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Report on the 2005 update of the 2004 actuarial assessment of the Pension
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Reference date : 31 December 2004

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Articles 83, 83a and Annex XII of the Staff Regulations

**Report on the 2005 update of the 2004 actuarial assessment of the
Pension Scheme of European Officials (PSEO)**

Reference date: 31 December 2004

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INTRODUCTION

Article 83a and Annex XII of the Staff Regulations set out rules to guaranty the equilibrium of the pension scheme of the European Civil Service.

The Article 83a(3) stipulates that on the occasion of the five-yearly actuarial assessment in accordance with Annex XII, and in order to ensure the balance of the scheme, the Council shall decide on the rate of contribution and any change to the pensionable age. Point 4 stipulates that each year the Commission shall present to the Council an updated version of the actuarial assessment, in accordance with Article 1(2) of Annex XII.

Finally, Article 83a(5) stipulates that for the purposes of paragraphs 3 and 4 of this article, the Council shall act by a qualified majority on a proposal from the Commission, as provided for in the first indent of Article 205.2 of the EC Treaty. For the purposes of paragraph 3, the Commission's proposal shall be presented after consultation of the Staff Regulations Committee.

Annex XII lays down rules for implementing Article 83a of the Staff Regulations. In particular, it stipulates that:

- Eurostat shall be the authority responsible for the technical implementation of this Annex (see Article 13(1)),
- Eurostat shall be assisted by one or more qualified independent experts in carrying out the actuarial assessments (see Article 13(2)),
- each year on 1st September Eurostat shall submit a report on the assessment and updating referred to in Article 1 of this Annex (see Article 13.3),
- any questions of methodology raised by the implementation of this Annex shall be dealt with by Eurostat in cooperation with national experts from the relevant departments of the Member States and the qualified independent expert or experts (see Article 13(4)).

Eurostat has drawn up the present report in accordance with the above-mentioned legal requirement. This report shows the results of the 2005 update of the 2004 actuarial assessment of the pension scheme of the European Civil Service, based on the population of European officials at 31.12.2004.

The present Eurostat report gives the necessary information to the Commission to propose, if necessary, changes to the rate of the staff contribution and to the pensionable age in order to ensure the balance of the scheme.

For any information concerning this report, please contact Eurostat in Luxembourg:

Eurostat / Unit D5 Secretariat
BECH - B3/304
L-2920 Luxembourg
tel: (352) 4301-34191

1. CONTRIBUTION RATE

The 2005 update of the 2004 actuarial assessment of the Pension Scheme of European Officials (PSEO) indicates that, in order to guarantee the equilibrium of this pension scheme, the contribution rate necessary to finance one third of the benefits payable would be 10.3% of the basic salary (or of the invalidity allowance).

According to Annex XII of the Staff Regulations, Article 2.2, the adjustment taking effect on 1st July 2005 may not lead to a contribution higher than 10.25%.

Consequently, the following contribution rate should be applied with effect from 1 July 2005:

10.25%

The calculated contribution rate indicated above (10.3%) is one third of the ratio between the total of the service cost (721 million Euros) and the total of annual basic salaries (2 343 million Euro). More details can be found in Annex I.

By definition, the contribution rate is calculated on the basis of the rights accrued during the year (2005 for the present report). According to the Staff Regulations, the rights acquired after 1.5.2004 are no longer affected by correction coefficients. Therefore it is more meaningful to compare the calculated contribution rate for 2005 with the value that was estimated for 2004 excluding correction coefficients, which was also 10.3%

2. UPDATE OF THE ASSESSMENT OF THE ACTUARIAL BALANCE

The PSEO was assessed on the basis of the calculation method set out in Chapter 2 of Annex XII of the Staff Regulations.

Compared to the 2004 assessment, just few minor changes were introduced in the methodology:

- some formulae were adapted to take into account some new categories of the population according to the Staff Regulations in force since 01.05.2004,
- new ISP (Individual Salary Progression) tables were used, in line with the experts' recommendations (see in annex III the minutes of the 8th June 2005 meeting of the Article 83 Working group).

An updated document concerning the calculation methodology is available at Eurostat and can be obtained on request.

3. COMPUTATION SYSTEM

3.1. Variables used in the assessment

In general, two kinds of variables are used in the actuarial calculation:

Parameters - These are values mainly linked to the application of the Staff Regulations. These values change according to certain conditions related to the individual situation of each official (e.g. the annual accrual rate is 1.9% for staff recruited after 01.05.2004 and 2% for those recruited before this date). These values can be established clearly.

Actuarial assumptions - These are values that are not known and cannot be established exactly, such as the invalidity table, the ISP (individual salary progression) table, the probability of being married at the retirement date, the coefficients for orphans and divorced spouses, etc. The values of these actuarial assumptions were estimated according to general actuarial practices and were discussed with national experts from the relevant departments of the Member States at the meeting held in Luxembourg on 8th June 2005.

A summary of main variables used (parameters and actuarial assumptions) is detailed in Annex I.

3.2. Demographic parameters

The demographic parameters taken into consideration for the actuarial assessment were based on the observation of a population of 34 628 participants in the PSEO at 31.12.2004, which represents a net increase of 1 869 participants compared to the previous year (32 759 participants at 31.12.2003 were used in the 2004 actuarial assessment). 3 618 new officials started work in 2004, some 2 597 of them on or after 01.05.2004. The latter group will have an annual rate of pension-rights accrual of 1.9 % instead of 2 %.

The observed population is made up of contributing members of the PSEO including:

- members whose contribution is optional,
- invalids who receive an invalidity allowance according to Article 78 of the Staff Regulations.

According to the “EU-2004 life table”¹ Specific life table related to the population of members of the PSEO (Pension scheme of European Officials). This table was compiled in 2004 and used in the 2004 actuarial assessment of this pension scheme., life expectancy at the lower and upper limits of normal retirement ages (60 and 63 years old, subject to transitional measures laid down in the Annex XIII of the Staff Regulations) is 24 and 21 years, respectively. An immediate annuity at these ages² is equal to 15.24 (it was 15.26 in 2004) and 14.05 (it was 13.96 in 2004) respectively. The changes in the share of males and females in the reference population explain these differences.

A breakdown of the reference population by type of contributing member, and by Institution or Agency, the EU-2004 life table and the assumed retirement ages are included in Annex I.

¹ Specific life table related to the population of members of the PSEO (Pension scheme of European Officials). This table was compiled in 2004 and used in the 2004 actuarial assessment of this pension scheme.

² The immediate annuity represents the string of payments of a pension of 1€ discounted to the present, where the payments begin when the official reaches retirement age and where the payments stop when the official dies.

3.3. Economic parameters

The value of the discount rate (net of inflation) used in the calculation is 3.8%, as against 3.9% used in the 2004 actuarial assessment. On the other hand, the general salary growth net of inflation (GSG) is equal to 0.2% (0.3% in 2004). Changes in these important parameters have a compensatory effect.

According to Articles 10 and 11 of the Annex XII of the Staff Regulations, these rates were calculated as the average of corresponding rates of the 12 preceding years (see tables in Annex I).

3.4. Technical implementation of Annex XII of the Staff Regulations

Technical questions raised by the implementation of Annex XII of the Staff Regulations are dealt with by Eurostat in cooperation with national experts from the relevant departments of the Member States participating in the Working Group on Article 83 of the Staff Regulations. The minutes of the meeting held in Luxembourg on 8th June 2005 (Doc.20050608 Art83_11) are in Annex III.

Eurostat also exchanges relevant information on actuarial issues with international organisations such as the JPAS (Joint Pensions Administrative Section of the Co-ordinated Organisations), EPO (European Patent Office) and Eurocontrol.

3.5. Independent examination

According to Annex XII, Article 13, of the Staff Regulations, Eurostat was assisted by Ernst & Young Actuaires-Conseils, 11, allée de l'Arche, 92037 Paris La Défense cedex, with regard to the implementation of the methodology described in the above-mentioned annex, and to the definition and calculation of the corresponding actuarial assumptions.

Finally, Ernst & Young Actuaires-Conseils has conducted an actuarial examination of the contribution rate calculated by Eurostat. This examination consisted in confirming the relevance and reliability of the actuarial processes and assumptions used in accordance with the methodology described in the Annex XII, of the Staff Regulations. For the aspects not described explicitly in this annex, Ernst & Young Actuaires-Conseils has checked their compliance with generally accepted actuarial practices. Concerning actuarial assumptions, Ernst & Young Actuaires-Conseils carried out investigations to ensure that the underlying data provided by Eurostat were used correctly.

The Ernst & Young Actuaires-Conseils assessment is included in Annex II.

Annexes to the report on the 2005 update of the 2004 actuarial assessment of the Pension Scheme of European Officials (PSEO)

- Annex I System of Computation
- Annex II Independent examination
- Annex III Minutes of the Article 83 of the Staff Regulations Working Group

4. ANNEX I –COMPUTATION SYSTEM

4.1. Relevant figures concerning the contribution rate calculation

Table I Breakdown of the contribution rate

Service cost	Total contribution rate (3/3)	Staff contribution rate (1/3)
Service cost for retirement	25.4%	8.5%
Service cost for invalidity	3.8%	1.3%
Service cost for death	1.6%	0.5%
Total service cost	30.8%	10.3%

Table II Service cost and total of annual basic salaries

(mio of Euro)

Service cost	Total	%
- Service cost for retirement	595	82.5%
- Service cost for invalidity	88	12.2%
- Service cost for death	38	5.3%
Total service cost	721	100.0%
Total annual basic salaries	2,343	100.0%

4.2. Summary of main variables

The following tables show the values of the main parameters (see table III) and actuarial assumptions (see table IV). Please note that these tables only present an overview of the main variables and they are not exhaustive. Please refer to the Staff Regulations and its annexes for precise and complete information.

Table III Parameters used in the actuarial assessment

Parameter	Value
Legal source	Staff Regulations in force from 01.05.2004
Reference date for the population (Annex XII article 1)	31.12.2004
Maximum official retirement age (Staff Regulations article 52)	65
Minimum official retirement age (Staff Regulations article 52 and Annex XIII article 22)	63 or before for officials in activity before 01.05.2004
Minimum age of early retirement (Staff Regulations article 52, Annex VIII article 9 and Annex XIII article 23)	55 or before for officials in activity before 01.05.2004
Category and grade for the minimum subsistence figure (Annex VIII article 6)	first step of grade 1
Maximal retirement pension (Staff Regulations article 77)	70% of the basic salary at the retirement date
Annual accrual rate (Article 77 of the Staff Regulations and Article 21 of the Annex XIII)	1.9% or 2% for officials recruited before 01.05.2004
Bonus for officials in activity after the normal retirement age (Annex VIII article 5 and Annex XIII article 22)	Barcelona incentive
Minimum retirement pension (Staff Regulations article 77)	4% of the minimum subsistence figure per year of service
Invalidity allowance (Staff Regulations article 78)	70% of the basic salary
Minimum invalidity allowance (Staff Regulations article 78)	100% of the minimum subsistence figure
Reversion pension (Staff Regulations article 79 and Annex VIII article 18)	60% of the retirement pension
Minimum reversion pension (Staff Regulations article 79 and Annex VIII article 18)	35% of the last basic salary
Survival pension (Staff Regulations article 79 and Annex VIII article 17)	60% of the retirement pension which would have been payable to the official
Minimum survival pension (Staff Regulations article 79)	35% of the last basic salary or minimum subsistence figure

Table IV Actuarial assumptions

Actuarial assumption	Value
Average difference of age between men and women	3 years
Probability of being married for men	90%
Probability of being married for women	60%
Marital status	status at the evaluation date
Coefficient for orphans and divorced spouses pension	10%
Coefficient Annex VIII (correction coefficient)	0.0%
Assumed retirement age	63 or 64 years old (see Doc.20050608 Art83_03)
Discount rate	3.8% (see item 5.1)
General Salary Growth (GSG)	0.2% (see item 5.2)
General Pension Revaluation	0.2% (equal to the GSG)
Individual salary progression	See Doc.20050608 Art83_05
Mortality table	The same as in 2004 calculation (see Doc.20050608 Art83_03)
Invalidity table	The same as in 2004 calculation (see Doc.20050608 Art83_03)

4.3. Reference population

Annex XII Article 1 of the Staff Regulations stipulates that the actuarial assessment shall be carried out in each year n , on the basis of the population of active members of the PSEO at 31 December of the previous year ($n-1$). On the other hand Article 9 of these annex says that the population of participants in the scheme shall be collected annually by the Commission using information received from the different institutions and agencies whose staff are members of the scheme.

To be in accordance with the regulations, the reference population is the staff at 31st December 2004 of the 26 institutions and agencies whose officials are members of the PSEO.

As approved by the Working Group Art83 during its meeting of 7th June 2004, the term “active members of the PSEO” is considered in a wide sense as a synonymous with “contributing members of the PSEO”. Consequently, the reference population includes not only the officials in “active employment” but also the officials assigned in one of the other administrative statuses detailed in Article 35 of the Staff Regulations, plus invalids who receive an invalidity allowance (70 officials belong to this last category on 31 December 2004).

In 2004, Eurostat collected personal data of contributing members of the PSEO directly from each of the 26 institutions or agencies and from PMO (Pay Master Office) because these data were not available in a centralised database. In 2005, in order to simplify the collection of data, Eurostat decided to import most of data from the NAP³ (New Application for Pay) database and from PMO⁴. Only data about transfers of pension rights were collected directly from institutions. All these data have been stored in a new database covering needs related to Article XII implementation.

This change of data sources and the creation of the database were more complex than expected. Rules to guarantee data integrity and appropriate checking of the data are already part of the database. It is planned to improve the database and the data collection process in the future.

Table V Reference population by administrative status

Population at 31.12.2004

Type of contributing members	Total	%
Contract staff	524	1.51
- Active employment	524	1.51
		0.00
Temporary staff	4,851	14.01
- Active employment	4,849	14.00
- Leave on personal grounds	2	0.01
Officials	28,493	82.28
- Active employment	28,211	81.47
- Secondment	259	0.75
- Leave on personal grounds	23	0.07
Non active staff	760	2.19
- Invalids who receive an invalidity allowance according to article 78 of the Staff Regulations	70	0.20
- Non-active status (article 41) and retirement in the interests of the service (article 50)	39	0.11
- Leave for military service	0	0.00
- Parental leave or family leave (1)	0	0.00
- Termination of service according to special measures ("degagement")	651	1.88
Total population	34,628	100.00

(1) Officials on parental leave or family leave are not included in the population to be used in the actuarial assessment because the pension contribution is fully paid by the institution

³ The NAP application is a centralised database that has been created to produce the monthly salary and pension forms for all institutions and agencies. This database contains a big part of personal data; particularly amounts paid and pension contributions.

⁴ PMO use the Sysper data base of the Commission to store data about transfers of pension rights of the Commission and agencies, and data about pensioners.

Table VI Reference population by institution or agency

Population at 31.12.2004

Institution or Agency	Total	%
European Commission	22,375	64.62%
European Parliament	4,365	12.61%
Council of the European Union	2,759	7.97%
Court of Justice of European Communities	1,484	4.29%
Court of Auditors	635	1.83%
Economic and Social Committee	561	1.62%
Committee of the Regions	346	1.00%
Other small institutions and Community Organisms decentralised	2,103	6.07%
Total	34,628	100.00%

Table VII Change of population of contributing members at 31.12.2004, compared to population at 31.12.2003

Changes	Total
- Population of contributing members that was used to calculate the actuarial assessment of the pension scheme at 31.12.2003	32,759
- Officials from population at 31.12.2003 who are no longer contributing members because they left the pension scheme or became pensioners.	-1,749
- Officials recruited in 2004, before 01.05.2004 (date of entry into force of the new Staff Regulations).	1,021
- Officials recruited in 2004, from 01.05.2004 onwards	2,597
- Population of contributing members used to calculate the actuarial assessment of the pension scheme at 31.12.2004	34,628
Net change	1,869

4.4. Real discount rate

In accordance with Article 10 of Annex XII of the Staff Regulations, the discount rate is based on the observed average annual interest rates on the long-term public debt of Member States as published by the Commission. To obtain the discount rate net of inflation, an appropriate consumer price index is used. The effective annual rate to be taken into consideration for the actuarial calculations is the average of the real average interest rates for the 12 years preceding the current year.

Compared to the previous exercise, data relating to 1992 were excluded from the moving average, while data for 2004 were included.

Table VIII Real discount rate

Year	Nominal rate	Deflator index	Real discount rate
	(1)	(2)	(3)
1992	9.8	4.5	5.1
1993	7.7	4.0	3.6
1994	8.0	3.1	4.8
1995	8.3	3.0	5.1
1996	7.2	2.6	4.5
1997	6.1	2.1	3.9
1998	4.9	1.7	3.1
1999	5.6	1.1	4.5
2000	5.9	2.4	3.4
2001	5.7	2.5	3.1
2002	5.5	2.2	3.2
2003	5.1	2.0	3.0
2004	5.1	2.0	3.0
Avg. 92-03	6.7	2.6	3.9
Avg. 93-04	6.3	2.4	3.8

- (1) Till 1998: The long-term government borrowing rates. Since 1999: The Euro zero-coupon government bond curve with a maturity of 21 years.
- (2) Till 1998: The National Accounts' deflator of private consumption. Since 1999: The Harmonised index of consumer prices (HICP).
- (3) Values in column 3 are obtained using the common formula for deflation i.e.: $col.3 = 100 * (100 + col.1) / (100 + col.2) - 100$

4.5. General salary growth (GSG)

The general salary growth is calculated according to the rules specified in Annex XII Article 11 of the Staff Regulations. The effective rate is based on the specific indicators referred to in Article 1(4) of Annex XI and is the average of the net specific indicators for the European Union for the 12 years preceding the current year.

Compared to the previous exercise, data relating to 1992 were excluded from the moving average, while data for 2004 were included.

Table IX General Salary Growth

Year	Specific Indicator
1992	0.6
1993	-1.3
1994	-1.9
1995	0.2
1996	-0.1
1997	0.7
1998	0.5
1999	1.8
2000	-0.1
2001	0.6
2002	1.7
2003	1.1
2004	-1.2
Avg 92-03	0.3
Avg 93-04	0.2

4.6. Individual Salary Progression (ISP)

This issue was discussed at the 8th June 2005 Art83 Working Group (See Annex III - Doc. 20050608 Art83_11).

Eurostat stressed the difficulty for calculating the ISP in an accurate way because of the lack of past observations, the appearance of new categories of personnel and the complexity of the new Staff Regulations' rules on this matter.

DG ADMIN informed that they were still working on the revision of the promotion rates, which is one of parameters used for the ISP calculation. This revision was not yet available for the present report.

According to the Working Group advice, based on expert's recommendations, Eurostat calculated a specific ISP by type of officials, as follows:

1. officials recruited before the 01.05.2004,
2. officials recruited the 01.05.2004 or onwards,
3. temporary staff recruited before the 01.05.2004,
4. temporary staff recruited the 01.05.2004 or onwards,
5. contract staff recruited the 01.05.2004 or onwards.

These five ISP calculations take into account the particular parameters and rules applicable to each of the above five types of population.

The corresponding ISP, according to the individual situation of each active member of the population, was used in the calculations. In order to ease the presentation a weighted ISP of the population at 31/12/2004, by grade, is shown in the following table.

Table X Weighted ISP by group of active population and grade

Grades	ISP Groups					Average
	1	2	3	4	5	
18					1.0%	1.0%
17					1.0%	1.0%
16	0.9%		2.0%		1.0%	0.9%
15	1.1%	1.2%	2.0%	2.0%	1.0%	1.2%
14	1.5%	1.0%	2.0%	2.0%	1.0%	1.6%
13	1.9%	1.4%	2.0%	2.0%	1.0%	1.6%
12	2.2%	1.7%	2.0%	2.0%	1.0%	2.2%
11	2.7%	2.0%	2.0%	2.0%	1.0%	2.6%
10	3.0%	2.3%	2.0%	2.0%	1.0%	2.9%
9	2.7%	2.6%	2.0%	2.0%	1.0%	2.0%
8	2.7%	2.3%	2.0%	2.0%	1.0%	2.6%
7	2.7%	2.7%	2.0%	2.0%	1.0%	2.6%
6	2.0%	2.7%	2.0%	2.0%	1.0%	2.0%
5	2.2%	2.7%	2.0%	2.0%	1.0%	2.2%
4	1.8%	2.5%	2.0%	2.0%	1.0%	1.8%
3	2.1%	2.6%	2.0%	2.0%		2.1%
2	2.3%	2.5%	2.0%	2.0%	1.0%	2.2%
1	2.1%	2.6%	2.0%	2.0%	1.0%	2.0%
Average	2.4%	2.6%	2.0%	2.0%	1.0%	2.3%

Remarks:

- Temporary staff of agencies has been included in groups 1 and 2 because it is expected that their carrier will be close to Official's career. The ISP groups 1 (83%) and 2 (3%) represent 86% of the population at 31.12.2004.
- Because of the lack of precise information the ISP for groups 3 to 6 have been estimated in cooperation with DG ADMIN as 2% for everybody in groups 3 and 4, and 1% in group 5.
- No weighted average of ISP have been calculated (grey cells in the table) in case nobody is present in the reference population for a given combination of grade and ISP group. In particular, grades 17 and 18 concerns only Contract Staff.

4.7. Assumed retirement age

As mentioned in Annex XII, article 4, of the Staff Regulations, it is assumed that all retirements will occur at a fixed average age (*r*). The average retirement age may be different for different groups of staff.

Table XI Assumed retirement age and Barcelona incentive by age group of officials

Staff Group (age and years of service at 30.04.2004)	Annual accrual rate	Barcelona incentive	Barcelona incentive maximum	Normal retirement age	Assumed retirement age (r)	
		(1)	(2)		Actives	Invalids
Group 1 : Old Staff Regulations	2.00%	(3)		60	63	65
Group 2 : >= 50 years old or >= 20 years of service	2.00%			60	63	63
Group 3 : 40 - 49 years old and < 20 years of service	2.00%	3.00%	4.50%	61	63	63
Group 4 : 35 - 39 years old and < 20 years of service	2.00%	2.75%	4.00%	62	63	63
Group 5 : 30 - 34 years old and < 20 years of service	2.00%	2.50%	3.50%	63	64	64
Group 6 : < 30 years old and < 20 years of service	2.00%	2.00%	-	63	64	64
Group 7 : New officials (after 30.04.2004)	1.90%	2.00%	-	63	64	64

(1) The Barcelona incentive corresponds to an increase in pension, expressed as a percentage of the last basic salary.

(2) The Barcelona incentive maximum represents a percentage of the total pension rights acquired by the official at the age of 60.

For example, the Barcelona incentive for officials aged between 40 and 49 shall be 3% of the last basic salary but shall not exceed 4.5% of the pension rights acquired by those officials at the age of 60.

(3) According to the previous version of the Staff Regulations, the officials who remain in service after the normal retirement age were entitled, for each year worked after that age, to an increase in their pension equal to 5% of the amount of the pension rights acquired at the age of 60. According to the new Staff Regulations, this rule is still applicable to the officials aged 50 years or over or with 20 or more years' service at 30/04/2004.

4.8. Annuities

Annex XII, articles 6 to 8, of the Staff Regulations refer to the annuities used in the calculation. The values of these annuities according to age are presented below.

In order to comply with Commission policy on equal opportunities, values are not presented by sex. However, Eurostat conducted its analyses taking into account all relevant features of the population, including sex. It is only at the level of the presentation that figures are aggregated by weighted averages.

The table below was calculated using:

- the discount rate from table VII,
- the general salary growth from table IX,
- an assumed retirement age (r) equal to 64 years old for officials younger than 35 at the reference date (31/12/2003) and equal to 63 years old for the others,

where :

x is the age of the official,

y the age of the official's spouse,

$m = r - x$ (number of years between the official's age and the assumed retirement age),

$y = x \pm 3$ according to the sex of the official.

Table XII Annuities according to articles 6 to 8 of the Annex XII of the Staff Regulations

Age	Immediate deferred		Immediate temporary		Age	Immediate annuity at age y
	annuity at age x	reversionary annuity at ages x and y	annuity at age x	reversionary annuity at ages x and y		
x	$m a_x$	$m a_{xy}$	a_x	a_{xy}	y	a_y
21	2.865762	0.316514	21.906890	0.197599	21	25.029748
22	2.938258	0.381323	21.663971	0.217510	22	24.859437
23	2.879661	0.639969	21.354262	0.297442	23	24.479751
24	3.050242	0.577872	21.138078	0.273438	24	24.442102
25	3.167335	0.599167	20.887458	0.275807	25	24.311468
26	3.297153	0.609478	20.631034	0.274992	26	24.188269
27	3.367667	0.712214	20.340707	0.299424	27	23.966766
28	3.503667	0.729026	20.064530	0.299600	28	23.829494
29	3.613017	0.792165	19.767111	0.311397	29	23.641830
30	3.778368	0.783530	19.477602	0.304596	30	23.521561
31	3.860697	0.902762	19.148168	0.327842	31	23.271996
32	4.000374	0.948969	18.825900	0.332487	32	23.090396
33	4.116611	1.038429	18.484100	0.345510	33	22.863748
34	4.301328	1.039476	18.149506	0.339023	34	22.716539
35	4.780529	1.125804	17.453964	0.318187	35	22.509558
36	4.948205	1.191418	17.071422	0.321996	36	22.293895
37	5.127602	1.252178	16.677026	0.324042	37	22.078037
38	5.324891	1.299797	16.271658	0.322938	38	21.869282
39	5.505614	1.384098	15.847349	0.326343	39	21.623401
40	5.729877	1.419590	15.416236	0.321265	40	21.415569
41	5.926163	1.509327	14.963284	0.322603	41	21.155747
42	6.174498	1.539268	14.503352	0.314520	42	20.942431
43	6.386199	1.637134	14.019519	0.313793	43	20.666078
44	6.640508	1.690110	13.525464	0.305778	44	20.422905
45	6.910741	1.737112	13.015508	0.295653	45	20.179311
46	7.147797	1.849402	12.481706	0.290908	46	19.876456
47	7.432845	1.911328	11.935562	0.279058	47	19.609859
48	7.679607	2.047545	11.364347	0.272415	48	19.277597
49	7.984696	2.120358	10.780031	0.257998	49	18.991228
50	8.336037	2.148059	10.179339	0.238397	50	18.734734
51	8.671802	2.220313	9.553983	0.221265	51	18.436212
52	8.951791	2.396447	8.900889	0.208914	52	18.051600
53	9.385983	2.374975	8.236580	0.183616	53	17.811981
54	9.776752	2.441846	7.543040	0.162854	54	17.497188
55	10.146686	2.566316	6.822420	0.143504	55	17.132593
56	10.523861	2.709397	6.075804	0.123490	56	16.747887
57	11.012414	2.721616	5.305962	0.099009	57	16.451188
58	11.476791	2.801141	4.505003	0.077035	58	16.097022
59	11.878558	3.006565	3.671622	0.057813	59	15.645494
60	12.354148	3.141061	2.807541	0.038498	60	15.235962
61	12.859582	3.271278	1.909341	0.021419	61	14.820413
62	13.393891	3.401863	0.974561	0.007905	62	14.395240
63	14.052241	3.393120	0.000000	0.000000	63	14.052241
64	13.630682	3.474664	0.000000	0.000000	64	13.630682

$m|a_x$ is described in article 6 § 3a

$m|a_{xy}$ is described in article 6 § 3b

a_x is described in article 7 § 2a

a_{xy} is described in article 7 § 2b

a_y is described in article 8 § 2

4.9. Life and invalidity table

In accordance with Annex XII, article 9, of the Staff Regulations, a life table and an invalidity table were set up using observation of the population of participants in the scheme, pensioners included.

As was the case for the annuities, the values related to life and invalidity are not presented by sex in order to comply with the Commission policy on equal opportunities, although that information was used in the calculation.

Table XIII EU-2004 Life and Invalidity

Age	Mortality (probability to die)	Life expectancy	Number of living individuals	Invalidity (probability to become invalid, percent)
x	q_x	e_x	l_x	q'_x (%)
20	0.000389	61	100000	0.0123
21	0.000391	60	99961	0.0125
22	0.000378	59	99922	0.0129
23	0.000379	58	99884	0.0134
24	0.000372	57	99846	0.0140
25	0.000363	56	99809	0.0149
26	0.000365	55	99773	0.0160
27	0.000391	54	99737	0.0226
28	0.000407	53	99698	0.0295
29	0.000442	52	99657	0.0358
30	0.000485	52	99613	0.0417
31	0.000519	51	99565	0.0507
32	0.000557	50	99513	0.0614
33	0.000600	49	99458	0.0709
34	0.000639	48	99398	0.0849
35	0.000685	47	99334	0.0989
36	0.000739	46	99266	0.1112
37	0.000797	45	99193	0.1250
38	0.000864	44	99114	0.1404
39	0.000943	43	99028	0.1673
40	0.001028	42	98935	0.1946
41	0.001125	41	98833	0.2219
42	0.001236	40	98722	0.2495
43	0.001360	39	98600	0.2803
44	0.001502	38	98466	0.3076
45	0.001653	37	98318	0.3376
46	0.001822	36	98155	0.3702
47	0.001996	35	97977	0.4057
48	0.002187	34	97781	0.4424
49	0.002392	33	97567	0.5493
50	0.002609	32	97334	0.6675
51	0.002831	32	97080	0.7839
52	0.003103	31	96805	0.9040
53	0.003389	30	96505	1.0383
54	0.003676	29	96178	1.2396
55	0.004039	28	95824	1.4438
56	0.004460	27	95437	1.6578
57	0.004846	26	95011	1.8870
58	0.005303	25	94551	2.1340
59	0.005853	24	94049	2.3182

Age	Mortality (probability to die)	Life expectancy	Number of living individuals	Invalidity (probability to become invalid, percent)
x	q _x	e _x	l _x	q _x ' (%)
60	0.006428	24	93499	2.5655
61	0.007055	23	92898	2.6761
62	0.007817	22	92243	2.9777
63	0.008728	21	91522	3.1832
64	0.009749	20	90723	3.1784
65	0.010961	19	89838	
66	0.012212	19	88854	
67	0.013604	18	87768	
68	0.015191	17	86574	
69	0.016871	16	85259	
70	0.018668	16	83821	
71	0.020701	15	82256	
72	0.022872	14	80553	
73	0.025226	13	78711	
74	0.027585	13	76725	
75	0.030466	12	74609	
76	0.033310	12	72336	
77	0.036835	11	69926	
78	0.040749	10	67351	
79	0.045069	10	64606	
80	0.049969	9	61694	
81	0.055666	9	58612	
82	0.062256	8	55349	
83	0.069506	8	51903	
84	0.076846	7	48296	
85	0.085494	7	44584	
86	0.093744	6	40773	
87	0.101311	6	36950	
88	0.110337	5	33207	
89	0.122499	5	29543	
90	0.134406	5	25924	
91	0.150134	4	22440	
92	0.166441	4	19071	
93	0.181689	4	15897	
94	0.197082	3	13008	
95	0.214427	3	10445	
96	0.236573	3	8205	
97	0.262048	3	6264	
98	0.275620	2	4622	
99	0.291356	2	3348	
100	0.376081	2	2373	
101	0.436357	2	1480	
102	0.467599	2	834	
103	0.498841	1	444	
104	0.530083	1	223	
105	0.561325	1	105	
106	0.592567	1	46	
107	0.623809	1	19	
108	0.655052	1	7	
109	0.686294	1	2	
110	0.717536	1	1	
111	0.748778	0	0	
112	0.780020	0	0	
113	0.811262	0	0	
114	0.842504	0	0	
115	0.873747	0	0	
116	0.904989	0	0	
117	0.936231	0	0	
118	0.967473	0	0	
119	1.000000	0	0	

4.10. Deferred reversionary annuity

The deferred reversionary annuity at ages x and y mentioned in Annex XII, article 6 (3b) of the Staff Regulations is integrated in the general actuarial model in such a way that the probability of dying before retirement for an official is taken into account. The annuity is used as described in Annex XII but a term is added in the model in order to exclude the survival (where the official dies between the evaluation date and the retirement date) from the reversion factor (official dies after the retirement date).

4.11. Marriage and spouse's age

Another problematic issue concerns marriage between persons of the same sex. The change in the legislation of some Member States could influence the probability of being married in the future, and so the probability of being married at retirement. This could also have an impact on the age difference between the official and his/her spouse as well as the mortality of the official's spouse.

These elements are not included in the present update of the 2004 actuarial assessment. Eurostat will follow the evolution of this issue according to experts' recommendations (see minutes of the 8th June 2005 meeting of the Article 83 Working Group in Annex III).

4.12. Sensitivity analysis of the contribution rate

The two following tables show the sensitivity of the contribution rate to this actuarial assumption. Figures are rounded to one decimal.

Table XIV shows that, a large reduction of 10% of the ISP used in the actuarial assessment (see point 6.1.6) would reduce the official contribution rate by 0.3%. An increase of the same amplitude would produce the same effect in the opposite direction.

Table XV shows the sensitivity of the contribution rate to changes of a fixed ISP. In this case, the same ISP rate is applied to all active members of the population, no matter what their administrative status, grade, step and expected retirement age are.

Table XIV: Sensitivity of the contribution rate to Individual Salary Progression (ISP)

ISP used	Cumulative change on ISP (3)	Official contribution rate	Cumulative change on contribution rate
1	2	3	4
(1)	10%	10.6%	0.3%
	5%	10.4%	0.1%
	4%	10.4%	0.1%
	3%	10.4%	0.1%
	2%	10.3%	0.1%
	1%	10.3%	0.0%
	0%	10.3%	0.0%
	-1%	10.2%	0.0%
	-2%	10.2%	-0.1%
	-3%	10.2%	-0.1%
	-4%	10.1%	-0.1%
	-5%	10.1%	-0.1%
	-10%	10.0%	-0.3%

(1) Corresponding ISP from tables, to be applied to each individual according to his or her administrative status, grade, step and expected retirement year, plus change indicated in colon 2.

Table XV: Sensitivity of the contribution rate to changes in a fixed ISP rate

ISP used (fixed ISP (2))	Cumulative change on ISP (3)	Official contribution rate	Cumulative change on contribution rate
1	2	3	4
2.5%	19%	10.4%	0.5%
2.4%	14%	10.3%	0.4%
2.3%	10%	10.2%	0.2%
2.2%	5%	10.1%	0.1%
2.1%		10.0%	

(2) The same ISP is applied to all officials, no matter what their administrative status, grade, step and expected retirement year are.

(3) The column 2 shows the cumulative change rate of the ISP indicated in column 1, compared to an ISP pivot. E.g. $2.1\% * 1.19 = 2.5\%$

5. ANNEX II – INDEPENDENT EXAMINATION

Ernst & Young Actuaire-Conseils has conducted an actuarial examination of the contribution rate calculated by Eurostat. This examination consisted in confirming the relevance and reliability of the actuarial processes and assumptions used in accordance with the methodology described in the Annex XII, of the Staff Regulations. For the aspects not described explicitly in this annex, Ernst & Young Actuaire-Conseils has checked their compliance with generally accepted actuarial practices. Concerning actuarial assumptions, Ernst & Young Actuaire-Conseils carried out investigations to ensure that the underlying data provided by Eurostat were used correctly.

The executive summary from the Ernst & Young report on the actuarial examination is below reproduced:

In accordance with its assignment entrusted by Eurostat, Ernst & Young Actuaire-Conseils, as an independent expert, has conducted an actuarial examination of the 2005 update of the actuarial assessment of the pension scheme referred to in Article 83a (3) of the new Staff Regulations for which Eurostat endorsed the technical responsibility towards the Commission according to the Annex XII “Rules for implementing Article 83a of the Staff Regulations”. This examination consisted in confirming the relevance and the reliability of the actuarial processes and assumptions used in accordance with the methodology described in Annex XII to evaluate the contribution rate of officials.

For the aspects explicitly mentioned in Annex XII, we did not detect any elements likely to cast doubt that the calculations determined by Eurostat are not compliant with the rules of Annex XII.

For the aspects not described explicitly in Annex XII, we have checked their compliance with the generally accepted actuarial practices and we did not detect any significant difference with the methodology and the assumptions we would have chosen ourselves to perform the calculations.

Ernst & Young Actuaire-Conseils has no reasons to doubt that the official’s contribution rate (10.3%) calculated by Eurostat and presented in the Eurostat report is a sufficiently accurate estimate of the reality.

The complete Ernst & Young report on the actuarial examination of the contribution rate is available at Eurostat.

6. ANNEX III – MINUTES OF THE ARTICLE 83 OF THE STAFF REGULATIONS WORKING GROUP

Luxembourg, June 2005



**Eurostat - C5 unit
Remuneration sector**

Document:	Doc. 20050608 Art83_11
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**Meeting of the
Article 83 of the Staff Regulations Working Group**

Luxembourg 8th June 2005 at 09:30

Quetelet Room

BECH Building / Luxembourg

DRAFT MINUTES

LIST OF PARTICIPANTS

Country delegates

ABLINGIENE Aldona Statistics Lithuania LITHUANIA
BOROWSKI Remigiusz Ministry of Social Policy POLAND
DURANTE Carlo Ministero dell' Economia e delle Finanze ITALIA
FARAGO Miklos Hungarian Central Statistical Office HUNGARY
HEHN Ludovic Représentation Permanente de la France FRANCE
JOHNSTON David Government Actuary's Department, UNITED KINGDOM
KALDUS Adam Office of the Insurance and Pension Funds Supervision POLAND
LORENTZ Kai Statistisches Bundesamt DEUTSCHLAND
LOVRECIC Ines Sarazin Pension and Disability Insurance Institute SLOVENIA
PAPPENSCHPELLER Thomas Bundeskanzleramt ÖSTERREICH
PAV Jan Czech Social Security Office CZECH REPUBLIC
POLSTER Olaf Bundesministerium des Innern DEUTSCHLAND
PUKINSKA Rita Ministry of Welfare LATVIA
RASK Riikka Ministry of Finance SUOMI/FINLAND
SAVOLA Risto Ministry of Finance SUOMI/FINLAND
SPIRITO Simona ISTAT ITALIA
VARHOLA Vladimir Slovak Statistical Office SLOVAK REPUBLIC
WICTOR Jean-Paul Ministère de la Sécurité Sociale, IGSS LUXEMBOURG

Independent experts

CHEVALIER Franck Ersnt & Young
LEGRAND Nicolas-Michel Ernst & Young

International organisations

DEPICKER Sabrina EUROCONTROL
ROBIN Jean-Paul O.E.B.

European Institutions

BRONKHORST Jan EC - PMO
LEMAIRE Guy EC - ESTAT/C-5
LIOTTI Amerigo EC - ESTAT/C-5
LUIS SANUDO José EC - ADMIN
Mc GING James EC - ECFIN
MONTAIGNE Fabienne EC - ESTAT/C-5
MOSSAY-PIRROTTE Martine EC - ESTAT/C-5
OLIVARES José Maria EC - ESTAT/C-5
PASTOR Julio EC - ADMIN
ROMAN Jean-Claude EC - ESTAT/C-5
STEIMER Patrick EC - ECFIN
VIDAL Paulo CONSEIL

SUMMARY OF ACTIONS

Item 4 Actuarial assumptions

Action 1: Discount rate and the general salary growth will be updated as foreseen by Annex XII. All the other hypotheses will be the same as in 2004, except for the individual salary progression.

Item 5 Individual Salary Progression (ISP)

Action 2:

- *Eurostat will calculate the five ISP tables presented at the meeting (one by type of population) to be used in the 2005 final update of the actuarial assessment.*
- *Revision in promotion rates will be integrated in calculations if DG ADMIN will publish a decision on this matter by the 1st September 2005.*
- *New grades will be included in new staff categories.*
- *The effect of carers' interruptions will not be integrated in calculation for the moment, but Eurostat will continue to investigate on this matter.*
- *A weighted ISP table of the five ISP tables above mentioned will be calculated for publication purposes.*

Item 6 Mortality tables

Action 3:

- *A document on methodological aspects concerning the life table calculation will be presented in 2006, together with further reflections on the feasibility of the three options.*
- *Eurostat will participate in the JPAS project to build an International officials life table.*

Item 7 Non-marital partnership

Action 4: Delegates should inform Eurostat about the legal situation of non-marital partnership in their countries.

Action 5: Eurostat will follow the evolution of the non-marital partnership issue and will inform delegates in case new and relevant information is collected.

Item 8 Methodological issues

Action 6: An updated version of the methodological document will be available on CIRCA.

Item 9 2005 update of the actuarial assessment of the pension scheme: Provisional results

Action 7:

- *Eurostat will carry out a final 2005 update of the actuarial assessment of the PSEO by the 1st September. Results will be presented with a precision of just one decimal.*
- *Eurostat update of the assessment will be checked by independent experts from Ernst & Young.*
- *A copy of the Eurostat report concerning the final update of the assessment will be uploaded on CIRCA.*

Item 10 Miscellaneous – CIRCA

Action 8: Eurostat will upload on CIRCA the final 2005 update of the actuarial assessment of the PSEO and any other relevant document related to implementation of Annex XII of the Staff Regulations.

ITEMS

Item 1 Chairman's introduction statement and adoption of the agenda

The chairman welcomed the participants. He presented the agenda and informed that copies of documents were sent to participants and uploaded on CIRCA. In addition, copies of those documents and of the slides that were going to be presented were also available in the meeting room.

He stressed that the main goal of this meeting was to present the provisional results of the actuarial assessment of the PSEO (Pension Scheme of European Officials), to discuss about some methodological topics and to comment the implementation of action points that were decided at the previous meeting of the Art83 Working Group.

No changes were proposed. The agenda was adopted.

Item 2 Minutes of the 07.06.2004 meeting of the Art83 Working Group

No changes were proposed. The minutes were adopted.

The chairman suggested adding a summary of action points in next minutes.

Item 3 Actuarial assessment of the pension scheme: Eurostat Report 2004

This report was published the 1st September 2004 and a copy was sent the 7th December 2004 by e-mail to members of the Art83 WG. The goal of the presentation was to give the opportunity to participants to ask questions and to comment about the final 2004 results that were calculated after the previous Art83 WG meeting.

No important comments were recorded.

Item 4 Actuarial assumptions

Eurostat showed a graphic of the actuarial assessment process, an overview of the actuarial assumptions that were used to calculate the provisional results and the frequency of changes on these actuarial assumptions. Some of these assumptions were the subject of other items in the agenda.

The UK suggested that, to calculate the real rate of return, instead of comparing a long-term moving average interest rate with a current inflation forecast, it would be more correct to use the interest rate on inflation-linked, long-term government bonds.

Eurostat reminded the legal obligation defined in the Annex XII (an appropriate consumer price index shall be used) and underlined that the HICP index was seen as the best and most practical solution to calculate the real discount rate.

DG ECFIN confirmed that the UK approach would theoretically be a correct one, but that the market in such bonds was not large enough, nor widespread enough, to provide an unbiased market view of inflation. In several countries, the rate of return on such bonds has been distorted by the particular requirements of certain market sectors, in particular, pension funds.

Delegates agreed on the Eurostat proposals detailed in the document.

Action 1: Discount rate and the general salary growth will be updated as foreseen by Annex XII. All the other hypotheses will be the same as in 2004, except for the individual salary progression.

Item 5 Individual Salary Progression (ISP)

This issue was already discussed at the 7th June 2004 Art83 Working group, and it was decided that Eurostat should check and revise the hypothesis.

Eurostat stressed the difficulty for calculating the ISP in an accurate way because the lack of past observations, the appearance of new categories of personnel and the complexity of new Staff Regulations' rules on this matter.

DG ADMIN precised that they are still working on the revision of the promotion rates and that at the present stage of the work they could not predict whether the results would be available by 1st September.

Eurostat identified five types of population:

1. officials recruited before the 01.05.2004,
2. officials recruited the 01.05.2004 or onwards,
3. temporary staff recruited before the 01.05.2004,
4. temporary staff recruited the 01.05.2004 or onwards,
5. contract staff recruited the 01.05.2004 or onwards,

and proposed using a set of 5 ISP separate tables in order to take into account the particular parameters and rules applicable to each of those 5 types of population.

Some delegates appreciated the Eurostat work on this matter, but they said that according to their experience, such complexity of calculation was not habitual. They proposed a simplification based mainly on the past observation.

Eurostat explained that this was the target. However, given the break introduced in 2004 by the new Staff Regulations, the observation of the past was not meaningful for the moment and the kind of complicated approach proposed was necessary.

The Working Group agreed on Eurostat proposals, as detailed in the following list of actions.

Action 2:

- *Eurostat will calculate the five ISP tables presented at the meeting (one by type of population) to be used in the 2005 final update of the actuarial assessment.*
- *Revision in promotion rates will be integrated in calculations if DG ADMIN will publish a decision on this matter by the 1st September 2005.*
- *New grades will be included in new staff categories.*
- *The effect of carers' interruptions will not be integrated in calculation for the moment, but Eurostat will continue to investigate on this matter.*
- *A weighted ISP table of the five ISP tables above mentioned will be calculated for publication purposes.*

Item 6 Mortality tables

Eurostat underlined that two names are sometimes used to refer to the same table: “Mortality table” and “Life table”.

Eurostat explained how the current Life table (“EU-2004”) was calculated, and about the results of the comparison with other life tables.

Three possible solutions for the 2008 updating of the table were presented and Eurostat stressed a preference for the 3rd option (creation of an “International official’s life table”).

Delegates suggested that life tables could be calculated using a more scientific method than the one used for EU-2004 and that the expected future change on life expectancy should be also considered.

The general feeling of the Working Group was that indeed the 3rd option (creation of an “International official’s life table”) seemed a good one. However, a final decision was not taken.

Some delegates asked for a sensitivity analysis of the three options on the contribution rate, to be analysed before taking a final decision.

Eurostat informed that it was not realistic to develop all three life tables in order to analyse the sensitivity of the contribution rate, because of the considerable amount of resources that would be necessary.

Eurostat promised to put on the table more elements for further discussion in the 2006 meeting of the Working Group.

Action 3:

- *A document on methodological aspects concerning the life table calculation will be presented in 2006, together with further reflections on the feasibility of the three options.*
- *Eurostat will participate in the JPAS project to build an International officials life table.*

Item 7 Non-marital partnership

Eurostat communicated to delegates about the available information on this matter. It was stressed that no information was available in some of Members states. Concerning the situation among staff, non-marital partnership represented still a marginal case. It had very little influence on the contribution rate calculations.

Action 4: Delegates should inform Eurostat about the legal situation of non-marital partnership in their countries.

Action 5: Eurostat will follow the evolution of the non-marital partnership issue and will inform delegates in case new and relevant information is collected.

Item 8 Methodological issues

The chairman remembered that the methodological framework is largely fixed by the Staff Regulations and most details were already discussed during the 2004 WG meeting. In future, few items for information and more specific methodological topics for discussion will be included in the agenda of Art83 WG meetings.

Eurostat presented two methodological updates:

1. Calculation of annuities in the Service Cost for Retirement (SCR).
2. Calculation of the service cost of beneficiaries of an invalidity allowance.

The first update concerning the SCR calculation was already included in the final 2004 actuarial assessment as it was decided at the 07.06.2004 Art83 WG meeting. It was indicated here only for information.

The second update was proposed for the 2005 update of the actuarial assessment. It was going to be applied to beneficiaries of an invalidity allowance, which had to be included in the reference population at 31.12.2004 (this population were not present in the population at 31.12.2003). This update was already used in the provisional results presented under item 9 and delegates were asked for advice at the meeting.

Delegates agreed on this proposed 2nd methodological update.

Action 6: An updated version of the methodological document will be available on CIRCA.

Item 9 2005 update of the actuarial assessment of the pension scheme: Provisional results

The chairman underlined that the results presented under this item were provisional. A final update of the actuarial assessment of the PSEO would be carried out by the 1st September. This final update would include decisions taken in this meeting, mainly concerning the update of ISP rates.

Some delegates asked clarifications about the official's contribution rate that was going to be applied from the 1st July 2005. Eurostat confirmed that according to Annex XII the applicable ceiling for 2005 was 10.25, therefore if the final calculated rate was higher than 10.25%, the ceiling would be applied.

DG ADMIN noticed that Eurostat calculates the contribution rate with a precision of two decimals and asked if such accuracy is a current practice.

Delegates and actuaries of other international organisations informed that normally a precision of just one decimal is used in similar calculations. A two decimal accuracy was not found justified, given the statistical margin of error. Moreover, relevant parameters like the Discount rate and the General Salary Growth were calculated with a precision of just one decimal.

This opinion was also supported by independent experts from Ernst & Young who precised that some of the actuarial assumptions that were used in the calculation of the contribution rate were predictions of the future that could not be predicted with such accuracy.

In general, the Working Group supported using just one decimal in the calculation of the Official's contribution rate.

Action 7:

- *Eurostat will carry out a final 2005 update of the actuarial assessment of the PSEO by the 1st September. Results will be presented with a precision of just one decimal.*
- *Eurostat update of the assessment will be checked by independent experts from Ernst & Young.*

- *A copy of the Eurostat report concerning the final update of the assessment will be uploaded on CIRCA.*

Item 10 Miscellaneous – CIRCA

Eurostat informed about this Internet tool and precised that a new CIRCA group named “Article 83 Working Group” was created.

Delegates and other members of the new CIRCA group have the possibility to download relevant documents related to the implementation of the Annex XII of the Staff Regulations.

Eurostat explained the procedure to become member of this CIRCA group and asked delegates to keep informed Eurostat on any change on persons who should be member of the group.

Action 8: Eurostat will upload on CIRCA the final 2005 update of the actuarial assessment of the PSEO and any other relevant document related to implementation of Annex XII of the Staff Regulations.