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RESEARCH NOTE 47

'THE GREAT EUROPEAN RIP-OFF' A BACKGROUND NOTE EXPLAINING HOW AN MEP CAN BECOME A MILLIONAIRE IN JUST ONE 5-YEAR TERM AT THE EUROPEAN PARLIAMENT

The Great European Rip-Off: How the corrupt wasteful EU is taking control of our lives by David Craig and Matthew Elliott will be published by Random House on 5 March 2009.

In the book we calculate that any MEP can easily save over £1 million from their expenses and pension benefits from just one 5-year term at the European Parliament.

At the same time, a British MEP will get a salary of £63,291 a year (£316,455 over 5 years). However, in our calculations we have assumed MEPs will spend all this £316,455 on their and their families' living costs and so have not included MEPs' salaries in our estimates of how MEPs can become millionaires in just 5 years.

This note uses an exchange rate of €1:80p, which is the 2008 average rate. This is more conservative than the rate used in the book, of £1:€1.1 and shows that the result is robust to different exchange rate assumptions. If the calculations were carried out using today's exchange rates the estimate of the amount an MEP could save, in pounds, would be much higher.

Summary of how much an MEP can save (excluding salary):

	Item	Saved over 5 years
1	Subsistence Allowance	€117,000
2	Assistants' Allowance	€489,840
3	Office Expenses	€243,120
4	Travel Expenses	€60,000
	Total	€909,960
	Total in £ at €1 = £0.80	£727,968
	Value of accrued pension	£350,000
	Total savings in one 5-year term	£1,077,968



1. Salary

Currently a British MEP is paid the same as a Westminster MP - £63,291. Paying British income taxes, depending on their family circumstances a British MEP will pay about £16,456 income tax (26 per cent), leaving the MEP about £46,835 to take home. After the June 2009 European Parliament, all MEPs from all countries will be paid the same – at least €7,665 a month (€91,980 a year). On this they will typically (again depending on family circumstances) pay a special European Union tax of €13,797 (15 per cent) leaving them a take-home pay of €78,183.

With an exchange rate of €1 = £0.80 this would raise a British MEP's total salary after June 2009 to £73,584 (a rise of 16 per cent) and give an increase in take-home pay from £46,835 to £62,546 (a rise of 33 per cent). However, the exchange rate has also moved in their favour since 2008. If exchange rates remain at around €1:88p then their take home pay will increase to £68,801. That will mean that a combination of the pay rise, more favourable tax treatment and the change in the exchange rate leave MEPs with a 47 per cent rise in their take home pay.

In calculating how any MEP can become a millionaire in just one 5-year term at the European Parliament, we have assumed that MEPs spend all their salaries on their day-to-day living expenses and so have not included any money from salaries in the calculation.

2. Subsistence Allowance

For each day an MEP signs in, they can claim a Subsistence Allowance of €287 tax free. British MEPs call this the SOSO (sign on and sod off) allowance, because all you have to do to get it is to sign in. There is no requirement to attend a single debate or committee session. What you do for the rest of the day is up to you. Assuming an MEP signs in four days a week for forty weeks, they will get €1,148 a week - €45,920 a year (nb about 70 MEPs each week also sign in on a Friday to get the subsistence allowance before going home for the weekend).

A few years ago, some MEPs slept in their offices in order to avoid paying for hotels so they could save more of their subsistence money. This is now discouraged by the parliamentary authorities. However, a reasonable 3-star hotel close to the European Parliament buildings will cost less than €125 a night including breakfast, leaving over €162 a day for lunch and dinner. But, any MEP signing in for 4 days a week will only spend 3 nights (Monday, Tuesday and Wednesday) in a Brussels hotel. Likewise an MEP signing in for 5 days a week will only spend 4 nights in a hotel.

There are subsidised restaurants in the European Parliament buildings and on many days there are free breakfasts, lunches and dinners organised by lobbying groups and political parties. In the evenings these typically serve almost unlimited quantities of champagne and other drinks and expensive canapés of smoked salmon, caviar, patés and other delicacies. One MEP recently complained, "In these times of economic crisis what image are we portraying? Every corner of the parliament is filled with receptions and buffet dinners, while our constituents are being thrown out of their homes, losing their jobs or having difficulty paying their food and energy bills." Moreover, there are over 15,000 lobbyists in Brussels all keen to wine and dine MEPs in order to advance the interests of their paymasters.

If we assume that MEPs are paying about €60 each a day three days a week for lunch and dinner (in reality, it is probably much less) and staying in a hotel 3 nights a week at €125 a night, each MEP can pocket about €585 each 4-day week tax free from their subsistence allowance. Over 40 weeks this gives them around €23,400 a year tax-free. Over one 5-year term this adds up to €117,000 tax free.

3. Assistants' Allowances

The biggest pot of money MEPs can dip into is for employing staff. Currently this stands at about €202,968 per MEP per year. This allowance has increased by an inflation-busting 34 per cent in the last five years. There are no guidelines regulating how much an assistant should be paid, and MEPs are permitted to pay a large portion of their allowance to just one person. Some even do this, creating the absurd situation where MEPs' assistants are apparently paid much more than the MEPs for whom they work. There are even cases where up to eight MEPs will share the services of one or two assistants, potentially allowing each of them to make massive profits from claiming the full Assistants' Allowance.

Many MEPs use this allowance to pay members of their own family. The amount is so generous that an MEP can easily afford to slip their partner or offspring €50,000 to €60,000 a year for the occasional helping hand and still have enough loose change to employ more than one full-time secretary and a few researchers. Some MEPs dispense with the formality of handing the cash to a family member and just pay some of it to themselves. The Galvin Report uncovered widespread abuse of the Assistants' Allowances including cases where MEPs claimed they had given their assistants annual bonuses of up to 19 times the assistants' monthly salaries – curiously these bonuses often seemed to be exactly the right amount to use up the whole of the MEPs' annual Assistants' Allowance.

If we assume that an MEP is employing one full-time secretary for about €35,000 a year (including social security charges) and 2 research assistants



each also on €35,000 a year, then this gives the MEP an annual salary bill of €105,000. This leaves the MEP €97,968 which he or she can pay to members of their family or just to themselves (usually via a paying agent company of which they or family members are directors).

Over one 5-year term this adds up to €489,840 tax free.

4. Office Expenses

Each MEP is provided with two fully furnished, rent-free offices in the European parliament building, one for themselves and one for their secretaries and assistants.

However, they are also given an office allowance of €48,624 a year for having an office in their constituency. Here too no receipts are required to get this money. As one MEP said, 'there is no need to present receipts for office expenses and there's no audit. You could use the allowance for any purpose you like.' Many MPs claim that their constituency office is in their own home. This allows them to rent out a room in their homes to themselves, which they pay for with EU taxpayers' money. Some even just take all the money without bothering to have a constituency office at all.

At €243,120 tax free over five years, this is probably a welcome addition to many MEPs' household budgets. In some EU countries it's enough to buy a home, or it could be used to pay for a nice holiday flat near the Mediterranean.

5. Weekly Travel Expenses

In addition, MEPs get very generous travel expenses. They can claim weekly flights from their constituencies. Here they do actually need to provide some proof that they have travelled. However, they just have to submit the stub from the boarding pass – they are not asked for any information about how much they have paid for their ticket. They are then reimbursed for a fully flexible economy class ticket, plus an extra payment for distance travelled of over €100 for every 500 kilometres, all usually adding up to comfortably more than a business class fare.

By buying cheap weekend return tickets or by travelling on budget airlines, (Ryanair and Easyjet between them fly from Brussels to more than 40 European cities) many MEPs can rake in more than €300 a week tax free. German MEPs living in Berlin, for example, could, according to one report, make a profit of around €800 each time they travelled to Brussels and over €1,000 for every trip to Strasbourg.



If we assume an MEP is only making about €300 a week forty weeks a year, this would give them a tax-free profit of €12,000 a year - €60,000 tax free over one 5-year term

MEPs also get an annual travel allowance of €4,000 a year to go anywhere in the world as long as this travel is connected with their work as an MEP. The Caribbean and the Far East seem to be popular destinations, with one MEP justifying a trip to exotic Thailand on the basis of a half-hour meeting at the EU's Bangkok offices. Perhaps the MEP wasn't aware that he could have considerably reduced the cost to the taxpayer and saved himself a lot of unnecessary travelling time by making a conference call. However, here we have assumed that MEPs do actually use their annual €4,000 travel allowance and so have not included this money in the calculation of how much an MEP can save.

6. Pensions

As our politicians preside over a worsening pensions crisis that will leave most private-sector workers in poverty in their old age, they have made sure that they have one of the best pensions schemes in Europe.

Typically, government employees across Europe would have to work for around 40 years to get a pension worth about half their final salary. Politicians in the British parliament have a much better deal and have to work for only 20 years to achieve an inflation-protected pension for them and their partner of half their final salary. Any other British worker would have to pay about £50,000 a year into their pension scheme to get similar benefits to their MPs.

Calculation for an MP:

Each year a Westminster MP works they accrue $1/40^{\text{th}}$ of their final salary as an inflation-linked pension. On the current salary of £63,291, this would be worth £1,582 a year in pension. (By the time most MPs retire, their salary will have increased, also increasing their pensions). With annuity rates for joint, inflation-protected pensions currently around 3.5 per cent, this pension is equivalent to an MP putting about £45,200 a year into their pension savings – most only pay a tiny fraction of that, the taxpayer will pay the rest.

Calculation for an MEP:

For each year an MEP works, they accrue about $1/30^{\text{th}}$ of their final salary as an inflation-linked pension. On the current salary of £63,291, this would be worth about £2,110 a year in pension. (By the time most MEPs retire, their salary will have increased, also increasing their pensions). With annuity rates for joint, inflation-protected pensions currently around 3.5 per cent, this pension is equivalent to an MEP putting about £60,285 a year into their

pension savings – most only pay a tiny fraction of that, the taxpayer will pay the rest.

After the June 2009 elections, with a salary of £73,584, each year a MEP works will give an annual inflation-linked pension of about £2,450, equivalent to putting £70,000 a year into their pension savings.

So, over a 5-year term, a British MEP’s pension savings would typically be equivalent to the taxpayer making contributions of around £350,000.

In addition MEPs can save for an additional voluntary EU pension. For every €1,000 they paid per month into their pension scheme, the EU would pay double that amount. MEPs are allowed to pay this extra €1,000 from their €48,624 office expenses. In theory, they are then supposed to reimburse this money from their own bank accounts. However, everything relies on the MEPs’ honesty. Unsurprisingly, a few years ago MEPs voted down a proposal that EU parliament auditors should check whether any of them actually do repay this money.

7. Summary

Adding all this up, a typical British, French or German MEP will be getting over €460,000 a year in salary, pension and expenses – more than €2.3 million for each five-year period in Brussels. With a bit of judicial financial management, they can probably save as follows:

	Item	Saved over 5 years
1	Subsistence Allowance	€117,000
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If you are the EU candidate for one of the main political parties, you have about a one in three chance of scoring your EU millions – all in all, much better odds than winning the EuroMillions lottery or else correctly answering all the questions on *Who Wants to be a Millionaire?*

8 Even More Benefits.



Even when MEPs lose their seats in the European parliament, they don't have to bid goodbye to the financial benefits immediately. Once they leave office MEPs continue to enjoy a 'transitional allowance' (basically their parliamentary salaries) for anything from six months to two years, depending on their length of service. So for just 5 years at the Parliament, this would be worth a minimum of over £30,000 to a British MEP. MEPs can also keep on using the parliament's subsidised restaurants and cafeterias, libraries and telephone facilities in Brussels, Strasbourg and Luxembourg. Moreover, once they start drawing their EU pensions, these are subject to special, low EU tax rates and not the, usually much higher, tax rates in whichever country they may retire to.

The benefits of being an MEP don't stop here. MEPs also have a huge list of other entitlements that are generously subsidised by Europe's taxpayers. If they take language and computer courses we pay their fees, travel and living expenses. They have full, free accident insurance, travel insurance and life assurance. They and their families get money for spectacles, contact lenses and dental treatment. One British dentist pointed out that MEPs could claim up to four times more for the cost of dental work than he could get for doing that work under his National Health Service contract. MEPs and their families can also get full payment for things like hydrotherapy, mud baths, aerosol therapy and acupuncture.