

CA/66/10 Corr. 1

Orig.: en

Munich, 28.05.2010

SUBJECT: Introduction of a funded system to finance the Healthcare Insurance Scheme

SUBMITTED BY: President of the European Patent Office

ADDRESSEES: 1. Budget and Finance Committee (for opinion)
2. Administrative Council (for decision)

Note: This document is being published prior to the meeting of the General Advisory Committee (GAC). The President will inform the Budget and Finance Committee and the Council of the opinion of the GAC and of any action taken following this opinion.

The attached page replaces page 11 of CA/66/10, dated 21.05.2010. The annexes have been updated and the amendments are indicated by grey hatching.

Article 1

The title of Article 83 and Article 83 paragraph 1 of the Service Regulations for permanent employees of the EPO shall be replaced by the following:

"Article 83 Healthcare insurance

- (1) (a) unchanged
- (b) The total contribution required to meet such insurance, calculated by reference to the basic salary, shall be set by the President of the Office, on the basis of an actuarial study. One third of such contribution shall be charged to the employee.
- (c) unchanged
- (d) Should the President of the Office deem it necessary to have an evaluation of the cost of the present scheme made by one or more actuaries and should this show that the total contribution set pursuant to paragraph (b) above no longer corresponds to the contribution necessary to finance the benefits payable under these Regulations, the President shall establish what changes, if any, are to be made to the rates of contribution.
- (e) Any adjustment in the total contribution rate pursuant to paragraph (b) above as a result of recommendations of the actuaries referred to in paragraph (d) above ~~will~~ shall be limited to 10% of the contribution rate in force."

Article 2

The German version of Article 83 paragraph 2, letter c, of the Service Regulations for permanent employees of the EPO shall be replaced by the following:

- (c) Ein Beamter, der Anspruch auf ein zurückgestelltes Ruhegehalt hat und nach Vollendung des 50. Lebensjahres auf Antrag entlassen worden ist oder insgesamt mindestens 25 ruhegehaltfähige Dienstjahre abgeleistet hat, kann auf Antrag weiter nach Absatz 1 versichert werden. Nach einem Zeitraum, der 10 % der ruhegehaltfähigen Dienstjahre überschreitet, hat der Beamte jedoch den gesamten Beitrag zu tragen. Der Berechnung des Beitrags wird

ANNEX 1 LETTER FROM MR CHRISTIAN ARCHAMBEAU



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Mr R. Leblond, Actuaire Conseil
Mr R. Rhiel, Aktuar
Mr T. Reay,
Fellow of the Institute of Actuaries

per e-mail

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Date: 10.03.2010

Funding Healthcare Insurance

Dear Messrs Leblond, Rhiel and Reay,

As you are aware, the EPO has been reflecting in recent months on the future financing of its healthcare insurance scheme and has submitted some proposals to its Finance and Budget Committee and its Administrative Council.

The Office has concerns that, as healthcare costs increase, the current pay-as-you-go (Paygo) system will become an ever increasing burden on the Office budget. It is felt that pre-emptive action taken at this point is the most prudent approach for the EPO management. In particular, the demographic structure of the insured population will change considerably over the next 30 years, and the EPO will find itself with an aging population.

The Office is preparing a document to be submitted to the Administrative Council and proposing statutory changes to move from a Paygo system to a funded scheme. May I now ask you to consider the issues raised by the Office in CA/66/10 and ask for your opinion of the views expressed in this document?

I thank you in advance.

Yours sincerely,

Christian Archambeau,
Principal Director Human Resources

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ANNEX 2 LETTER FROM THE ACTUARIES

The Actuarial Advisory Group:
Richard Leblond
Raimund Rhiel
Timothy Reay

Mr C. Archambeau,
Principal Director, Human Resources,
European Patent Office,

12 March 2010

re: Funding Healthcare Insurance

Dear Mr Archambeau,

In response to your letter of 10 March, the Actuarial Advisory Group would like to make the following observations.

The structure of the insured population at the EPO is still far from a steady state and its expected demographic development will result in a large increase in the proportion of older insured persons (staff members and family members) covered by the healthcare insurance scheme. The healthcare costs of an aging population are inevitably higher than those of a younger population. It is therefore fair to assume that the costs of the EPO healthcare insurance scheme will rise considerably over the coming years.

The current Paygo system does not make any provision for these future increases in costs.

On the other hand, if a fund were created at this point, reserves could be set aside whilst the population is relatively young, for future use. Also, the income from the investments owned by the fund would become another source of income for the fund, along with the regular contributions. This should serve to reduce the overall contribution rate.

The funding method we recommend is the Entry Age Normal Method (c.f. CA/182/09) as we find this method best suited to funding life-long healthcare for EPO employees.

In our view, moving from a Paygo system to a funded system to finance the EPO healthcare insurance scheme would be advantageous to the Office at this point as it would spread cost over time more evenly. We therefore endorse and support the Office's conclusions, as presented in CA/66/10. The Office should be aware that the funded approach means some financial effort in the short term to build the reserves that can be used later on to support the Office budget.

Yours sincerely,

R. Leblond

R.Rhiel

T. Reay