For Official Use **C(2000)221/ADD1**

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development **10-Jan-2001**

English - Or. French

C(2000)221/ADD1
For Official Use

NEW PENSIONS SCHEME FOR FUTURE OECD STAFF: DRAFT RULES

English - Or. French

JT00101284

OECD Staff Association
Association du Personnel de l'**OCDE**

New Pension Scheme for Future OECD Staff
- The Position of the Staff Association -

1. Withdrawal from the Co-ordination System

The text which has been placed before you poses a major difficulty. In both technical and legal terms, it takes the pension scheme for new entrants out of the co-ordination system.

In technical terms, the proposed New Pension Scheme (NPS) departs in three fundamental ways from the co-ordinated scheme: the contributions ratio, the age of entitlement to a retirement pension, and the adjustment of benefits. It can hardly be disputed that these changes fundamentally alter the balance between the contributions paid by staff, on the one hand, and the benefits that will be offered to them as pensioners, on the other. That means that we are no longer dealing with a variant of the co-ordinated scheme; we are dealing here with a different scheme that is no longer directly transposable to another co-ordinated organisation. In document C(2000)221 the Secretary-General in fact draws a distinction between essential matters, namely the three parameters mentioned above (which are termed policies), and subsidiary matters (termed anomalies in the co-ordinated scheme).

In legal terms, the definition of the scope of the NPS (Article 1) makes it clear that it refers solely to future staff members of the OECD.

Rather than being a recommendation by the CCR, the NPS is a **proposed** pension scheme for future OECD staff **put forward at the request of the Secretary-General** by the Pensions Administrative Committee of the Co-ordinated Organisations (CAPOC).

Indeed, the procedure for consulting the OECD Staff Association laid down in Staff Regulation 23 and followed by the Secretary-General in this case is further proof, if such were needed, that he does not regard his approach as falling within the context of the co-ordination system.

In these circumstances it is clear that the proposal amounts to a withdrawal from the co-ordination system, which under Article 6 of the Co-ordination System Regulations can be done only with one year's notice.

2. The "policies" for the NPS

The Staff Association takes a critical view of the three "policies" put forward in the New Pension Scheme: each and all mean that a less favourable scheme is to be offered to future staff. The changes would be acceptable only if they were warranted on grounds of the scheme's equilibrium, which is not the case for two out of the three.

We are familiar with trends outside relating to ***the age of entitlement to a retirement pension.*** With numbers remaining constant, rising life expectancy points inevitably to a choice between contribution rates which might ultimately become unsustainable and deferment of the age of entitlement.

But we are also aware that the OECD consistently finds difficulty in balancing its budget and in order to do so resorts to cuts in staffing, in particular in the over-50 category, where staff usually have little or no chance of finding alternative employment. Unlike the position in various Member countries, which have introduced measures specifically targeting this category in the event of redundancy -- unemployment benefit, early retirement, special allowances, etc. -- the current OECD regulations contain no provisions for these particularly vulnerable officials.

Raising the age of entitlement to 62 or 63, without appropriate accompanying arrangements, would in fact worsen the already unfavourable circumstances of staff in this category. The "concession" whereby pension reduction would be confined to 3 per cent a year between ages 60 and 63 in the event of termination of employment cannot conceal the fact that the officials whose contracts are terminated suffer a **twofold prejudice**: by losing their post, and by the reduction in pension. In addition, the scale of reduction is sharper in the NPS proposals. Half pension is available only at age **54**, as against age **50** in the current scheme. That hardly seems conducive to making staff management more flexible or to reshaping the age profile.

OECD officials, like staff in other international organisations, are excluded from unemployment protection arrangements, in particular for the over-50s, which are available to other people in their home countries. The Staff Association considers that raising the age of entitlement to 62 or 63 is unacceptable while this gap has not been bridged. Without the Organisation being penalised when it dismisses staff over 50, as would be the case under the legislation of the host country, it is essential that staff members so dismissed should receive adequate protection.

With regard to the ***adjustment of benefits*** against consumer price trends, the Staff Association is in two minds as to the conclusions to be drawn from this proposal.

From the standpoint of its responsibility for the interests of future pensioners, it would view an end to the ties of solidarity between working staff and retired staff with concern. In this connection, it considers that the corrective measures to be taken following the periodical comparisons between pension and salary trends should be formulated less vaguely.

On the other hand, as the body representing the serving staff of the OECD, the Association is tempted to welcome the proposal inasmuch as it would seem to indicate that the Council intends to raise salaries faster than inflation, a pleasant change over the policy that has been pursued in recent years.

If that should not be the intention of Member countries, it is hard to see the value of a measure which would, in practical terms, be more complicated to manage than the current system.

The Staff Association further observes that, if it were to opt for this solution, the Council would be accepting the principle of automatic adjustments that it so firmly rejects when dealing with salaries.

With regard to the ***contributions ratio***, the position is simpler: withdrawal, to the detriment of future staff, from a very widely accepted basis for cost-sharing between employer (2/3) and employee (1/3). This is a unilateral decision whose sole justification is to raise the employee's contribution **(+20%)** to his or her future pension.

Some Member countries regularly draw attention to the measures that they have taken on pensions at domestic level to demonstrate that we are ill-placed to complain. In this particular case, we wonder how public service unions in Member countries would react to a decision of this kind, presented as non-negotiable. This crude proposal is a shocking illustration of the lack of any culture of social dialogue in the bodies which govern the OECD.

The Staff Association is bound to affirm its total opposition to this proposal to jettison a fundamental principle regarding the normal ratio of employer/employee contributions, for a financial gain to the Organisation that is in fact illusory. Pensions are part of the overall package that the Organisation offers to new recruits. Given the steady deterioration in the OECD's competitive position on the employment market, as evidenced by the most recent CCR salary surveys, the Secretariat will be compelled to offer still higher step positions on recruitment in order to attract high quality staff.

3. Palliative measures proposed by the Staff Association

If the Council does pursue its intention of introducing a new pension scheme for future staff, the Staff Association proposes the establishment of a tripartite body and amendments to Articles 8 and 41 of the draft rules.

1) Establishing a tripartite consultative body

Establishing a pension scheme specific to the OECD for future entrants, and assuming direct responsibility for it, would require the Organisation to establish an internal consultative structure equivalent to that provided by the CCR, in other words a tripartite structure whose membership and operating arrangements could take the following form:

DRAFT RULES RELATING TO THE

NEW PENSION SCHEME WORKING PARTY (NPSWP)

Article 1: Mandate of the NPSWP

The mandate of the New Pension Scheme Working Party shall be to submit recommendations to the Council concerning

-- *the rules of the New Pension Scheme*

Article 2: Composition of the NPSWP

The NPSWP shall be composed of 3 Boards:

A first Board representing the Member countries

Each Member country of the Organisation may nominate a representative who may be assisted by deputies or advisers.

A second Board designated by the Secretary-General

The Secretary-General shall designate three representatives who may be assisted by deputies and advisers.

A Board designated by the Staff Association

The Staff Association shall designate three representatives who may be assisted by deputies and advisers.

The NPSWP shall elect its Chairman, by consensus, from among the representatives nominated by the Member countries.

The Chairman shall be assisted by two Vice-Chairmen, one of whom shall be elected by the representatives of the Secretary-General within the second Board. The other shall be elected by the representatives of the Staff Association within the third Board.

Article 3: Procedure

The NPSWP shall meet at least twice a year in accordance with a programme of work prepared by the Chairman in collaboration with the two Vice-Chairmen.

The NPSWP may hold extraordinary meetings at the request of the Chairman or of one of the Boards.

The NPSWP shall submit to the Council recommendations resulting from a consensus of all its members. Should a consensus not be reached, recommendations shall be adopted by majority vote and shall indicate the different positions taken by the representatives.

The NPSWP may, as required, set up working groups, functioning in accordance with terms of reference agreed in advance, in which representatives of the three Boards mentioned in Article 2 shall participate.

In the absence of arrangements of this kind, it would be possible to amend the NPS rules at best following consultations under Staff Regulation 23 and at worst without any consultation at all, given the current wording of Article 41 of the proposed NPS rules. In either case new entrants, already covered by a less favourable scheme, would be deprived of the right enjoyed by their colleagues covered by the co-ordinated scheme to discuss all aspects of their pension arrangements in a formally established framework involving all three partners. The inequality would be flagrant.

2) Proposed amendments

-- To Article 8

The extension of the reduction period introduces such low coefficients -- 0.28 and 0.34 -- that it seems highly improbable that any pensioner would ask for them to be applied. Furthermore, applying a 60% reduction in the event of early retirement in year n-10 -- as against 49% in the co-ordinated scheme -- is highly penalising. The Staff Association therefore proposes that:

- the scale of reductions should be revised by:

  --deleting years n-11 and n-12

  --setting the coefficient for year n-10 at 0.50

- paragraph 5 should be amended to read:

  "Where the Organisation has terminated the appointment of a staff member, *no reduction coefficient shall be applied* between the age of 60 and the pensionable age."

-- To Article 41

Revision of staff members' contributions is a key element in any pension scheme. The choice of methods and parameters for periodical reviews must be agreed by the parties involved. In this case, the 34th Report of the CCR could provide a basis for such discussion. The Staff Association accordingly proposes that paragraph 3 be amended to read:

"(…) This rate shall be reviewed by 2004 at the latest, and then every five years, on the basis of an actuarial study, the procedures for which shall be laid down by the governing body of the Organisation on the basis of a recommendation by the New Pension Scheme Working Party established with reference to the principles governing the Co-ordinated Pension Scheme."

CONCLUSION

The role of the Staff Association is to uphold the interests of all OECD staff members, and it is accordingly bound to consider the terms and conditions that will be offered to future officials. Simply on that score, it cannot look favourably on the proposals before you.

But the Staff Association is further aware that the interests of staff members will be essentially safeguarded by ensuring that the Organisation is efficient, competitive and focused on its objectives, as the Member countries legitimately require.

Efficiency and competitiveness can hardly be served by offering future staff terms of employment less satisfactory than those in other agencies on the same market. The Organisation can hardly remain focused on its objectives if it has to assume part of the work previously performed by the co-ordination system.

The Staff Association considers that the proposed New Pension Scheme needs to be considered in the light of these considerations of focus, efficiency and competitiveness.