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Destroying
the Salary Adjustment procedure to cut
your purchasing power

From all we see so far, we are very concerned that the President or his advisors will advise the Administrative Council (AC) to simply destroy the Salary Adjustment Procedure (SAP) in its June meeting. In this paper we provide a summary of the last two meetings of the Working Groups put in place by the President and an outline of what management's plans are. Based on the current proposal, the impact on the salaries will be worse than Battistelli's career reform for many of us. In our analysis the impact is so strong that there is no way to compensate for the loss by an extra effort to receive additional steps.

The new SAP will affect everyone: younger colleagues, older colleagues and pensioners. As with the career reform, the young colleagues will be hit hardest.

Background

The President had asked Mercer (the consultants) to carry out a financial study so that he could pretend that the EPO is in a dire financial situation. The consultants duly came up with an alleged (future) gap of €3.8bn, which the President topped up with a €2bn buffer over the Summer, disregarding over €6bn[1] in assets[2]. Many have challenged this study with well-founded arguments. The recent very positive development of the EPO's assets does not make it any easier for EPO management to uphold their doom-scenario. The RFPSS booked a record high at the end of the year[3] and reached more than 17% return. In February 2020 the RFPSS reached a value of €10bn, something which was projected only for 2027[4], despite the low interest rates, which were put forward as justification for the €2bn buffer. At the same time, the EPOTIF reached €3 billion[5].

With the financial situation of the EPO being as good as it is and the financial study being so flawed, any objective observer realises immediately that the exercise becomes more embarrassing by the day. Unfortunately, past experience has shown that the AC will happily cut our employment conditions and it has already endorsed the fictitious gap of €5.8bn in its December 2019 meeting. During the discussion with the staff representatives it became clear that managers present in the GCC-SSPR[6] want to erode the salaries irrespective of the real future economic development or need and despite the fact that this will most hit young staff[7].

[1] Forgotten income of € 6 billion in the Financial Study?
[2] Some basics of asset and liabilities
[3] RFPSS/SB 70/19 page 2
[4] Joint Report of the Actuarial Advisory Group CA/56/19 para. 104
[5] CA/F 3/20 para. 5
[6] The GCC subcommittee on Social Security, Pensions and Remunerations
[7] See the SUEPO salary method simulator

The last two meetings

6th (and last) meeting of the WG-Financial Measures on 7 February

The President created a dedicated Working Group (WG) on Financial Measures that has met six times to consider the 17 possible financial measures. No expert with in-depth knowledge of the history and the reasons for having an agreed SAP and of the factors that constitute a reliably functioning method was present on management side. All proposals by the staff representation on other measures than the SAP have been disregarded or forwarded to project groups with uncertain outcome. In the WG on Financial Measures, no precise proposal of management came up on the salary adjustment procedure. We proposed a fully-fledged SAP on 20 December which would address the concerns of management, should a severe crisis like the base-2 scenario materialise. On 7 February, the last meeting of this WG took place and the management submitted a paper claiming that our SAP proposal was not fit for purpose. Mercer showed indeed that in the past it wouldn't have brought any savings. Since in the past no crisis comparable to base-2 scenario occurred, this finding is hardly surprising.

In that meeting, management for the first time outlined their procedure. It can be summarised as a mechanism to cut into our purchasing power every year regardless of the economic developments (GDP). We explained that such a procedure cannot be accepted because it is not fit for purpose. In the absence of detailed information from management on their GDP assumptions in the financial study, we declared during the meeting that, starting from the SAP we had suggested, we were ready to study the inclusion of an additional mechanism. In the absence of any crisis, however, such mechanism should apply only for a very limited period. We insisted that the staff representation would not agree on a SAP which includes a mechanism to continuously cut staff's and pensioners' purchasing power regardless of economic developments.

The President claims that he has now waived measures aimed at cutting the pensions - for the time being, we presume. The most effective measures against pension rights in terms of financial savings would in our view have been unlawful, anyway. Against earlier statements, though, he has now refused to guarantee that he will not change the legal retirement age.

1st meeting of the GCC-SSPR on 19 February

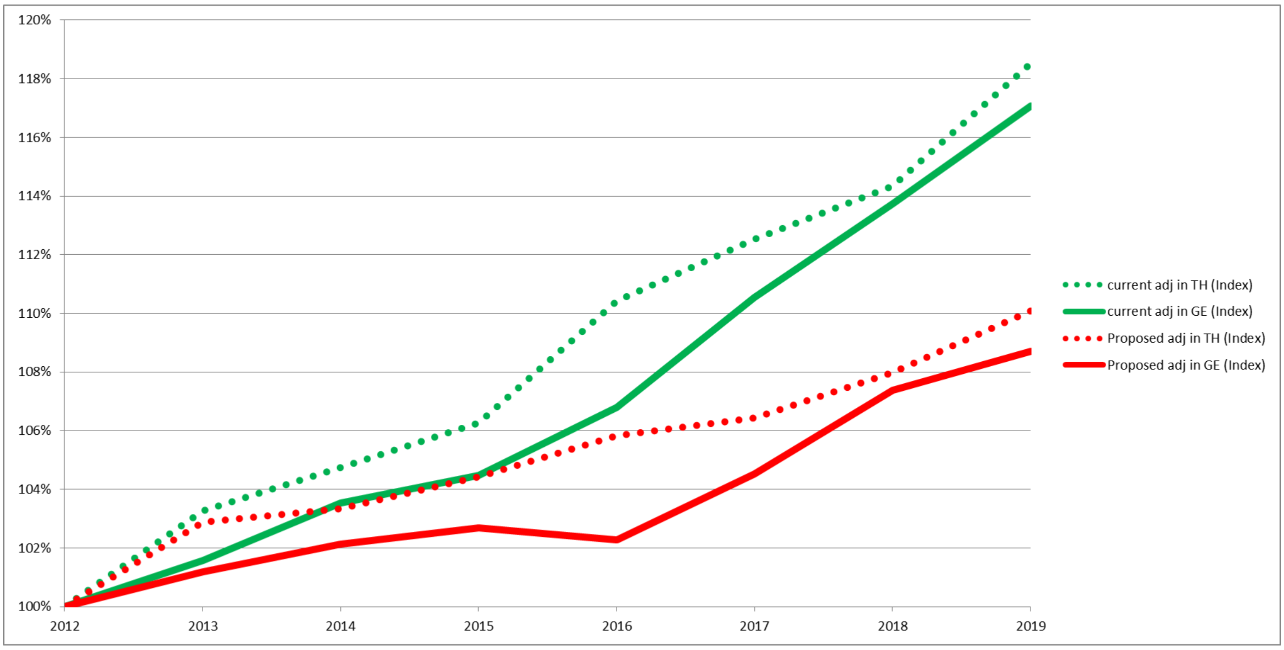
The activities of the President and his advisors are now focussed on destroying the SAP as we know it in June.

During the meeting of the GCC-SSPR on 19 February, management provided more details on their ideas for the SAP, with the consultants presenting and explaining slides. We believe that the consultants drafted them after having talked exclusively to senior management, since the SAP experts on the administration side (who were present in the meeting) did not seem to have an overview of what was going on. Indeed, it appears that they have not been involved in the process of designing the new SAP proposed by the administration. This is unpreceded in EPO history, even in the Battistelli era!

From the slides[9] it is obvious that the methodology proposed by the President, had it been applied between 2014 and 2019 (duration of the current procedure), would have resulted in a severe cut in your purchasing power. Management explained that the adjustments would have been in a range of 0,9 to 1,2% per year. We have simulated their methodology over a period of 8 years from 2012 to 2019 (see table below) and compared the result to the actual adjustments under the existing salary adjustment procedure. Today's **salaries would be over 10% lower both in The Hague and Munich**.

This is a cut in salary progression for each staff member equivalent to at least[8] four steps[9] in only 8 years (2012 to 2019). You won't be able to compensated this by an additional effort for additional pensionable rewards.

Table: Simulation of management's proposal over the last 8 years



Actually, the figures in the Mercer slides present the result of the adjustment and not the loss compared to the existing SAP. They also use the term "depending on intensity". However, the low-intensity version[10], meaning the least savings, mentioned so far by the President in line with the financial study improves the results mentioned above by a meagre 2%. This is not even equivalent to a step increase in the salary grid. It appears that Mercer used variable levels of intensity in their presentation, but did not disclose the calculation. The difference for the past 8 years shows a loss of over 10%, more than 7% below local cost of living. For the salary adjustment procedures in international public service, several principles apply, among them, the safeguard against salary erosion[11]. In the case of the EPO, applying the Mercer methodology would have considerably eroded the salaries. Moreover, it would have even further reduced the ability[12] of the EPO to recruit from all members states. This shows that the President is either not or ill advised.

[8] Depending on your current grade it could even exceed 5 steps.

[9] See management document: "*WG GCC-SSPR Review of the Salary adjustment Procedure 19th February*", Table on page 9 and comment*:* "Salary adjustment would have been in the range of 0.9% to 1.2% on average depending on intensity of measure"

[10] medium intensity: long-term salary evolution identical to the inflation in the Euro-Zone (EMU-HICP), which is far below the evolution of the cost of living in Munich or The Hague; low intensity: long-term salary evolution of 0,25% over EMU-HICP

[11] ILO-AT 1912 consideration 19

[12] From the report of the GCC-SSPR on Article 10(1) of the SAP, one can see that over the last 6 years, on a total of 999 recruits, there was only 1 Norwegian, 1 Danish, 2 Swiss and 29 British colleagues (less than 3%) compared to 306 German or 165 French colleagues. This is a clear indication that the salaries are already not competitive enough to attract from all EPO countries, thereby violating the Noblemaire principle. Imagine what a 10% cut of the salaries could have done to this situation.

On top of this, the President or his advisors want to further deteriorate the existing SAP. On page 12 of their presentation, one can see that they want to abolish the mechanism that prevents double counting [13], i.e. resulting in application of a double negative adjustment, and the principle of retroactive[14] adjustments. Although we would be ready to discuss some simplifications in the SAP in view of the situation in other international organisations (EU and Co-ordinated Organisations), we are not ready to discuss additional attacks in the framework of a fundamentally flawed new SAP.

On the other hand, addressing the flaws of the moderation clause in the current SAP which resulted in unfairness and litigation[15] is not on management's list of issues to be addressed on page 9. In the meeting management told us that we needed to talk to the President and that this latter topic will not be discussed in the GCC-SSPR. There is however no meeting foreseen with the President dedicated to this matter. We wonder whether the President is really interested in settling litigation. His advisors clearly are not.

Next steps

We will go to the next three meetings of the GCC-SSPR (currently foreseen on 6, 16 and 23 March). They were all planned as 2-hour VICO-meetings only, with PD43 in charge, assisted by the consultants. It is therefore unlikely that any real discussion will take place. In view of the set-up of these meetings we still fear that the President is not interested in agreeing with the staff representatives. We therefore requested that the next meeting be face-to-face and its duration increased to leave room for real discussion. This request was allowed. As you see from page 5 of Mercer's presentation[9], the last opportunity currently foreseen to provide input to the CA document is 23 March.

Eventually, two months after our initial requests and several reminders, management also provided the forecast figures used in the financial study for the GDP and the EU-HICP. On the basis of these figures, we have adapted the exception clause in the draft SAP, which we provided to management in December and tested it under the conditions of the base-2 scenario chosen by the Office with the above figures. The SAP we propose would lead to salary adjustments that would strictly follow economic developments and therefore produce the expected savings if the base-2 scenario of the financial study was to become true. The next talks with management will show whether they are serious in considering our proposal.

Brace yourself for a very unsatisfactory result of talks with a management that so far is neither prepared to listen nor shows sufficient grasp of salary adjustment procedures. Elected staff representatives alone will not be able to fend off this major offensive. Keep yourself informed, read our publications and go to information meetings which will take place in the near future.

Your Central Staff Committee

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[13] This mechanism avoids that increases to social schemes are counted twice, thereby affecting the principle of parallelism. This is an important mechanism since social contributions in the EPO have increased a lot recently (to pensions, to healthcare insurance and to LTCI). Assume that all national civil servants had a 0% salary increase at 0% inflation. Assume further, that the *national* pension contributions were increased by 3%. Since for the salary adjustment method, only the net income is considered, this increase of the national pension contribution would translate into -3% salary adjustment for the EPO salaries. Had we had a 3% increase of our own EPO pension contributions at the same time, our net salaries would have decreased by 6% while the salaries of the national civil servants would have decrease by only 3%, thus half of it. The mechanism against double counting neutralises the effect of counting pension and social security contributions twice.

[14] Management wants to postpone the date of implementation of the annual salary adjustments by 6 months from 1 July of the current year to 1 January of the next year. They also want to suppress the possibility to adjust salaries retroactively to be able to consider changes in Member States which could not be taken into account at time of calculation. Our adjustments are already based on a one-year period that ends in June. Therefore, the parallelism is already applied with a considerable delay.

[15] Letter of the Chairman of SUEPO-The Hague to the President sc19006hl dated 4 February 2019. The poorly drafted current moderation clause has resulted in cuts which were not fairly shared. Staff in The Hague was affected in 2016 and 2017 while they were not in other places of employment. In Ireland pensioners have lost more than three months pension over the period of application of the SAP and the cut is going on! This cannot be in line with the President's principles. Why does he refuse to address it spontaneously in his list of issues?