

**STANDARD FORM OF EXPLANATORY MEMORANDUM FOR EUROPEAN UNION
LEGISLATION AND DOCUMENTS**

5026/19
COM (2019) 829

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE
COUNCIL on the application of Annex XII to the Staff Regulations**

And

5027/19
COM (2019) 830

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE
COUNCIL on the application of Annex XI to the Staff Regulations**

Submitted by HM Treasury on

18 March 2019

SUBJECT MATTER

5026/19 REPORT on the application of Annex XII to the Staff Regulations

1. This is an interim report from the Commission to the European Parliament and Council on the application of Annex XII to the Staff Regulations and the Conditions of Employment of Other Servants of the European Union (Staff Regulations). The report is an overview of how the rules for keeping the Pension Scheme for EU Officials (PSEO) in balance over the period 2014-2018 are being implemented. These rules are laid out in Article 83a and Annex XII of the Staff Regulations.
2. The report sets out the basic features of the PSEO. Benefits paid by the PSEO are charged to the EU budget and jointly guaranteed by Member States. Officials must contribute one third of the cost of financing the scheme. Article 83a of the Staff Regulations says that the balance of the pension scheme shall be ensured by adjusting the pensionable age and the rate of contributions. Annex XII sets out the actuarial rules for calculating the contribution rate in order to ensure that the scheme is in balance.
3. The report describes the PSEO as a notional fund; there is no actual investment fund as officials' contributions go directly into the EU budget. Therefore, the value of the notional fund is the amount that would have been collected by such a fund and invested into long-term bonds in Member States. Staff contributions finance the future pensions of those contributing and are not linked to that year's pension expenditure. Staff contributions must cover one third of the cost of the rights acquired in that year.
4. The PSEO is kept in balance by updating the contribution rates and, where relevant, pensionable age. The contribution rate is automatically updated if actuarial assessment shows that this is necessary to cover the pension rights

acquired in any given year. Eurostat is responsible for the technical implementation of these rules, assisted by external actuaries. The external actuaries have evaluated Eurostat's methodology, calculations and reports related to PSEO Assessment and released an 'unqualified' opinion of all PSEO assessment reports between 2014 and 2018.

5. The report sets out the key statutory parameters (e.g. maximum retirement age, maximum retirement pension) used in the 2018 actuarial assessment. It also sets out the key actuarial assumptions (e.g. mortality tables), which were agreed with national experts at the meetings of the Article 83 Working Group. As provided for by Annex XII to the Staff Regulations, some of these assumptions are updated annually, others are updated every five years. The report also sets out the financial and economic assumptions used (e.g. real discount rate and general salary growth).
6. As a result of the 2018 pension assessment, the Commission calculates that staff must contribute 10% of their basic salary in order to cover one third of the pension benefits they acquire. This is an increase of 0.2% on the contribution rate calculated in 2017. The 2018 update takes retroactive effect on 1 July 2018. The report states that the applied pension contribution rate and the ideal contribution rate (as calculated by Eurostat) are very close, and so the methods used have ensured that the PSEO scheme is in balance.
7. The report also discusses the budgetary impact of the PSEO. To date, the PSEO has produced net revenue to the EU budget, as contributions from staff have raised more than the payments made to pensioners. Rather than make employers' contributions into a pension fund, the EU institutions undertook to pay pensions (from the EU budget) when staff retire. As the number of pensioners has increased, the Commission expects that pension expenditure will increase over the next Multiannual Financial Framework but that, in the long term, reforms to pension rules will generate savings which will appear over time.
8. The report concludes that the application of Annex XII has fulfilled its aim of guaranteeing that the PSEO is in balance, since the pension paid by staff to the budget covers one third of the rights acquired every year.

5027/19 REPORT on the application of Annex XI to the Staff Regulations

9. This is an interim report from the Commission to the European Parliament and Council on the application of Annex XII to the Staff Regulations and the Conditions of Employment of Other Servants of the European Union (Staff Regulations). The report describes the process and outcome of the implementation of the rules for updating remuneration and pensions (hereinafter the "Method") over the period 2014-2018. These rules are laid out in Article 66a and Annex XI of the Staff Regulations.
10. The report sets out the basic objectives and principles of the Method adopted in 2013. The provisions of the current Method for updating remuneration and pensions apply from 1 January 2014 until at least 31 December 2023. The proper functioning of the Method is based on two underlying principles: the principle of equivalence of the evolution of purchasing power of EU staff and national officials in central government and; the principle of equality of purchasing power among EU staff in different duty stations.

11. The report also outlines the legal framework for the yearly implementation of the Method. This update is defined as an “automatic” or “mechanical” event, which occurs without any decision-making process among the EU institutions. The Commission applies an internal administrative workflow to ensure the proper implementation of the update, with statistical input from Eurostat.
12. The report goes on to discuss specific indicators, which measure changes in the purchasing power of civil servants in central governments of Member States. The statistics relating to specific indicators rely on data provided by the responsible statistical authorities in Member States (i.e. the Office for National Statistics in the UK). As per the Method, the Global Specific Indicator is calculated using a sample of eleven reference Member States (weighted by GDP): Belgium, Germany, Spain, France, Italy, Luxembourg, Netherlands, Austria, Poland, Sweden and the UK.
13. The report notes the recent departure from the general principle of parallelism, which it attributes to a range of factors: the suspension of salary updates in 2013 and 2014; the impact of the EU solidarity levy and; the application of the moderation and exception clauses.
14. The report also explains correction coefficients. The objective of correction coefficients is to ensure that purchasing power in a given place of employment reflects the equivalent situation in Brussels.
15. The report concludes that Article 66a and Annex XI to the Staff Regulations have been successfully implemented by the Commission. The Method for updating remuneration and pensions has proved its efficiency and effectiveness over the period 2014-2018. The Method has also achieved its objectives whilst putting aside the inter-institutional tensions and court cases of the past.

SCRUTINY HISTORY

16. None for these reports.

MINISTERIAL RESPONSIBILITY

17. The Chancellor of the Exchequer has responsibility for United Kingdom policy on European Union monetary and economic issues. The Foreign and Commonwealth Secretary and the Secretary of State for Exiting the EU are responsible for overall United Kingdom policy towards the European Union.

INTEREST OF THE DEVOLVED ADMINISTRATIONS

18. EU financing and staffing policy are reserved matters under the UK’s devolution settlements and no devolved administration interests arise. The devolved administrations have therefore not been consulted in the preparation of this EM.

LEGAL AND PROCEDURAL ISSUES

- 19.

- i. Legal basis
Under Article 14(2) of Annex XII to the Staff Regulations, the Commission must submit an interim report on the application of Annex XII to the European Parliament and Council in 2018.
Under Article 15(4) of Annex XI to the Staff Regulations, the Commission must submit an interim report on the application of Annex XI and Article 66a of the Staff Regulations to the European Parliament and Council in 2018.
- ii. European Parliament Procedure
Not Applicable – this is not a legislative proposal
- iii. Voting procedure
Not Applicable – this is not a legislative proposal
- iv. Impact on United Kingdom Law
None – this is not a legislative proposal
- v. Application to Gibraltar
Not Applicable – this is not a legislative proposal
- vi. Fundamental rights analysis
Not Applicable – this is not a legislative proposal

APPLICATION TO THE EUROPEAN ECONOMIC AREA

20. Not Applicable – this is not a legislative proposal

SUBSIDIARITY

21. No subsidiarity issues arise, the Commission is fulfilling its legal obligations by producing these reports.

POLICY IMPLICATIONS (including Exit implications where appropriate)

22. On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the Government triggered Article 50 of the TEU to begin the process of exit. Until 29 March 2019, the UK remains a full member of the EU and all the rights and obligations of EU membership remain in force. During this period, the Government will also continue to negotiate, implement, and apply EU legislation.
23. These reports refer to changes already reflected in the 2018 and 2019 budgets. The Government remains committed to arguing for an EU budget that delivers the best possible value for money for all EU taxpayers. The Government has been clear that it wants to see real budgetary restraint and continues to argue for the streamlining of administrative expenditure, including through this year's annual EU budget.

CONSULTATION

24. None

IMPACT ASSESSMENT

25. None

FINANCIAL IMPLICATIONS

26. These reports have no direct financial impacts. The EU's total liability for pensions is reflected in its annual accounts.

TIMETABLE

27. We do not anticipate that these reports will be discussed in the Council.

A handwritten signature in blue ink, appearing to read "Elizabeth Truss". The signature is written in a cursive style with a large initial 'E'.

RT HON ELIZABETH TRUSS MP