Opinion No 5/99
of the Court of Auditors of the European Communities
on the Additional Voluntary Pension Scheme and Fund for Members of the European Parliament

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INTRODUCTION

1. The President of the European Parliament on 11 December 1997 requested the European Court of Auditors to submit its proposals and recommendations concerning the administrative and financial management of the Additional Pension Fund for Members of the European Parliament. The Court has carried out the requested work and presents the following remarks and recommendations.

BACKGROUND

2. The additional pension scheme for Members (Scheme) was established by a Bureau of Parliament decision in June 1990. The rules of the Scheme provided for a pension fund to be set up by the College of Quaestors to manage the assets.

3. For this purpose, an “Association Sans But Lucratif” (ASBL, the Fund), which is a non-profit-making association regulated by Luxembourg law, was formed in November 1991
by the College of Quaestors. In March 1994 a “Société d’Investissement à Capital Variable” (SICAV) regulated by Luxembourg law was formed by the ASBL to hold the investments of the Fund.

4. The Fund manages the assets of the Scheme and appoints, amongst others, the investment adviser, the custodian, the actuary, the accountants and the auditors. Part of the financial administration of the Fund (calculations concerning contributions and pension payments, collection of contributions and keeping of files) is undertaken by the Officials’ Pensions and Members’ Pensions and Insurance Service, a unit under DG V of the European Parliament.

5. Members of the Scheme and the European Parliament contribute monthly to the Fund, members by one-third (749 euro in March 1999) and Parliament by two-thirds (1 498 euro). Total contributions for 1998 amounted to 9,6 Mio ECU.

6. The additional pension Scheme for Members of the European Parliament is a defined benefit scheme. After a minimum contribution period of five years and at age sixty, a pension (1 092 euro in March 1999) is paid every month to each pensioner. The pension is increased pro rata temporis up to a maximum of 4 368 euro per month (in March 1999) after 20 years of affiliation.

7. In March 1999, there were 399 active members, 104 pensioners and 4 on survivor’s and orphan’s pension in the Scheme.

8. The total assets of the Fund at the end of 1998 amounted to 95,1 Mio ECU. The pension liabilities were estimated by the actuaries at 93,1 Mio ECU.

AUDIT AND ACTUARIAL VALUATIONS

9. The Fund is audited by independent external auditors. A review of their work and complementary testing has enabled the Court to obtain reasonable assurance that internal control at the ASBL and at the Officials’ Pensions and Members’ Pensions and Insurance Service issatisfactory, and that the accounts related to the pension Scheme are reliable.

10. The Fund is subject to a full actuarial valuation every fifth year, after the elections to the European Parliament. Valuations are revised annually. This is in line with prevailing practices in the field.

RECOMMENDATIONS
Contributions

11. The rules of the Scheme govern the rates of both Parliament’s and member’s contributions into the Scheme as well as the levels and entitlements to benefits. The rules do not specify how Parliament’s and the member’s contributions are to be paid to the Fund or how Parliament or the Fund should collect the member’s contributions.

12. Since the establishment of the Fund, the services of the European Parliament have retained members’ contributions from the payments of the general expenditure allowance and transferred contributions to the account of the Fund. From the Fund’s and from the members’ point of view, the system has worked efficiently. Additionally, it has enabled Parliament to calculate its own payment obligations correctly since, according to the rules, Parliament has to pay the double of the amount effectively paid by the members.

13. According to Article 13 of the “Rules governing the payment of expenses and allowances to Members”, the general expenditure allowance is intended to cover expenses resulting from Members’ parliamentary activities which are not covered by other allowances, “for example, travel and ancillary expenses within their own Member States, office management and running costs, telephone, postage (…)” and other expenditure, e.g. for communication equipment. It is paid at a rate fixed by the Bureau, 3 314 euro per month in 1999.

14. Taking into consideration the current lump-sum nature of the general expenditure allowance, the Court is of the opinion that existing regulations do not prevent the retention of a pension contribution from the payment of the general expenditure allowance. However, as already stated in its Special Report No 10/98 , the Court urges Parliament to clearly define and quantify expenditure covered and reimbursed under the allowance.

Administrative management

15. Administrative work and responsibilities are shared in the Scheme by the European Parliament and the Fund, following a delegation of part of the administration from an Institution (Parliament) to a private entity (the Fund, see points 3 - 5), without a formal contractual basis.

16. The resulting distribution of responsibilities is in some aspects unclear. For example, the Officials’ Pensions and Members’ Pensions and Insurance Service carries out calculations concerning pensions and payments to pensioners, but these calculations are not approved by Financial Control of the European Parliament. It is also unclear who is in charge of the interpretation of the rules of the Scheme in relation to the Fund.
17. Parliament and the Fund should agree in writing on questions concerning their relationship and responsibilities, *inter alia* in respect to the calculations and payments of contributions and pensions, justification of expenses, accounting, and controls, taking also into consideration administrative costs borne by the parties.

**Bank and investment strategy**

18. In 1992, the College of Quaestors chose one single bank to act as both investment adviser and custodian bank. Given the development of best practice in this business, it may be appropriate to consider separating these two duties.

19. The Court recommends this to be taken into account when organising the new calls for tender for the appointment of the investment adviser and custodian bank.

20. A new investment strategy and a strategic benchmark were formulated and approved by the ASBL in 1995. The investment result of the Fund has been satisfactory, without any major discrepancies between the performance of the portfolio and the benchmark.

**Rules concerning deficits and future of the Fund**

21. In the absence of explicit rules, the Bureau adopted between 1995 and 1997 a series of decisions and measures to cover the actuarial deficit existing in the Fund’s accounts.

22. There should be clear rules established in the Scheme to define the liabilities and responsibilities of the European Parliament and the members of the Scheme if a future actuarial valuation were to indicate a deficit. Rules should also cover the treatment of surpluses. It is essential that this question should be settled before the proposed new Statute for Members of the European Parliament comes into effect. In the view of the Court it would be difficult to justify a situation in which a continuing contingent liability remained, with Parliament to meet any part of a deficit emerging on the occasion of a future actuarial valuation.

23. Since the European Parliament is the principal bearer of responsibilities related to the payment of pensions under the Scheme, any pension liabilities related to the Fund should be disclosed in Parliament’s financial statements.

24. Active members may leave the Scheme at any moment. According to the rules, the member and Parliament then are reimbursed their contributions (one-third for the member and two-thirds for Parliament). Reimbursements are paid out without interest.

25. Rules do not stipulate how supplementary contributions related to a deficit should be
reimbursed. The practice has been to pay them back to the member (without interest), but not to Parliament. The European Parliament should clarify the rules in this respect.

26. Parliament’s role should be clarified in the rules and modalities of the Scheme without delay. This should be done before the adoption of the proposed new Statute for Members of the European Parliament, and take into consideration the arrangements for the future management of the Fund and the Scheme. In this context the legal framework of the Scheme should also be examined by Parliament.

This opinion was adopted by the Court of Auditors in Luxembourg at its meeting of 20 May 1999.

For the Court of Auditors

In the absence of Jan O. KARLSSON

President of the Court

Bernhard FRIEDMANN

Acting President