

Once again our pensions under attack



Three things to remember

1. Our Pension Fund is a defined benefit, capitalized scheme guaranteed by CERN
2. Council decided to ensure full funding 30 yrs
→ equitable package of measures in 2010
3. Actuarial study in 2013 shows Pension Fund is on right track towards full funding → no measures requested by PFGB

Overview

- Legal framework
- Situation in 2010
- Package measures 2011/2012
- Actuarial study 2013
- Our pensions under attack
- Staff Association reaction

Legal framework (1)

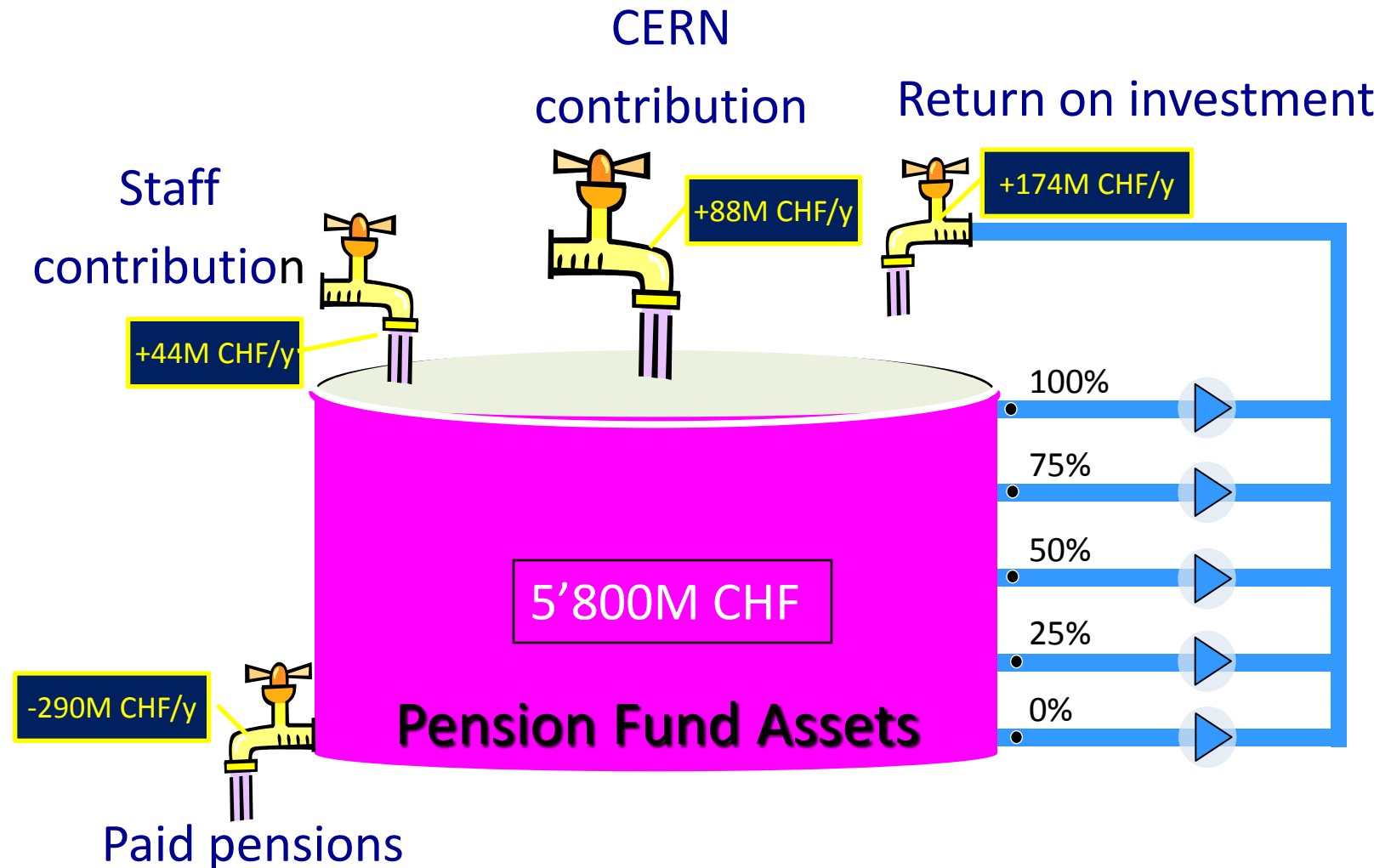
- CERN obligation
 - to guarantee benefits regardless of funding situation
 - derived from its status of International Organization
 - CERN has two roles: Employer + State
 - CERN social security system
- Acquired rights: applicable to International Civil Servants
 - Wide jurisprudence from ILOAT/UNAT
 - CERN PF matters: art. III 1.02

“Acquired rights are the rights to benefits which were applicable to those who were members of the Fund before the entry into force of the present Rules and which result from the Rules of the Fund to which they were subject, where these are more favourable to them.”

Legal framework (2)

- CERN PF is based on a **defined-benefit scheme**
 - Level of pension depends on member's
 - last salary position
 - years of membership
 - age (reduction factors)
- CERN PF is a **capitalized scheme**
 - Funding: contributions & return on investments

A fully funded CERN pension fund



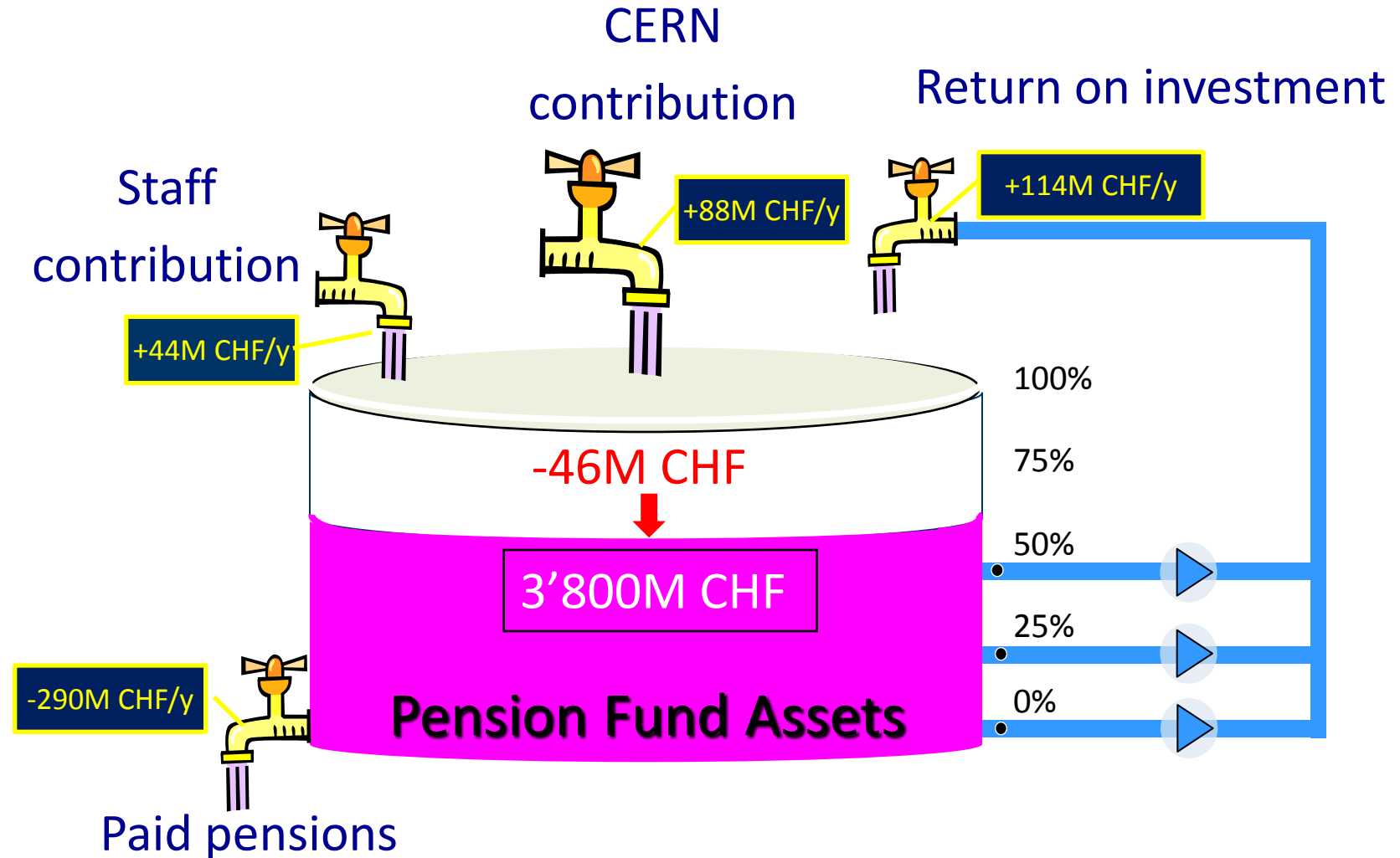
An actuarial Study

needed to assess liabilities

- Will the Pension Fund be able to meet its long-term commitments, i.e. pay the benefits over the next 30 years and beyond
- Given
 - current financial situation (as at 31st December year n)
 - currently defined benefits (Fund's Rules and Regulations)
 - current contributions (% of reference salary)
 - current population (active and beneficiary, including salary and pension levels)
- Assuming
 - career evolution
 - mortality tables
 - economic outlook

CERN pension fund 2010

2'000M CHF underfunded



Major past Council decisions

increasing liabilities

1967

- Inflation adjustment of pensions
- Pension based on last salary

1976

- Retirement at 60 without actuarial adjustment
- Increase maximum pension from 60% to 70% of last salary

1982

- Introduction of allowances and of complementary pensions

1986

- Introduction of reference salary
- Introduction of fixed sums for surviving spouse

Decisions never fully compensated!



White paper

proposing corrective measures

Studied various scenarios to cope with structural deficit

- Inject 2000 MCHF immediately
- Exceptional contributions over a prolonged period

Total amount of +114.1MCHF/year over 30 years

1. Contribution rate from 30.88% to 34%
Impact: +15.5 MCHF/year
2. Creation of an employer buffer fund assuming an annual return of 5%
Impact: +53.3 MCHF/year
3. Introduction of a tax retrocession-type mechanism corresponding to 12% of the benefits, which would be repaid to the Organization
Impact: +45.3 MCHF/year



Final package of measures 2011

- Contributions members: 30.88% → 34%
- Pensions beneficiaries: freeze until LPP –8%
- Special contributions: (max 30 yrs or full funding)
 - CERN: 60 MCHF/year
 - ESO: 1.3 MCHF/year
- New members (from 2012)
 - Less favourable conditions

Pension schemes in the IO world

Org.	When	Type of pension plan	Contributions			Full pension	Years to full pension	Age limit	Annual adjustment
			Total	Employee	Employer				
EPO	Before Jan.09	DB	share = 1/3 27.3% =	1/3 + 9.1%	2/3 + 18.2%	70% of Last salary	35yr	60yr	As salaries
	From Jan.09	Mixed DB DC	share = 1/3 21.0% =	1/3 + 7.0%	2/3 + 14.0%	70% of Last salary	35yr	60yr	As salaries
			6.3% =	2.1%	4.2%				
EIB	Before Jan.09	DB	share = 1/3 30.0% =	1/3 + 10.0%	2/3 + 20.0%	70% of Last salary	30yr	60yr	As COL
	From Jan.09	DB	share = 1/3 30.0% =	1/3 + 10.0%	2/3 + 20.0%	70% of Average salaries of last 10 years	35yr	65yr	As COL
WTO	Before Jan.10	DB	share = 1/3 22.5% =	1/3 + 7.5%	2/3 + 15.0%	70% of Last salary	35yr	62yr	As COL
	From Jan.10	DB	share = 1/3 23.7% =	1/3 + 7.9%	2/3 + 15.8%	70% of Last salary	35yr	65yr	As COL
ESA	Before July.10	DB	share = 1/3 25.1% =	1/3 + 8.4%	2/3 + 16.7%	70% of Last salary	35yr	60yr	As salaries
	From July.10	DB	share = 1/3 23.2% =	1/3 + 7.7%	2/3 + 15.5%	70% of Last salary	35yr	63yr	As COL
EUMETSAT	Before Jan.11	DB	share = 1/3 27.0% =	1/3 + 9.0%	2/3 + 18.0%	70% of Last salary	35yr	60yr	As salaries
	From Jan.11	DB	share = 40% 23.3% =	40% + 9.3%	60% + 14.0%	70% of Last salary	35yr	63yr	As COL
CERN	Before Jan.12	DB	share = 1/3 34.0% =	1/3 + 11.3%	2/3 + 22.7%	70% of Last salary	35yr	65yr	Freeze (-8%) then as COL
	From Jan.12	DB	share = 40% 31.6% =	40% + 12.64%	60% + 17.0%	70% of Average salaries of last 3 years	37.8yr	67yr	New Formula based on COL

The WORST conditions



Council Resolution (June 2011)

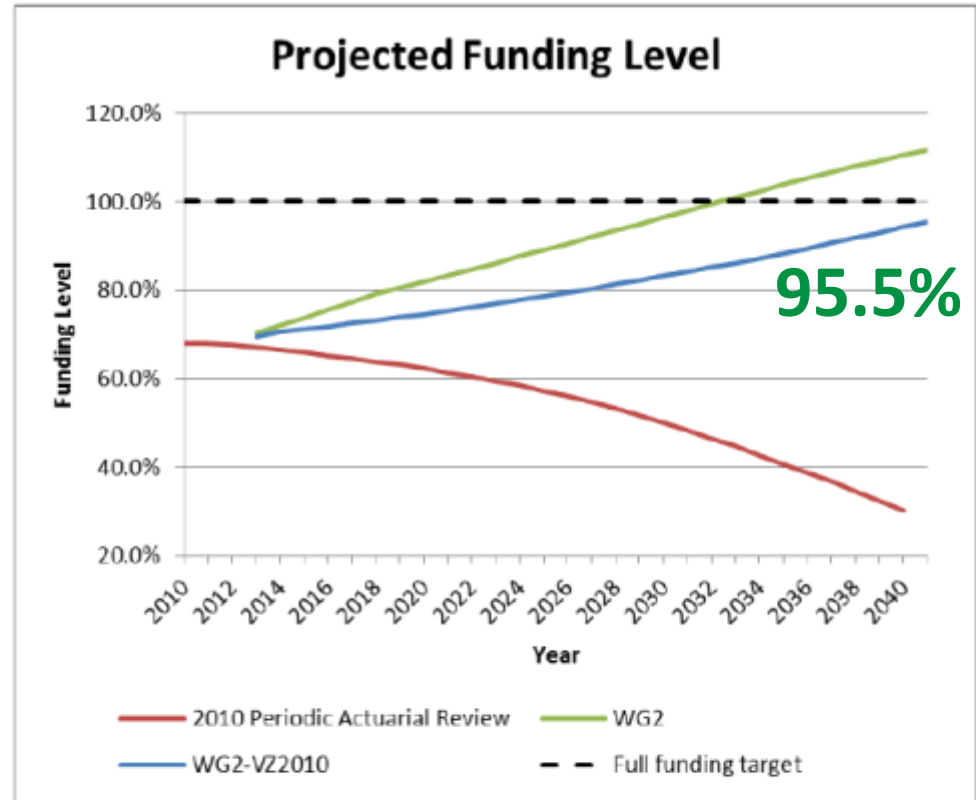
Council Resolution on restoration of full funding of the CERN Pension Fund (CERN/2972, Annex 2)

*“as this package constitutes an equitable distribution of efforts between all stakeholders, i.e., staff members, pensioners and the participating Organizations, **its individual elements cannot be modified without revision of the entire package, always maintaining the equitable distribution model.**”*

Results 2013 Periodic Actuarial Review (final)

CERN/3103/RA

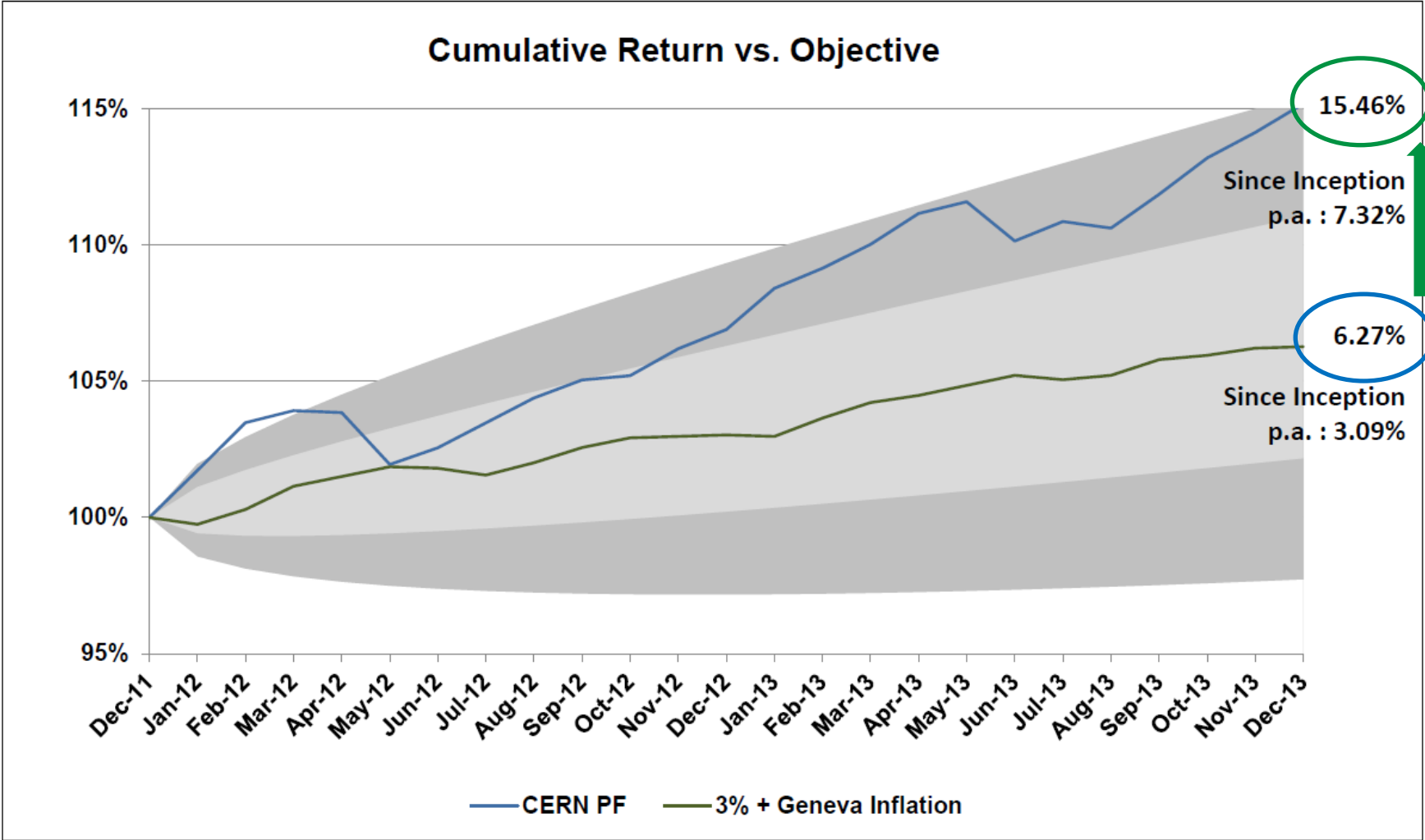
CHF 000s	WG2 1/1/2010	WG2 allowing for package of measures 1/1/2013	WG2- VZ2010 allowing for package of measures 1/1/2013
Liabilities	5,748,300	5,466,395	5,530,701
Assets	3,903,500	3,846,573	3,846,573
(Deficit)	(1,844,800)	(1,619,822)	(1,684,128)
Current Funding level	67.9%	70.4%	69.5%
Projected funding level at 1/1/2041	30.3%	111.8%	95.5%
Projected (deficit)/surplus at 1/1/2041	(5,202,000)	975,693	(395,245)



- Updating the assumptions to allow for the VZ2010 mortality assumption causes the projected funding level to fall from 111.8% to 95.5%



Fund performance versus objectives 2012–2013



Reminder : Pension Fund bodies

CERN Council

Pension Fund new Governance

PROCEDURE:

if the **PFGB** considers, after careful study of the actuarial results and verification of the underlying assumptions, that actions are necessary, it should report to **Council**, which then could invite the **Director General** to examine corrective measures within the framework of the applicable procedures, including the **concertation process**.

Actual

Committee

Pension Fund Unit



Much ado about nothing

- Letter by Delegation
- Letter by Staff Association
- Proposed resolution Delegation
- Extraordinary meeting of Staff Council
 - Staff Association Resolution
- Declaration at TREF
- Legal Council on acquired rights
- Crisis meeting

Questions by a delegation

Questions and considerations regarding the Future of the CERN Pension Fund

Input paper by [redacted] for further discussions with the Pension Fund's actuary

In [redacted]'s view, the recent report of the Actuary (see document n. CERN/FC/5782/RA resp. CERN/3088/RA) has raised grave concerns regarding the future of the CERN Pension Fund and most specifically about the possibility of achieving the goal of a funding level of 100 % by 01/01/2041.

Urgent actions seems to be called for if the aforementioned goal is still to be met.

[redacted] has actively and very attentively in the Finance Committee Meeting of this topic have been clarified on that addressed in the setting of the Finance

In the following, [redacted] outlines some in further discussions with the Actuary actions are called for in order to steer 100 % funding level by 01/01/2041.

In so doing, our basic considerations

- The stability and financial viability of CERN's future as a highly successful
- Just as everybody else, CERN staff have a legitimate interest in being given a clear and reliable perspective regarding the retirement benefits they can expect
- Especially due to demographic factors, financing pension benefits is increasingly becoming a serious challenge everywhere in the developed world, leading to far-reaching readjustments in defining and calculating pension benefits. CERN and its Pension Fund cannot be considered as an "island" completely detached from this development.
- The responsibility for ensuring this needs to be shared among all parties involved (especially staff, management and Member States) and cannot be left exclusively to Member States in the form of an ever higher percentage of their contributions being diverted towards pension-related payments
- An increase in the current Special Contribution of 60 MCHF p.a. to the Pension Fund is out of the question. It rather needs to be kept in mind that these support payments to the Pension Fund have to be kept at the absolute minimum necessary given that the funds provided by Member States' are first and foremost intended to finance research. This also means that measures should be taken that enable the Pension Fund to operate without further Special Contributions within 5 years at the latest.

Our questions are grouped in "clusters" according to the main fields in which action can be taken to put the Pension Fund back on course:

- A) Investment return
- B) Contributions
- C) Benefits
- D) Possible combinations of corrective measures
- E) Transition from a "defined benefits" system to a "defined-contribution"-system
- F) Concluding questions

Impact calculations/scenario analysis/sensitivity analysis should be provided, where appropriate, along with calculations of probability of achievement of full funding of the

Questions of Delegation attack:

- Governance
- Concertation

ation deteriorates, the Geneva inflation) or the Actuary provide a having achieved an inflation or 5% in the

Question 2:

Could the Actuary elaborate a projection model to identify what level of return of investment can be achieved from 2013 to 2040 with a probability of 70%, 80%, 90%, 100%? The projected funding level for each of the investment return levels associated with these probabilities should be included in this analysis.

Question 3:

The current estimates of the Actuary are based on the assumption of a constant return on investment of 3+2% (three percent return plus an estimated inflation rate of 2%). To what extent would the Actuary's estimates regarding the funding level in 2041 change on the assumption of the following return rates above an assumed inflation rate of 2 %: 4%, 3%, 2.5%, 2%; 1.5%, 0%. In this context, a projection model should be presented considering the assumed return rates.

Question 4:

Can a concrete percentage figure be given indicating the margin of error in the outcome of calculating total returns from 2013 to 2041?



Letter to President of Council



President

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Votre référence/Your reference
Notre référence/Our reference AP/MG/mg/2014

Madam President,

The CERN Staff Association has been informed of the "Questions and considerations regarding the Funding of the Pension Fund" submitted to the Council for further discussions with the Pension Fund's Governing Board (PFGB) and the members of the Finance Committee (FC) in Geneva of the full member states of CERN". This document contains the requests submitted in this document and the responses received.

Preliminary and non-consolidated results

The document in question refers to document AP/MG/mg/2014, "Periodic Actuarial Review", which submits to the Council the results of the Periodic Actuarial Review of the CERN Pension Fund as at 1 January 2013 performed by the actuary Buck Consultants, for their information.

As you know, this document was submitted to the Committees without validation by the Pension Fund Governing Board (PFGB), because the latter body did not have sufficient time to examine the assumptions and methodology used by the new actuary.

Indeed, the President of the PFGB, Dr Roth, writes in the cover letter to the Buck report that "These assumptions [put forward by Buck in the report] are very interesting, but they are also totally new, and the PFGB has not had sufficient time to examine them as closely as required." Furthermore, in the concluding paragraph, he writes "I would therefore suggest that the Council invite the PFGB to examine the assumptions used and the methodology applied by our new Actuary in more detail and report back to the Finance Committee and the Council in spring 2014 on the basis of a more focused analysis that would allow conclusions to be drawn which might lead to actions, if necessary."

Accordingly, the Council decided, on the recommendation of the FC, that the PFGB should be invited to examine these assumptions and methodology in more detail and submit a consolidated actuarial report to FC and Council in March 2014. On the basis of such consolidated analysis and report, FC and Council could then decide whether action is necessary. Therefore, the additional questions of the Council and the delegation are premature at this point and want to "steer the Pension Fund again on a course towards 100% funding level by 01/01/2041", thus taking on the role of the PFGB.

Non-respect of the responsibilities in pension matters and the Council Resolution

Many of the questions submitted by the Council and the delegation fall outside the mandate of the PFGB and its actuary and should be dealt with by competent bodies, within their specific procedural frameworks. Their content also goes against previous decisions taken by the Council.

Letter to Council President: Council should respect

- Role of various bodies
- Rules and procedures

Article I 2.05 of the Rules and Regulations of the CERN Pension Fund, "Functions of the Governing Board", states:

1. The Governing Board shall be entrusted by the Council with the overall management of the Fund and shall, in this regard, in particular: [...]
 - a) oversee the activities of the Investment Committee and the Actuarial and Technical Committee, and decide on any proposals or measures submitted by them; [...]
2. The Governing Board shall be responsible for advising the Council on any issues relating to the financial position of the Fund and shall, in this regard, in particular: [...]

maintaining the actuarial balance and contributions shall

changes of employment. Where necessary, it should report to the Council on any measures within the

in the restoration of full funding of the Pension Fund, it should submit to the Council a package of measures for an equitable distribution of the Pension Fund, its always maintaining the balance which are thus

and delegations to respect the rules and procedures governing the Pension Fund relating to changes in

Sincerely yours,

Michel Goossens
President CERN Staff Association

Gertjan Bossen
President CERN-ESO Pensioners' Association

Copier: Mrs C. Jamieson, Chair of Finance Committee
Dr T. Roth, Chair of the PFGB
Prof. R.D. Heuer, Director-General

¹CERN/2012 (10 June 2011) "Proposal by the Management concerning the completion of the package of measures towards restoring full funding of the CERN Pension Fund". Annex 2 contains the "Council Resolution on the restoration of full funding of the CERN Pension Fund", which was approved by Council in its meeting of the 23 June 2011 and which states that the four elements of the "balanced and equitable package", were "premiered on the understanding that, inter alia:

- (i) individual components of the package may not be revised without revision of the entire package;
- (ii) any future revision shall maintain the equitable distribution model contained in CERN/FC/2011-CERN/2017".



Proposed Resolution

1. PFGB must refine analysis and projections of the PF's financial situation
2. Actuary must compare amount and type of benefits for CERN employees and Swiss employees in Swiss social security system and Pension Funds
3. Actuary must study financial risk for CERN and MS to have to provide additional extraordinary funding
4. independent expert study on PF to **reduce** to ensure PF financial sustainability **latest, 2019 onward**
 - Attacks Council commitment
 - Questions acquired rights
5. **independent expert study** CERN legal obligations of CERN of type and extent of pension insurance for staff in light CERN-Host State agreements, CERN Convention, international norms, and **developments in operation of pension schemes in CERN Member States**, including how **economic and demographic developments in CERN Member States** can impact on legal obligations of CERN.

Resolution of Delegation

- Attacks Council commitment
- Questions acquired rights



In the December meeting of Council a preliminary version of the actuarial report of the CERN Pension Fund was presented. Following that, in January, a delegation distributed a series of questions and considerations regarding the future of the CERN Pension Fund. Touching on various aspects of the employment conditions, this initiative showed an evident non-respect for the governance and formal responsibilities in pension matters.

Indeed, it is for the Pension Fund Governing Board to consider whether actions in pension matters are necessary, in which case the Board should report to Council, which then could invite the Director General to examine corrective measures within the framework of the applicable procedures, i.e., the concertation process, including here, at TREF.

In a letter in January, the Staff Association invited the Council President, Prof. Zalewska, to remind delegations to respect the roles of the various bodies the Council itself has created, as well as the rules and procedures governing them.

**Staff Association
declaration at
TREF
27 March 2014**

Staff Association deploras non-respect:

- Formal responsibilities PFGB
- Rules and procedures
- Concertation process
- Commitments of 2011 (Resolution)

Only happy, and hence motivated and efficient, staff gives happy and satisfied users, who, all together, can produce world-class successes in physics.

In this year of its sixtieth birthday, when CERN wants to be seen as a champion of facilitating peace amongst nations, we would not understand that precisely now Council decided to put into jeopardy the social dialogue which has been one of the strengths of this Organization.



Resolution to Member State Delegates



The Staff Association and the CERN and ESO Pensioners' Association

Having taken note of

- the course of the meetings of the Finance Committee and the Council of December 2013;
- the deliberations and decisions of the Council of March 2014;

finally that,

- according to the latest actuarial study, based on the more recent and more realistic actuarial parameters, the Fund, with the implementation of corrective measures already decided, should attain a funding ratio of 95.5% in 2041 and be fully funded 30 years from now.

Noting

that

- even as the package of equilibration measures involving all partners (Organization, active current members, future members and pensioners) is having the expected effect, the CERN Council has begun deliberations to modify it, with the aim of no longer

Staff Association demands that Council:

- Respects commitment to pay 60 MCHF/year
- Respects and enforces competences of CERN's governing bodies and rights of stakeholders

that furthermore,

- the current structural deficit is largely the result of previous decisions taken by the Council, in full knowledge of their effects on the balance of the Fund (especially the suppression of the resources guarantee decided in 1976, as well as measures in place until 1987 aimed at reducing the average age of staff by encouraging early retirement at 60 years, without compensation for the Fund);

¹ In 1986 (CERN/1628), the Council decided to establish a foundation under Swiss law, with the aim of taking over the Fund, to assure the continuity of the payment of the pension rights of each beneficiary in the event of the dissolution of CERN.

In 1996 (CERN/2165) the Council decided that before establishing such a foundation, the Fund must be financially balanced on the basis of realistic actuarial parameters, notably taking into account the liabilities related to the future indexation of the pensions.

² Council Resolution on the restoration of full funding of the CERN Pension Fund (CERN/2972), Annex 2. "as this package constitutes an equitable distribution of efforts between all stakeholders, i.e., staff members, pensioners and the participating Organizations, its individual elements cannot be modified without revision of the entire package, always maintaining the equitable distribution model."

³ A letter, requesting the respect of the procedures, has already been sent to the President of the CERN Council in January 2014.



Council meeting 19 June 2014

New resolution in June:

President's Group should prepare text based on the one submitted by the Delegation and taking into account the salient points raised during discussions in March Council meeting.

Start of five-yearly review

5YR Work Flow: year N-1



5YR Work Flow: year N



We count on your support

- Pension fund is on sound basis (PFGB, ATC, PFIC)
- Measures have been taken in 2010 to put it on a financially sound basis
- Verification in 2013 showed we are on track

We must defend our Pension Fund and not let short-term initiatives put it jeopardy

DO NOT LET MEMBER STATES DEGRADE OUR PENSION CONDITIONS

United we are strong

