

The €10Billion Question – why do we owe the EU anything for Pensions on Brexit?

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Last year the government negotiated the provisions of a draft Withdrawal Agreement with the EU. It readied the U.K. to pay an estimated bill of €10Billion^[1] for EU officials' future pensions, one way or another.

The draft Withdrawal Agreement says that the UK carries on paying our normal share (now about an eighth) of the total EU officials' annual pensions bill until the end of the transition period. Then the UK effectively pays its share of all pension liabilities incurred on, and calculated as at, 31st December 2020.

It agrees to pay it in 5 equal annual chunks from January 2021; or about 44 varying annual chunks from January 2021, finishing in about 2064. It also allows the UK to opt into the '5 equal chunks' route at some point in the future if the UK decides it makes better sense, with credit given for any smaller annual chunks paid up to then.

The problem is, the UK might not actually owe them ***anything*** on January 1st 2021.

And even if it does, some would argue that the UK should be asking for a huge chunk of credit in today's money to set against what it might then be judged to owe.

Because when it joined the EC in 1973, there is an argument that the UK paid up straight away for pensions' liabilities which had then been "incurred" by the EC, and not by the UK. One justifiable reading of the position is that the UK took on and paid for those liabilities immediately, and it continued to pay up for them – for decades.

Shouldn't it now also drop, and stop paying for, alleged present 'liabilities' as it leaves?

What's sauce for the EC goose in 1973 has to be sauce for the EU gander in 2021, doesn't it?

Surely the UK should not have paid its standard share (currently an eighth) of any official's full pension at all until probably about 2003?

The average age of an official actually joining the EU as an employee is unusually old. It's about 35 years old. They then have 25-30 years of service. Then they get a pension.

Hasn't the UK only incurred a first full liability share for an official who came to work for his/her first day on January 1st 1973 (the date the UK joined the EC) and then retired (probably) on, say, 31st December 2003?

Wasn't the liability to pay pensions ***for the service*** of officials employed prior to January 1st 1973 incurred by the EU-6 (Belgium, Denmark, France, Italy, Luxembourg & the Netherlands) and not the EU-9 (or indeed, later, the EU-10, 12,15,25 or 27!)?

There were, by the way, over 12,600 officials working for the EC in 1973, so it's not a minor matter, especially if calculated in today's money. **At the least shouldn't that figure be actuarially calculated and deducted from the Brexit Pensions bill?**

That extremely odd and complex accounting and actuarial equation, though, prompts a bigger (non-accounting) question of principle as to whether there are any continuing pensions liabilities at all, especially as there is no actual fund in existence for its now 32,000 officials?

It's a non-funded pension scheme. The EU simply pays out the full pensions bill each year out of revenue (which does notionally include the officials' pensions contributions out of pay). It's currently running at €1.7B a year. It comes out of the EU's 'administration' Budget heading. And the UK's paying about £190Million a year to that for the near and, very likely, distant future – regardless of Brexit.

In other words, there is an important question not yet answered by the government: **is paying up for annual pensions effectively just an annual administration subscription that gets paid when you join the club (as the UK did in 1973) and stops when you leave the club?** In which case, so this reading goes, the UK government should not have agreed to pay anything further for pensions on Brexit.

It may very well be that this has indeed all been factored into various treaty amendments, new treaties and regulations agreed by the UK since 1973.

It's just that as the UK leaves, to be certain we are not paying over the odds under the withdrawal agreement, the government needs to spell out exactly how this might have actually happened. **How did we come to agree to treat these as incurred liabilities, regardless of not necessarily incurring these liabilities on the ground, so to speak?**

S62 of the Joint report from the UK-EU negotiators on the Withdrawal Agreement says "The UK will contribute its share of the financing of the Union's liabilities incurred before 31 December 2020".



On the basis that nothing is agreed until everything is agreed, then we need to be much clearer **what constitutes liabilities “incurred”** before this gets signed off in October. And we need to be much clearer about **what constitutes “incurring”**.

I am only posing questions here that have not been answered adequately by the government, its negotiators, the Treasury or the EU Commission – yet.

End Notes:

[\[1\]](#) OBR. Economic and fiscal outlook – March 2018, B.27