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ANNUAL REPORT OF THE UNITED NATIONS JOINT STAFF PENSION BOARD

BUDGET ESTIMATES FOR THE FINANCIAL YEAR 1967

Financial implications of the draft resolution recommended
by the Joint Staff Pension Board (A/6308, annex IV).

Twentieth report of the Advisory Committee on Administrative and Budgetary
Questions to the General Assembly at its twenty-first session

1. The Advisory Committee on Administrative and Budgetary Questions has considered the annual report of the United Nations Joint Staff Pension Board.^{1/} The report contains, in addition to the usual statistical and financial information concerning the operation of the Fund during the year ended 30 September 1965 and the report of the Board of Auditors thereon, an account of the decisions taken by the Pension Board at its thirteenth session, held at Vienna from 18 to 29 July 1966. A draft resolution for consideration by the General Assembly and the text of certain amendments to the Regulations of the Joint Staff Pension Fund are attached as Annexes IV and V to the report. The report of the Consulting Actuary on the actuarial position of the Fund and the reports of the Expert Committee of Actuaries were also made available to the Committee.
2. In paragraphs 20 to 27 of its report, the Board submits details of proposals designed to prevent an actuarial deficit in the Fund which otherwise might occur and have to be met by deficiency payments by the participating member organizations under article XIX of the Regulations. Accordingly, the Board proposes:

^{1/} Official Records of the General Assembly, Twenty-first Session,
Supplement No. 8 (A/6308).

(a) abolition of the associate participation scheme for staff entering employment on or after 1 January 1967, with certain transitional arrangements to apply for not more than five years in respect of associate participants in the Fund on 31 December 1966;

(b) entrance requirements for participation in the Fund as from 1 January 1967 to be based on appointments for one year or longer or on completion of one year of service; and

(c) refunds to member organizations by the Fund of half of their contributions (14 per cent of pensionable remuneration) where a participant becomes a participant in the Fund on or after 1 January 1967 but withdraws within five years without qualifying for a death, disability or retirement benefit or being summarily dismissed.

3. It will be recalled that the scheme of associate participation, introduced in 1958, was designed originally to provide death and disability (but not retirement) coverage for non-career staff employed under the extra-budgetary programmes of the United Nations and the specialized agencies with appointments of one or more but less than five years. No contribution was required from the staff member, and the organization contributed 4.5 per cent (against 14 per cent for full participation) of the official's pensionable remuneration. Employees who remained for five years or whose appointments were extended to that period became full participants. An associate participant becoming a full participant could "validate" his prior associate service by paying to the Fund the amounts he would have contributed (7 per cent) had he been a full participant from the beginning. Under these arrangements the organizations were required to pay into the Fund the difference between 4.5 per cent and 14 per cent of the pensionable remuneration.

4. The Committee has been informed that whereas the scheme as originally conceived envisaged only a small number of associate participants passing from that status into full participation and consequently validating their prior service, experience has shown that a very considerable number are in fact doing so - with the result that the Fund has been and is incurring obligations towards them which are significantly in excess of the contributions paid. The Committee of Actuaries and the Board, after a lengthy study concluded that measures must be taken to redress this situation and prevent further losses to the Fund which could

shortly lead to an actuarial imbalance with consequent deficiency payments becoming due from the member organizations.

5. The Advisory Committee notes from the statistics furnished by the Board that associate participants now number almost half (7,600) of the full participants (15,400) in the Fund (total of approximately 23,000) and would agree that the scheme appears to have evolved in a different way from what was originally intended. In many organizations associate participation, instead of being reserved for temporary and fixed-term staff, is treated as the normal initial status for career staff. The Committee, having considered the reports of the Board, the Expert Committee of Actuaries and the Consulting Actuary, agreed that the recommendation of the Board for a merger of the two present classes of participants in the Fund would appear to be necessary. However, the Committee feels that some alternative measures considered by the Board might also have served to alleviate the financial strain on the Fund.

6. In his report on the financial implications of the Board's proposals, the Secretary-General advises that their adoption by the General Assembly would require additional credits for 1967 in the amount of \$200,000, to cover the difference between the Organization's responsibility to contribute 14 per cent rather than 4.5 per cent of pensionable remuneration for staff entering employment in 1967 on fixed-term contracts of at least one, but less than five years.^{2/} The estimate is based on a number of assumptions, including projections of the vacancies that will exist at the end of 1966 and those anticipated for 1967 as a result of the expiration of fixed-term appointments, the levels at which those vacancies will be filled, the proportion of newly employed staff who will now enter the Fund as full participants, and the savings resulting from delayed recruitment. Certain adjustments in the estimates may therefore be necessary as regards some overseas offices and also such organizations as the United Nations Conference on Trade and Development and the United Nations Industrial Development Organization where the staffing position has not yet fully crystallized. As regards the latter (section 21), the Secretary-General hopes that such additional costs as may arise

^{2/} A/C.5/1078, para. 4.

in respect of contributions to the Fund as a result of his request for \$750,000 for the employment of regular and short-term staff for 1967 could be met within the appropriations for the section as a whole. Furthermore, no provision has been made for possible minimal refunds accruing to the United Nations in 1967, as they would relate only to those staff members appointed in 1967 on contracts of at least one, but less than five years and separated from the service in that year.

7. On the basis of figures provided to the Board by the Consulting Actuary, it is estimated that under present employment conditions, additional costs for the first year (1967) will be about \$1.1 million, spread over all the organizations, and after expiration of the transitional period a stabilized additional cost of about \$2.2 million in the sixth year, when the arrangement becomes fully effective. The Board has stressed that although these costs may appear high they are essential if deficiency payments at a later date are to be avoided.

8. The Advisory Committee has observed the special situation of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) staff reported in paragraph 14 (f) (i) and (ii) of the Board's report. These officials, some of whom have been in the employ of UNRWA since 1951 and have been associate participants in the Pension Fund since 1961, continue to be excluded from full participation and are prevented from making their full periods of service pensionable for retirement purposes because UNRWA lacks the resources to make the necessary contributions to the Pension Fund. The Committee understands the Board's legitimate concern for the financial soundness of the Fund, and its reluctance to accept obligations for which inadequate payments would be made. It understands that negotiations are currently proceeding between UNRWA, the United Nations and the Board and would express the hope that a solution to this problem will be found.

9. The Advisory Committee has also noted, from paragraph 14 (b) of the report of the Pension Board, that the United Nations Board of Auditors has reiterated the need to reconcile the statement of investments prepared by the Fiduciary Trust Company of New York, as custodian and executive agent in respect of the Fund's portfolio, with the one supplied by the Secretary-General for inclusion in the accounts of the Fund. While there remain differences of opinion as to the need of such a reconciliation, the Committee would refer to its fifth report to the

General Assembly at its current session (A/6380), in which it commented on this subject and suggested that a determined joint effort be made to arrive at a satisfactory solution which would not require undue extra expense. The Committee has since been informed that consultations are taking place between the Secretary-General and the Board of Auditors in the hope of reaching such a solution.

10. The Advisory Committee noted the conclusion of the Board that the financial position of the Fund was sound, subject to modifications being made in the associate participation scheme as indicated above. The Board which is concerned to improve the level of benefits of international staff wherever possible does not consider, however, that the Fund's position yet warrants any further move in this direction. The Committee welcomes the Board's cautious approach and would recall its own observations on this subject, contained in its report to the General Assembly last year,^{3/} in which it stated that any further proposals for improvements in benefits should be carefully examined with a view to ensuring that they entailed no risk of additional charges upon the organizations beyond the existing contribution of 14 per cent payable by the employing authorities. The Committee therefore endorses the Board's proposal that the system of adjustment of pensions and annuities in payment, as approved by the General Assembly in resolution 2122 (XX) of 21 December 1965, should be continued until 31 December 1969 subject to further review of its financial implications in 1968. The Committee is also prepared to endorse the Board's proposal to dispense, on the provisional basis recommended, with the practice of linking coverage for benefits to the medical condition of the participant on entry into the Fund, since experience has shown this restriction to be largely unnecessary.

11. Should the General Assembly approve the Board's proposals, adopt the draft resolution contained in annex IV to its report^{4/} and concur in the consequential amendments to the Regulations of the Fund contained in annex V, the additional

^{3/} Official Records of the General Assembly, Twentieth Session, Annexes, agenda item 85, document A/6108, para. 5

^{4/} Ibid., Twenty-first Session, Supplement No. 8 (A/6308)

credit of \$200,000 required for 1967 would be distributed by budget section as follows:

		\$
Section 4.	Common staff costs	174,000
"	16. Special missions	5,000
"	17. United Nations Field Service	3,000
"	18. United Nations High Commissioner for Refugees	8,000
"	20. United Nations Conference on Trade and Development	7,000
"	21. United Nations Industrial Development Organization	<u>3,000</u>
		<u>200,000</u>
