into the RFPSS. Cash injections into the RFPSS protect members of staff against potential future rises in global contribution rates. Those global contribution rates are **proportional to salary**. Therefore, we are of the opinion that a much more appropriate and fair method of distribution would be according to salary, as shown in Fig 2.

This proposed method of distribution means that the ratio between the amount injected into the SSP of a colleague on G17.1 when compared that that of a colleague on G7.1 would be a much more reasonable 3:1. However, as in previous years, the administration rejected the proposal outright.

Inequality is Growing!

Even though the logic of the proposed distribution of cash injections into the SSP is exactly the same as in previous years, it does not mean the ratio remains the same. The changes in the NPS contribution rates have had an influence on the distribution, an influence that again happens to be beneficial for the higher grades.

Fig 3 shows the global contribution rate for each year since the inception of the NPS, and the contribution rate to the SSP under the cap of twice G1 step 4. We see that the trend is for the global contribution rate to increase over time, whereas for the SSP, the contribution rate remained rather stable for the first nine years, fluctuating between 6 and 7%, before being decreased significantly since 2017. For those in the higher grades, the increase in global contribution rates means that their contributions rise significantly. For those in the lower grades, the reduction in SSP contributions is devastating, such that for a G7 colleague, their monthly SSP contributions have been slashed by around 40% since 2017.

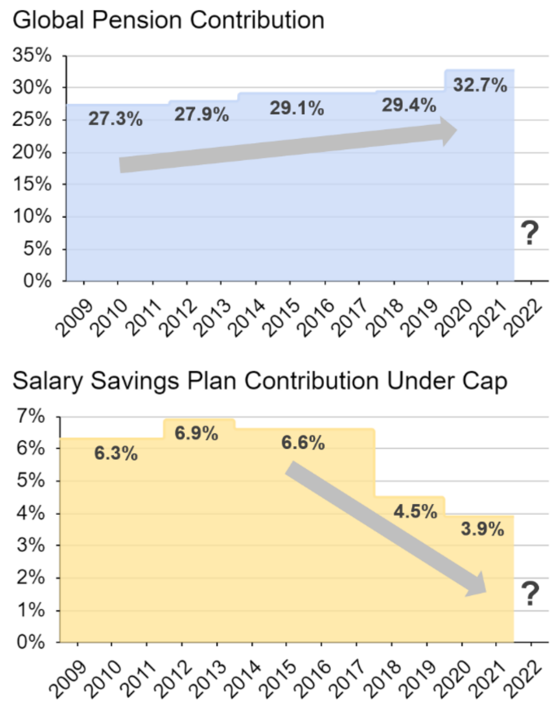

Fig 3: NPS contribution rates

This has the effect of increasing the ratio, and therefore the inequality, between the cash injections for those in the highest and lowest grades. Fig 4 is a table which shows the actual ratio over the previous three years, the proposed ratio this year, along with the expected ratio for next year, which should be the same as this year if the current distribution logic is maintained.

Year	Ratio between G17.1 and G7.1	
2017	~9:1	Actual
2018	~13:1	Actual
2019	~13:1	Actual
2020	~16:1	Proposed
2021	~16:1	Expected
2022	?	Unknown

Fig 4: Evolution of the ratio

What was argued by Staff representation to be unfair in 2017, now becomes an embarrassment in 2020. Yet it still gets worse. Although we do not know what the proposal for the contribution rates will be after the next biannual actuarial study set to come into force in 2022, we can reasonably expect that, under the current circumstances, the trends shown in Fig 3 will continue. Therefore it seems likely that this ratio will grow yet still. The administration did not appear concerned by this development, nor by the impression it would leave on staff members when faced with the data. Instead, the administration argued that their solution is ”technically fair”. We consider that there is no such thing as technical fairness. Calculations can be technical but fairness remains a political decision which the administration is not willing to take.

Conclusion

During the meeting, Staff representation raised this issue of blatant unequal treatment, and a worryingly rapid growth of inequality in the method they chose to allocate amounts into the individual SSP accounts of staff. We asked if they could defend such a policy that is essentially a direct payment of the profits of the Office to personal savings accounts of colleagues, when it is so heavily biased in favour of those in upper management. We presented graphs, gave thorough argumentation, and provided the potential solution, which would correctly implement their alleged mantra of being simple, clear, and fair.

However, the administration once again demonstrated their steadfast inflexibility and unwillingness to take on board any input from Staff representation. In sticking so resolutely to their proposal of self-service, they display an absolute disregard for the opinion of staff, and the willingness to profit from their authority.

It is therefore with regret that to defend our rights, even in this clear-cut case, we are forced again to resort to a lengthy legal dispute. It is not our intention, and we are simply asking the administration to adopt a **fair and reasonable** distribution method.

The Central Staff Committee

<u>Annex</u>: Acronym List

Acronym List

GCC	**General Consultative Committee** Committee comprising 10 full members of the CSC and 10 members of the administration, in addition to the President. The committee sits several times per year to give its opinion, inter alia, on proposed changes to the CODEX and circulars.
GCC-SSPR	**GCC sub-committee on Social Security, Pensions, and Remuneration** A committee comprising members from Staff representation and members from the administration that meets to discuss matters related to social security, pensions, and remuneration, such as, inter alia, the Guide to Cover under the Healthcare Insurance Scheme, amendments to the RFPSS contributions, and cash injections into the RFPSS and the SSP. These discussions are meant to facilitate subsequent consultations of the GCC.
NPS	**New Pension Scheme** Pension scheme for all colleagues who joined the Office on or after 01-01-2009. The NPS is a defined benefit scheme. The monthly pension in the NPS for all colleagues who end their career in G8.1 or above is equal to (number of years in service x 0.02 x 2 x G1.4). Members of the NPS are also compulsory participants in the SSP, a defined contribution scheme.
OPS	**Old Pension Scheme** Pension scheme for all colleagues who joined the office before 01-01-2009. It is a defined benefit pension scheme, wherein the monthly pension is equal to (number of years in service x 0.02 x final salary), wherein a maximum of 35 years of service are considered.
RFPSS	**Reserve Funds for Pensions and Social Security** The reserve funds shall be treated as a special class of asset of the EPOrg, designed to support, inter alia, the pension scheme (NPS and OPS) by providing the appropriate reserves.
SSP	**Salary Savings Plan** Every member of the NPS is a compulsory participant in the SSP. An individual salary savings account is opened for each participant. The sums credited to these accounts are invested by the EPO, in accordance with a predefined strategy. The accounts are managed by an external investment company. The balance can be checked by logging into the SSP portal. The balance of the individual account is paid out in a lump sum to the staff member upon termination of service as final salary.