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REPORT OF THE UNITED NATIONS JOINT STAFF PENSION BOARD*

Addendum

Application of the Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade for withdrawal from the United Nations Joint Staff Pension Fund

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* The present document is an advance version of the addendum to the report of the United Nations Joint Staff Pension Board. The final report will be issued as Official Records of the General Assembly, Fifty-third Session, Supplement No. 9A (A/53/9/Add.1).

Introduction

1. On 16 October 1998, the General Council of the World Trade Organization (WTO) and the Executive Committee of the Interim Commission for the International Trade Organization (ICITO) adopted decision WT/L/282 concerning the conditions of service applicable to the staff of the WTO secretariat. In that decision, the Director-General of WTO was authorized "to inform the United Nations Joint Staff Pension Fund that ICITO wishes to apply for termination of its membership in the Fund on 31 December 1998, subject to the conclusion of satisfactory transfer arrangements with the Fund". The full text of the decision is reproduced as an annex to the present report.

2. In its report to the General Assembly at its current session, the United Nations Joint Staff Pension Board had indicated that "if ICITO/GATT were to make a formal application for withdrawal, it would be necessary to arrange for an appropriate valuation of the Fund as of the date of the proposed withdrawal and for the Committee of Actuaries to submit recommendations to the Board for its decision at a special session".[1] Accordingly, the Committee of Actuaries met on 9 and 10 November 1998 and a special session of the Board was held on 12 and 13 November 1998 at WTO in Geneva. The present addendum provides the recommendations of the Board to the General Assembly on the application for termination of membership of ICITO in the Fund.

Statutory framework for termination of membership in the Fund

3. Article 16 of the Regulations of the United Nations Joint Staff Pension Fund sets out the statutory framework for termination of membership in the Fund:

> "(a) Membership in the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Board, following application for termination by a member organization or continued default by a member organization in its obligations under these Regulations.
>
> "(b) In the event of such termination, a proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund on such date, pursuant to an arrangement mutually agreed between such organization and the Board.
>
> "(c) The amount of the proportionate share shall be determined by the Board after an actuarial valuation of the assets and liabilities of the Fund on the date of termination, provided that no part of the assets which are in excess of the liabilities shall be included in such share."

4. The drafting history of article 16 clearly indicated that the amount to be returned to the withdrawing organization was to be determined by the Board; the reference in article 16 (b) to an "arrangement mutually agreed between such organization and the Board" concerned only the modalities for making that payment to the withdrawing organization (e.g., specifying the account to be credited or particular assets to be transferred, and interest on delayed payments).

5. During the consideration of the possible withdrawal of ICITO over the past three years, the Board and its Standing Committee had highlighted the need to maintain the financial security of all the current beneficiaries of the Fund (including those with deferred benefits not yet in payment) and to protect the accrued rights of the active participants, particularly since the methodology

utilized would constitute a precedent that would be applied in the event of any future applications for withdrawal by Fund member organizations.

6. In 1995 and 1997, at its request, ICITO was provided with indicative ranges for the amounts of the proportionate share of the Fund's assets that would become payable, should its membership be terminated. The estimates prepared in 1997 were based on the methodology recommended by the Committee of Actuaries.

Methodology for determining the proportionate share of the assets

7. The methodology recommended by the Committee of Actuaries and endorsed by the Board involves:

(a) Deducting from the market value of the assets of the Fund on the termination date the capital value of all benefit obligations to current pensioners, their beneficiaries and deferred retirees (hereafter referred to as "pensioners");

(b) Apportioning the remaining amount according to the ratio of the liability of active participants in the terminating organization to that of the entire Fund. The Committee of Actuaries recommended that the apportionment be made on the basis of the termination liabilities under the Fund's Regulations and with the inclusion of cost-of-living adjustments.

8. At the special sessions of the Committee of Actuaries and the Board, WTO indicated its acceptance of the use of this methodology.

9. The principal factors in the methodology are the market value of the Fund's assets and the "real" interest rate (i.e., discount rate) used to calculate the capital value of the liability for all pensioners, with both factors measured as at the date of termination. The Fund's Consulting Actuary and the Committee of Actuaries took the view that the real rate of return assumption used in the actuarial valuations of the Fund would not be the appropriate interest rate, as it reflected an assumed average long-term real interest rate.

Interest rate to be used in the calculations

10. In a note to the Committee of Actuaries and the Board, the Fund's Consulting Actuary stressed that a critical issue was the choice of the nominal return and assumed inflation (i.e., the "real return") to be used to determine the pensioners liability, to ensure that sufficient and prudent reserves were set aside for pensioners. Such reserves should be sufficient, with a high degree of certainty, to meet all benefit payments and the related administrative and other expenses.

11. Generally, the pension reserve should be calculated on the basis of yields as of the transaction date on the most secure fixed-interest investments available (i.e., long-term government bonds), from which an appropriate margin should be excluded to cover administrative and other expenses; an appropriate margin should also apply for contingencies such as adverse currency exchange experience, greater pensioner longevity than assumed and, unless provided in the investment vehicle, higher inflation than assumed. Given that the assets and liabilities of the Fund are expressed in United States dollars, it is appropriate to develop the assumptions by reference to yields available on United States long-term Government Bonds.

12. On the occasion of previous discussions on the matter of the interest rate to be used, only non-indexed United States Government Bonds were available. In 1997, the United States Treasury began to issue inflation-linked securities. While this is still a relatively new series of investment vehicles and the volume of the available long-term bond is somewhat limited, the yields on these bonds present a suitable starting point in developing the required prudent real return assumption.

13. Currently, the 30-year United States inflation-indexed Government Bond yields a "real" return to maturity of approximately 3.6 per cent per annum. The "real" rate on the date of termination would have to be adjusted to take into account the margin factors referred to in paragraph 11 above, namely (a) administrative and other expenses, including investment costs, and (b) longevity and currency exchange contingencies.

14. The Committee of Actuaries concurred with this approach for determining the net interest (discount) rate to determine the pensioners liability, namely, that the "gross" interest rate would be the yield to maturity on 30-year United States inflation-indexed Government Bonds, as available on 1 January 1999, and the "net" interest rate would be determined by applying two reductive factors to the "gross" rate, to take into account (a) administrative expenses, including investment costs, and (b) longevity and currency risks.

15. With respect to the administrative expenses, the Committee of Actuaries agreed with the determination made by the Consulting Actuary that the reductive factor should be 0.13 per cent per annum. The Board also endorsed the use of this figure.

16. With regard to the longevity and currency risks, it was generally agreed that the reductive factor would have to be based on judgement. The current mortality table used in the Fund's actuarial valuations includes modest provision for improvements in longevity. The pension liability includes a loading for the assumed estimated cost of the two-track pension adjustment system. The reductive factor for these two elements should serve to protect the Fund against unanticipated adverse experience. The Consulting Actuary recommended that the reductive factor be between 0.5 and 1 per cent per annum. In its review of this factor, the Committee of Actuaries noted that the recent mortality experience for retirees and their beneficiaries had been close to that expected under the Fund's current mortality table. It noted further that the mortality assumptions included a modest projection of future decreases in mortality rates. The Committee also noted that the currency cost factor under the two-track pension adjustment system had been included in valuations as a loading factor in calculating the liabilities. The Committee therefore took the view that an appropriate reduction factor for longevity and currency risks should be 0.5 per cent per annum.

17. In its consideration of this reductive factor, the Board noted that both the Consulting Actuary and the Committee of Actuaries had indicated that their determinations were based on judgement as to the reductive margin to be applied in a termination situation. Recognizing its fiduciary responsibility for the Fund, the Board decided to exercise a degree of prudence by endorsing and recommending to the General Assembly that the reductive factor for longevity and currency risks should be set at the mid-point of the range suggested by the Consulting Actuary rather than at the lower limit of that range, namely, at 0.75 per cent per annum.

18. Therefore, the Board recommended that the total of the two reductive factors should be 0.88 per cent per annum.

Limitation on the amount of the proportionate share under article 16 (c) of the Regulations of the Fund

19. Article 16 (c) of the Regulations states that "[t]he amount of the proportionate share shall be determined by the Board after an actuarial valuation of the assets and liabilities of the Fund on the date of termination, provided that no part of the assets which are in excess of the liabilities shall be included in such share". The intent of this provision is to ensure that a withdrawing member organization does not share in any surplus; however, the modalities of determining the extent to which the assets exceed the liabilities, within the context of a termination of Fund membership, are not specified.

20. The Consulting Actuary suggested that "liabilities" in the context of article 16 (c) should be taken to be the liability under the Regulations on the date of termination plus cost-of-living adjustments, given the Board's endorsement of the use of termination liabilities in determining the proportionate share of ICITO. The practical effect would be to limit the amount of assets transferred to WTO to the termination liability of that organization, which, as indicated, would include provision for cost-of-living adjustments.

21. If the termination liability for all active participants, under the Regulations and with the provision for cost-of-living adjustments, is greater than the value of assets remaining after the reserve for pensioners has been deducted, the proportionate share allocated to WTO would be less than the termination liability of that organization.

22. If, on the other hand, the termination liability for all active participants is less than the assets remaining in the Fund after the reserve for pensioners is deducted, the share allocated to WTO should not exceed its termination liability.

23. The Committee of Actuaries concurred that the provisions of article 16 (c) do provide for limiting the amount of the proportionate share if the assets exceed the pensioners liability on the date of termination; however, the Committee was of the opinion that, should this eventuality arise, the limiting amount should be calculated by applying the "net" interest rate used in determining the pensioners liability, rather than the 3.5 per cent real rate of return used in the regular valuations of the Fund.

24. The Board decided to accept the conclusion of the Committee of Actuaries as regards the calculation of the possible limitation under article 16 (c) on the amount of the proportionate share.

Summary of the recommendations of the Board

25. Accordingly, the Board recommends to the General Assembly the following steps to determine the proportionate share to be paid to the proposed WTO pension plan should the membership of ICITO be terminated as at 31 December 1998:

(a) Determination of the "net" interest (discount) rate for calculating the pensioners liability as of the date of termination:

(i) The "gross" real rate would be the yield to maturity on 30-year United States inflation-indexed Government Bonds, as published in the first issue of the Wall Street Journal following the termination date, rounded to two decimal places (the current rate is approximately 3.6 per cent per annum);

(ii) The yield determined in subparagraph (i) above would be reduced by an amount of 0.88 per cent per annum, to allow for administrative and investment expenses (0.13 per cent), and for longevity and currency risks (0.75 per cent);

(iii) With respect to deferred pensions for individuals under age 55, the nominal yield to maturity on 30-year United States non-indexed Government Bonds, minus 0.88 per cent per annum, would be used for projections to age 55;

(b) The amount to be apportioned according to the ratio of the liability of active participants in the terminating organization to that of the entire Fund shall be calculated as the market value of the assets of the Fund as at 31 December 1998, minus the pensioners liability calculated under subparagraph (a) above;

(c) If the proportionate share calculated for ICITO under subparagraph (b) above is greater than the limiting amount under article 16 (c), only the limiting amount would become payable (see paras. 23 and 24).

Further technical aspects of the process

26. The various technical aspects of the process of determining the proportionate share were the subject of discussions involving the Fund's Consulting Actuary, the Rapporteur of the Committee of Actuaries, the Consulting Actuary to WTO and the Secretary of the Board. It was agreed that:

(a) The calculations would be based on a valuation of termination liabilities as at 31 December 1998, using updated data to be provided by the Fund secretariat. This would be preferable to actuarial projection techniques and would simplify the review of the calculations;

(b) The interest rate to be credited on payments made to the proposed WTO pension plan from the fund and vice versa, after 1 January 1999, would be the rate on three-month United States Treasury Bills;

(c) A preliminary estimate of the ratio factor (i.e., the ratio of ICITO termination liabilities to the total liabilities for all active Fund participants) would be prepared in December 1998 based on data collected through 31 December 1997, and made available to ICITO. This estimate would be used in January 1999, when preliminary asset value information becomes available, to determine an estimate of the payment to the proposed WTO pension plan;

(d) The final determination of the total proportionate share due to the proposed WTO pension plan would be made in April/May 1999, based on final end-of-1998 data reflected in the year-end accounts of the Fund.

27. The Board gave its concurrence to these arrangements. It was noted that, while transaction costs were not at issue in this particular case, any transaction costs should be borne by the withdrawing organization.

Illustration of the effects of the "net" interest rate and of the market value of the assets on the calculations of the proportionate share

28. The Fund's Consulting Actuary prepared the table below which shows the estimated amounts payable to the proposed WTO pension plan under a range of assumptions as to (a) the "net" interest rate used to calculate the pensioners liabilities and (b) the market value of the assets, both determined as at 31 December 1998. It is important to stress that, in preparing the table, no attempt was made to recalculate any of the liabilities as at 31 December 1997 other than to project them to 31 December 1998, using a 5 per cent adjustment. The results are intended solely to illustrate the effect of changes in the "net" interest rate assumption and in the market value of the assets.

29. It is also important to note that, because of currency exchange rate movements and staffing levels, the "final" ratio factor for apportioning the assets, after setting aside the reserve for the pensioners liability, may be quite different from the factor of 1.3399 per cent developed in 1997. Moreover, the table does not reflect any limitation on the amount of the proportionate share that may arise by application of article 16 (c), nor does it take into account the extent to which ICITO participants have or will opt to take a benefit from the Fund by 31 December 1998, rather than transfer their UNJSPF pension rights to the proposed WTO pension plan.

Illustration of effect of the "net" interest rate for pensioners' liability and of the market value of assets on the "hypothetical" amounts payable to the proposed WTO pension plan

	Assumed rate of real return (Millions of United States dollars)		
Market value of assets (Billions of United States dollars)	**2.0 per cent**	**2.5 per cent**	**3.0 per cent**
18	**71**	**80**	**88**
19	**84**	**94**	**102**
20	**98**	**107**	**115**
21	**111**	**121**	**129**

Conclusion

30. The Board had an extensive discussion of the political, legal, financial and administrative implications of the decision to be taken on the application of ICITO to terminate its membership in the Fund, given the conditional aspects of the application and considering that the decision to terminate membership in UNJSPF rests exclusively with the General Assembly, acting on the affirmative recommendation of the Board. There exists no provisions in article 16 of the Fund's Regulations for the submission of a conditional application for termination of membership in UNJSPF.

31. In view of the particular circumstances of the application of ICITO for termination of membership in the Fund, the Board considered it necessary to recommend the inclusion of a "hold harmless" provision covering any and all claims against the Fund by ICITO participants, retirees or beneficiaries.

32. In these circumstances, the Board decided to recommend the termination of the membership of ICITO in the Fund and presents herewith a draft resolution for the consideration of the General Assembly:

"The General Assembly,

"Having considered the report of the United Nations Joint Staff Pension Board on its forty-ninth (special) session, submitted to the General Assembly and to the member organizations of the United Nations Joint Staff Pension Fund, on the decision of 16 October 1998 of the General Council of the World Trade Organization and the Executive Committee of the Interim Commission for the International Trade Organization to authorize the Director-General of the World Trade Organization to inform the Fund that the Interim Commission wishes to apply for termination of its membership in the Fund on 31 December 1998, subject to the conclusion of satisfactory transfer arrangements with the Fund,

"1. Notes with concern the wishes of the Interim Commission for the International Trade Organization to apply for termination of its membership in the United Nations Joint Staff Pension Fund effective 31 December 1998, in the light of the commitment of the General Assembly to preserve the United Nations common system of salaries and allowances;

"2. Notes that, in accordance with article 16 of the Regulations of the Fund, the data required for the determination of the proportionate share of the total assets of the Fund payable to the World Trade Organization as at the date of termination, including the relevant actuarial valuations, will not be available at the proposed date of termination;

"3. Notes also that the United Nations Joint Staff Pension Board, on the basis of the application of the methodology approved by the Board and agreed upon by the Interim Commission for the International Trade Organization, has made a recommendation for the termination of the membership of the Interim Commission in the Fund, effective 31 December 1998;

"4. Decides to terminate the membership of the Interim Commission in the Fund as at 31 December 1998 upon receipt by the Secretary of the Board of an unconditional written notification from the Director-General of the World Trade Organization to that effect, no later than 15 January 1999;

"5. Decides also that the termination of the membership of the Interim Commission is subject to receipt by the Secretary of the Board by 31 December 1998 of a written undertaking from the World Trade Organization that it will hold the Fund harmless from any and all claims against the Fund arising from or relating to the termination of the membership of the Interim Commission in the Fund;

"6. Decides further that the proportionate share of the assets of the Fund payable to the World Trade Organization upon the termination of the membership of the Interim Commission shall be determined and remitted in accordance with the procedures set out in paragraphs 25 and 26 of the report of the Board and that this shall represent a complete and final settlement of the amount payable as a result of the termination of the membership of the Interim Commission in the Fund."

Notes

[1] Official Records of the General Assembly, Fifty-third Session, Supplement No. 9 (A/53/9), para. 354.

ANNEX

DECISION WT/L/282 ADOPTED BY THE GENERAL COUNCIL AND THE ICITO EXECUTIVE COMMITTEE ON 16 OCTOBER 1998

Conditions of service applicable to the staff of the WTO secretariat

The WTO General Council and ICITO Executive Committee,

Recalling their decision adopted on 24 April 1998 (WT/L/269), and in particular,

Noting that a WTO secretariat shall be established pursuant to article VI of the Agreement Establishing the WTO,

Considering the Marrakesh Ministerial Decision on Organizational and Financial Consequences Flowing from Implementation of the Agreement Establishing the WTO,

Recalling that the WTO is a *sui generis* organization established outside the United Nations system,

Recalling also the decision of the WTO General Council on 7 February 1997 establishing the Working Group on Conditions of Service Applicable to the Staff of the WTO secretariat and defining its terms of reference (WT/GC/M/18),

Take note of the report of the Chairman of the Working Group and of the detailed proposal submitted by the Working Group for an independent WTO compensation and personnel plan, including the compensation philosophy, the rationale and justification for each new element of the plan, and the procedures for control of the plan by WTO members,

Take note also of the certification provided by the panel of independent actuaries that the plan will be personnel-cost neutral and that the proposed pension plan will be viable according to the terms of reference specified in the annex to the decision of 24 April 1998,

Take note further that, subject to the amount of assets to be recovered from the United Nations Joint Staff Pension Fund, one or more of the plan adjustments specified in annex 1 to the present decision may be required in order to ensure cost neutrality over the period 1999-2005, without prejudice to the long-term viability of the proposed pension plan,

Decide to endorse the compensation philosophy and adopt the Staff Regulations and Staff Rules and the Regulations and Administrative Rules of the WTO Pension Plan, as contained in annex 2 to the present decision,[a] subject to such adjustment specified in annex 1 as may be required in order to ensure cost neutrality over the period 1999-2005,

Decide also to authorize the Director-General to inform the United Nations Joint Staff Pension Fund that ICITO wishes to apply for termination of its membership in the Fund on 31 December 1998, subject to the conclusion of satisfactory transfer arrangements with the Fund,

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[a] Not reproduced below.

Decide further that, again subject to such satisfactory transfer arrangements with the Fund and to acceptance of the proposed plan by the staff, the WTO secretariat shall be established on 1 January 1999,

Instruct the secretariat to enable the General Council to review this decision, if necessary, in the light of any significant developments relating to the transition to the new compensation and personnel plan, including a transfer amount below the cost-neutral threshold in annex 1, and

Instruct the secretariat, in the absence of a further decision by the General Council being required, to inform the General Council of the amount transferred from the United Nations Joint Staff Pension Fund and any adjustments made in accordance with annex 1 to the present decision.

APPENDIX

ANNEX 1 TO DECISION WT/L/282

Adjustments to the proposed pension plan to achieve cost neutrality in the light of the actual UNJSPF transfer amount

The following table shows the specific benefit adjustments that would be necessary to ensure cost neutrality, i.e. maintenance of a contribution rate of 22.5 per cent, depending on the amount recovered from the United Nations Joint Staff Pension Fund. The table allows for the possibility that the amount recovered would be less than the amount of Sw F 173 million included in the actuarial certification.

Transfer amount ranges assumed for cost comparison (Sw F)	Contribution requirement (Percentage)	Benefit adjustment
158 million or more	22.5	None
149 million or more	22.5	65 per cent grossing-up factor (instead of 70 per cent) (Article 20 of the Plan Regulations)
137 million or more	22.5	As above, plus 50 per cent surviving spouse benefit (instead of 60 per cent) (Article 30 of the Plan Regulations)
