The Brexit Divorce Bill just went up €2billion overnight – and we're committed to pay it

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The EU Commission has just published its 2019 accounts online overnight and they hide a bombshell increase in the U.K.'s Brexit Bill of over €2billion. It is for extra payments in for E.U. officials' pension pots. They have calculated the liabilities to have increase by 21% in just one year.

Annual accounts of the European Union 2019

LIABILITIES

2.9. PENSION AND OTHER EMPLOYEE BENEFITS

Net employee benefit scheme liability

EUR million

	Pension Scheme of European Officials	Other retirement benefit schemes	Joint Sickness Insurance Scheme	31.12.2019 Total	31.12.2018 Total
Defined Benefit Obligation	*83 842*	*2 149*	*12 071*	*98 062*	*80 871*
Plan assets	*N/A*	*(94)*	*(309)*	*(403)*	*(415)*
Net liability	**83 842**	**2 055**	**11 762**	**97 659**	**80 456**

Under the Withdrawal Treaty the U.K. is pretty much committed to paying the extra €2billion, unless the PM and his team choose to bring it back into Brexit Deal negotiations. We are now committed to paying € 11.621 billion for the E.U. officials' pensions. Whilst we may pay this off over a number of years, it's still an increased liability on the bill and on the U.K.'s books.

The EU Commission's Pensions Scheme Liability bill has had €30billion added to it by the EU since the referendum in 2016. It has more than doubled since 2012. This year's €17.2 billion increase in just one year is quite convenient for the EU as it operates before the U.K. left the EU in January.

EU Pension Scheme Liabilities	Liability € billions	Annual Increase € billions	UK Share €billions	UK Share Annual increase €billions	Annual Increase %
2019	€ 97.659	€ 17.203	€ 11.621	€ 2.047	21%
2018	€ 80.456	€ 7.334	€ 9.574	€ 0.873	10%
2017	€ 73.122	€ 5.891	€ 8.702	€ 0.701	9%
2016	€ 67.231	€ 2.989	€ 8.000	€ 0.356	5%
2015	€ 64.242	€ 5.189	€ 7.645	€ 0.617	9%
2014	€ 59.053	€ 12.235	€ 7.027	€ 1.456	26%
2013	€ 46.818	€ 4.315	€ 5.571	€ 0.513	10%
2012	€ 42.503	€ 7.668	€ 5.058	€ 0.912	22%
2011	€ 34.835	-€ 5.605	€ 4.145	-€ 0.667	-14%
2010	€ 40.440	-€ 0.310	€ 4.812	-€ 0.037	-1%
2009	€ 40.750		€ 4.849		
Inc since 2012	€ 55.156				

I warned last year that unless some mechanism was found to stop it, the EU would inevitably add at least a €billion to the bill because of near zero interest rates across the EU. I also warned that no-one knew what would happen to the bill if the linked 'discount rates' used to calculate the EU pension scheme's future liabilities went into zero territory. Well they did.

EU Pension Scheme Liabilities	Nominal Discount Rate	Inflation	Real Discount Rate
2019	1.1%	1%	-0.2%
2018	1.9%	1.4%	0.5%
2017	1.9%	1.5%	0.4%
2016	1.7%	1.4%	0.3%
2015	2.0%	1.4%	0.6%
2014	2.0%	1.3%	0.7%
2013	3.7%	1.9%	1.9%
2012	3.6%	2.0%	1.6%
2011	4.9%	1.8%	2.4%
2010	4.6%	2.1%	2.4%
2009	4.5%	2.5%	2.0%

So even I was shocked that they found it led to an increase over €17 billion to the total bill.

The lower the discount rate the higher go the liabilities. And the -0.2% is unprecedented. But, nevertheless, it adds €17.203 billion overnight. And the UK pays about an eighth of it all of a sudden. That's €2.047 billion.

EUR million

	Pension Scheme of European Officials	Other retirement benefit schemes	Joint Sickness Insurance Scheme	Total
Present value as at 31.12.2018	**70 017**	**1 865**	**8 990**	**80 871**
Recognised in statement of financial performance				
Current Service Cost	*2 824*	*84*	*277*	*3 185*
Interest cost	*1 339*	*30*	*180*	*1 549*
Past Service Cost	*–*	*(60)*	*–*	*(60)*
Recognised in net assets				
Remeasurements in employee benefits liabilities				
Actuarial (gains)/losses from experience	*1 910*	*77*	*(339)*	*1 648*
Actuarial (gains)/losses from demographic assumptions	*–*	*0*	*–*	*0*
Actuarial (gains)/losses from financial assumptions	*9 339*	*220*	*3 065*	*12 625*
Other				
Benefits paid	*(1 587)*	*(67)*	*(101)*	*(1 756)*
Present value as at 31.12.2019	**83 842**	**2 149**	**12 071**	**98 062**

Even the EU mentions in its accounts the impact of negative discount rates as having a dramatic impact:

“This….liability has increased mainly because of the actuarial loss from changes in financial assumptions caused by a sharp decrease in the nominal discount rate. Furthermore, as the nominal discount rate is adjusted for inflation to obtain the real discount rate, this year the real discount rate was for the first time negative – meaning that any given amount is worth more today than in the future: this significantly increases the size of the liability at year-end.”

I have warned for the last three years that this particular method of calculating the Pensions Liability by the EU commission is simply not sustainable. Using discount rates based on Euro Bonds (the Euro zero-coupon yield with a maturity of 22 years, to be exact) is actually pointless.

Indeed, it has become meaningless to use them because they emerge from a bonds market rendered completely artificial by continual waves of ‘Whatever It Takes’ Bazooka, Quantitative Easing by the European Central Bank. A further wave this year will, no doubt have a further impact on the bill and this year’s figure will get revised up again this time next year. It could end up being an extra €3billion.

I have also suggested that as it is an in-balance scheme the U.K. government should not actually be paying anything at all for the future pension liabilities. And that in any event the U.K. should be given credit for the over payments it made for decades into officials’ pension pots, when it should have started only paying for officials pensions in full once their entire career had occurred since the U.K. joined the E.U. The earliest this would have been was actually as recently as 2006.

The U.K. should initially challenge the calculations in any event, and propose a different non-discount-rate method of calculating the scheme’s liabilities. They could also bring a case under the Withdrawal Treaty for arbitration by the panels set up in it, and ultimately the ECJ.

Or will the U.K. government agree that it has no choice under the Withdrawal Treaty but to cough-up? The now €11.6 billion could be brought into the present trade negotiations, perhaps? In the event of a no-deal Brexit, at the end of the transition period, it may be that the €11.6 billion becomes a much more difficult ask for the E.U. to sustain, and possibly first on the list to reduce the Divorce Bill.