Find the **GAP**

Independent Actuaries CA/56/19... NO GAP

Pensioners' Association... NO GAP

epi... NO GAP ("*A dystopian fiction*")

Staff Representation... NO GAP

President... "GAP of €5.8 billion" (**maybe** in 2038)

RFPSS value (CA/56/19)

104. The projected cash flows into and out of the fund over the next 20 years (not taking into account pension transfers, potential cash injections and various other adjustments) are shown in the following table.

Year	Contributions (a)	Benefits (b)	Positive difference (c)= Max(0, -(b)-(a))	Value of the fund	Investment income		# of pensioners
2019	219	-209	0	8.042	812		2849
2020	238	-221	0	8.320	262		3002
2021	237	-235	0	8.593	270		3159
2022	236	-249	13	8.859	279		3326
2023	234	-264	30	9.117	287		3511
2024	232	-280	48	9.364	296		3704
2025	230	-297	67	9.599	303		3910
2026	226	-315	89	9.821	311		4116
2027	223	-334	111	10.028	317		4349
2028	219	-353	134	10.217	324		4588
2029	214	-374	160	10.388	329		4834
2030	210	-394	184	10.538	335		5084
2031	205	-416	211	10.666	339		5344
2032	200	-439	239	10.770	343		5602
2033	195	-460	265	10.850	346		5854
2034	189	-481	292	10.905	348		6097
2035	184	-501	317	10.938	349		6325
2036	180	-520	340	10.948	350		6543
2037	176	-537	361	10.937	350		6740
2038	172	-550	378	10.909	349		6913
2039	170	-562	392	10.865	348		7060

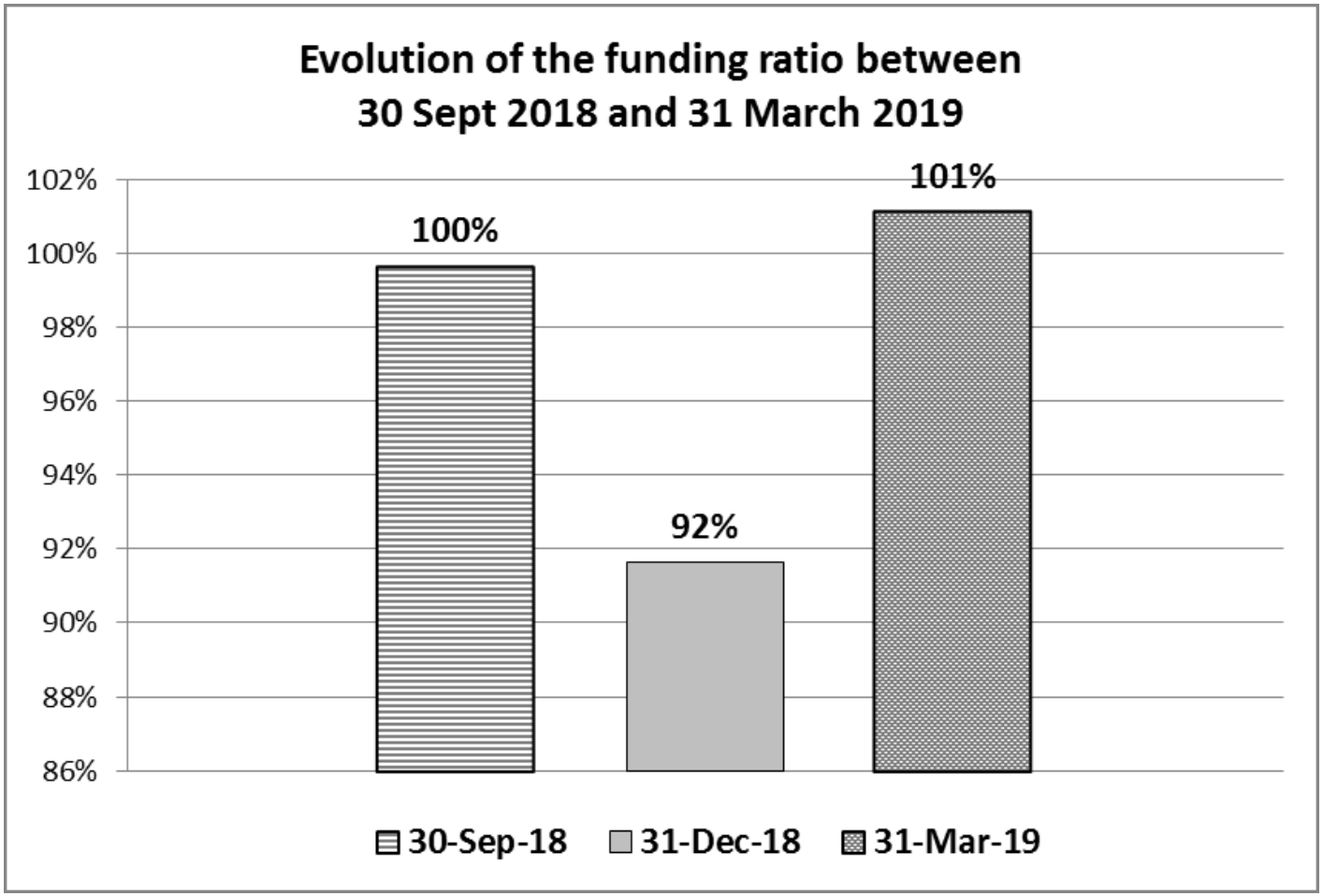
Values are in millions of Euros in real terms (i.e. net of price inflation)

RFPSS

(**R**eserve **F**unds for **P**ensions and **S**ocial **S**ecurity)

- RFPSS fully covers:
  - ALL Defined Benefit Pensions (OPS and NPS)
  - Health Care Insurance Fund (all staff & pensioners)
  - Long Term Care Insurance (all staff & pensioners)

Funding of liabilities should be forecast over a long period not based on instantaneous assumptions ("buffer" of €2 billion?)



YEAR	NOMINAL RETURN	INFLATION	REAL RETURN
1997	19,38%	2,10%	16,92%
1998	13,02%	0,40%	12,57%
1999	24,55%	1,20%	23,07%
2000	0,85%	2,00%	-1,13%
2001	-5,99%	1,60%	-7,47%
2002	-18,37%	1,10%	-19,26%
2003	13,70%	1,10%	12,46%
2004	11,18%	2,20%	8,79%
2005	19,70%	1,40%	18,05%
2006	12,66%	1,40%	11,10%
2007	3,88%	3,20%	0,66%
2008	-31,16%	1,10%	-31,91%
2009	26,72%	0,80%	25,71%
2010	10,20%	1,30%	8,79%
2011	-3,65%	2,00%	-5,54%
2012	13,91%	2,00%	11,68%
2013	10,11%	1,40%	8,59%
2014	10,48%	0,20%	10,26%
2015	3,53%	0,30%	3,22%
2016	8,14%	1,50%	6,54%
2017	9,08%	1,40%	7,57%
2018	-6,22%	1,60%	-7,70%

Source (nominal return and inflation): RFPSS/SB PV 99

AVERAGE RETURN			
YEAR	NOMINAL RETURN	INFLATION	REAL RETURN
1997-2018	5,70%	1,42%	**4,22%**
2014-2018	4,82%	1,00%	3,78%
2009-2018	7,88%	1,25%	6,55%
2004-2018	5,68%	1,45%	4,17%
1999-2018	4,71%	1,44%	3,22%

EPOTIF

(**EPO T**reasury **I**nvestment **F**und)

- Cash reserves generated by the EPO.

EPOTIF Net Assets Value, EUR million	2019 Q2	2019 YTD	2018
Opening balance	2.612	2.460	0
Transition from the bonds portfolio	0	0	2.357
Cash transfers	0	0	200
Valuation gains/losses	54	206	-97
Closing balance	**2.666**	**2.666**	**2.460**

- Buffer ???

Base 2 Scenario **is** a stress scenario

Financial Study assumptions:

- Economic outlook is based on current European Systemic Risk Board stress test scenario (CA83/19, p.20)
- Economic growth is lower than that forecasted by OECD, World Bank, IMF
- Interest rate is below established theories
- Equity returns are below capital market assumptions
- Filing numbers growth is slower than before (0.9%)

And then the Financial Study recommends:

- **We need a €2 billion "buffer"**

How to turn a gap into a surplus

- Invest the cash surplus @ Base Case 2 returns (@ BC1 returns) over the next 20 years in the funds instead of assuming a 0.02% return: **€2 billion** (€2.4 bn)
- Adjust your fees with inflation over 20 years to earn an extra **€2.2 billion** instead of assuming no increase and losing 20% in 2038 in real terms
- Invest the €2.2 billion from fee adjustments in the EPOTIF or RFPSS and earn another **€0.6 billion** @ Base Case 2 returns (€0.6 billion @ BC1 returns)
- Take into account the **€1.2 billion** extra the EPO will earn because of a productivity increases due to digitalisation
- Take in account the pension contribution increases recommended by the actuaries, bringing in **€0.3 billion** (Measure 10)
- Reduce by 50% the proposed plans for buildings (the "beloved" Glass Walls, etc.) and save **€0.35 billion**
- **... and more**

2 + 2.2 + 0.6 + 1.2 + 0.3 + 0.35 =

+€6.65 billion ... and more

No measures degrading staff's conditions are needed

The Office ignores **€6.65** billion... and more, over 20 years.

The GAP is actually a **SURPLUS,** even in the stress Base Case 2 Scenario

… and more
Base Case 2 with Base Case 1 returns

By 2038 the funds would be worth €1.8 billion more with Base Case 1 returns* than they would with Base Case 2 returns.

2.4 + 2.2 + 0.6 + 1.2 + 0.3 + 0.35 **+ 1.8**=

+€8.85 billion Surplus

* RFPSS (BC1: 4.5%; BC2: 3.3%; last 20 years: 6.6%)
  EPOTIF (BC1: 4.2%; BC2: 3.2%; no meaningful history)

CA/56/19

63. “The Group further noted that any approach other than adopting an assumption of future investment return that has a 50% probability of being achieved (a "best estimate" assumption) could lead to an **unnecessarily high risk** either of **building up surpluses** or of the assets being insufficient to meet the liabilities. Using a "best estimate" assumption should lead to a contribution rate that represents the long-term cost of providing the benefits, accepting that short-term fluctuations around the "best estimate" assumption will lead to fluctuation in the funding ratio (see paragraph 95).”

64. “The Group has therefore decided to adopt a discount rate of 3.25%.”