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UNITED NATIONS PENSION SYSTEM

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board to the General Assembly at its thirty-eighth session. 1/ The Committee also had before it the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund (A/C.5/38/19) and the report of the International Civil Service Commission (ICSC), paragraphs 7 to 16 of which deal with the special index for pensioners and paragraphs 164 to 168 of which deal with the age of statutory separation and age of retirement. 2/ The Committee received additional information from the secretariat of the Fund and, with regard to the Fund's investments, from the representatives of the Secretary-General.

A. Actuarial valuation of the Fund as at 31 December 1982

2. In its consideration of this question, the Advisory Committee supplemented the information given in paragraphs 12 to 30 of the Board's report with additional information provided by the Consulting Actuary.

3. In paragraphs 16 and 17, the Board summarizes the results of the actuarial valuation of the Fund and compares the situation as at 31 December 1980 with the situation as at 31 December 1982. As stated in paragraphs 19 and 20 of the Board's report, the economy measures introduced with effect from 1 January 1983 have resulted in a reduction of the actuarial imbalance by 3.62 per cent, leaving an imbalance estimated at 4.79 per cent of pensionable remuneration.

4. In view of the considerations described in paragraphs 20 to 26 of its report, the Board, as stated in paragraph 27, decided to recommend to the General Assembly "that it should approve an increase in the total rate of contribution from 21 to 24 per cent, and that the increase should be implemented gradually, beginning with

an increase of 0.75 per cent (0.5 per cent by member organizations and 0.25 per cent by participants) with effect from 1 January 1984. Further increases of 0.75 per cent could be made effective as from 1 January 1986, 1 January 1988 and 1 January 1990." The relevant amendment to the Fund's Regulations is contained in annex IX of its report.

5. It can be assumed that, even with the economy measures introduced as at 1 January 1983, the imbalance will continue to be significant enough to cause concern and that it is likely to get progressively worse, if left uncorrected. The Advisory Committee therefore agrees in principle that the current rate of contribution should be increased.

6. Although the Advisory Committee, at this point, has no objection to the schedule of increases recommended by the Board, it recognizes that the actuarial situation of the Fund may change. The Committee recommends that, at this stage, only the increase proposed for 1 January 1984 of 0.75 per cent in the rate of contribution (0.5 per cent by member organizations and 0.25 per cent by participants) should be approved by the General Assembly. The Committee believes that the implementation of the further increases recommended by the Board should be preceded by an opportunity for the General Assembly, at its fortieth session, to delay or rescind the further increases. In this connection, the Board should be requested to review the situation on the basis of the actuarial valuation as at 31 December 1984 and to draw the attention of the Assembly to any developments which would warrant further action. In keeping with its agreement in principle to the schedule of increases recommended by the Board, the Committee is not recommending any change in the amendment to the Fund's regulations as contained in annex IX of its report. The Committee does recommend, however, a modification to section I of the revised draft resolution proposed by the Board in annex B to the addendum to its report to make it clear that the applicability of article 25 with respect to the further increases proposed through 1990 should be subject to the review mentioned above. That section, as modified by the Committee, would read as follows:

I

Amendment of the Regulations of the United Nations Joint Staff Pension Fund

1. Amends, subject to paragraphs 2 and 3 below and with effect from 1 January 1984, the Regulations of the United Nations Joint Staff Pension Fund, without retroactive effect, as set forth in annex IX to the report of the Board, and annex A to the addendum thereto;

2. Requests the Board, in the light of the actuarial valuation as at 31 December 1984, to draw to the attention of the General Assembly any developments which would warrant a delay in or recession of the implementation of further increases in the rate of contribution set forth in article 25 of the Regulations;

3. Decides that the implementation of the increases for periods after 31 December 1985 should be subject to prior confirmation by the General Assembly.

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7. According to paragraph 28 of the Board's report, the organizations' share of the increase recommended for 1 January 1984 would be approximately $8.6 million a year for all the organizations taken together, and the participants' share of the increase would be approximately $4.3 million a year.

B. ILO complementary pension scheme

8. This is discussed in paragraphs 62 to 64 of the Board's report. As indicated in paragraph 62, the complementary scheme is for officials in the Professional and higher categories and would be financed by way of contributions from the ILO budget and from the staff who would be covered under the scheme; it would be additional to the coverage provided through the United Nations Joint Staff Pension Fund.

9. The Advisory Committee shares the concern expressed by the Board in paragraph 64 that nothing should be done that might jeopardize the efforts to improve the actuarial situation of the Fund. The Committee believes that the integrity of the pension system should be preserved and that solutions to problems must be found within that system. The Committee points out that if member organizations of the Fund were to adopt complementary schemes it would mean significantly higher costs to both organizations and participants.

C. Administrative expenses

10. In paragraphs 74 to 77 of its report, the Board submits revised estimates for 1983 in an amount of $5,973,000 or $17,700 more than the approved appropriations. The increase is attributable to additional requirements in connection with services provided by the Consulting Actuary, the need for consultants for an ongoing study on computerization and additional requirements for investment costs, partially offset by savings under administrative costs due to staff vacancies. The Advisory Committee recommends approval of the revised estimates.

11. Estimates of expenses in 1984 are presented in paragraphs 78 to 93 of the Board's report. These amount to $6,723,100 which is $767,800 more than the initial appropriations of $5,955,300 for 1983. Of the total increase, $88,400 is attributable to inflation and $679,400 (at 1983 rates) is resource growth - of which $550,000 relates to advisory and custodial fees (see para. 15 below).

12. The staffing table proposed for the secretariat of the Fund in 1984 consists of 84 posts (26 Professional and above and 58 General Service) as against 79 posts (25 Professional and above and 54 General Service) approved for 1983 (see annex IV, table 3). The five proposed new established posts (1 P-3, 1 G-5 and 3 G-4/1) are conversions of temporary assistance posts which were first created during the three-year period 1978-1980. Three reclassifications are being requested in the Professional category: one P-3 to P-4 (post of the Chief, General Accounts Section) and two P-2 to P-3 (one accountant post and one auditor post). The three posts have been classified at the higher levels following review by the Classification Section of the Office of Personnel Services. Three reclassifications are requested to the Principal (G-5) level: for an

administrative assistant in the Executive Office; a principal accounting clerk in the General Accounts Section, and a principal auditing clerk in the Benefits Section. The Advisory Committee recommends acceptance of the staffing proposals for the secretariat of the Fund.

13. It is indicated in paragraph 85 of the Board's report that, as part of the overall plan for increased electronic data-processing it is proposed to upgrade the current word-processing equipment to a combination word-processing/data-processing system at a cost of $80,000 for the purchase of the required system. According to the Board, given the period of time for which it is proposed to use the equipment, purchasing is more economical than leasing or renting. The Advisory Committee was informed that acquisition of this equipment would promote computerization of administrative operations and would make it possible for simple and repetitive calculations to be carried out without resorting to the main computer of the New York Computing Service.

14. The staffing table proposed for 1984 for investment management consists of 11 posts (five Professional and six General Service) as against 10 posts in 1983 (see annex IV, table 3). The changes proposed for 1984 are the addition of one G-5 post for a supervisor in the area of data collection and management information (there are currently no G-5 posts in the Investments Management Section) and the reclassification of one P-2 post to the P-3 level for an officer who would be responsible for accounting and management information; the post has been classified at the higher level following review by the Classification Section of the Office of Personnel Services. The Advisory Committee recommends acceptance of the new G-5 post and the proposed reclassification.

15. The estimate of $3.5 million for advisory and custodial fees in 1984 represents an increase of $550,000 over 1983. It is explained in paragraph 89 of the Board's report that these fees are linked contractually to the market value of the Fund's portfolio, which it is assumed will be higher in 1984 than at present.

16. The Advisory Committee has no objection to the estimate of $6,723,100 (net) for the 1984 expenses chargeable directly to the Fund.

D. Implementation of changes in the Regulations of the Fund and in the pension adjustment system introduced with effect from 1 January 1983

17. As stated in paragraph 94 of the Board's report, "the General Assembly, upon the recommendation of the Board, approved at its thirty-seventh session several changes in the Regulations of the Fund and in the pension adjustment system with effect from 1 January 1983. The implementation of those changes showed that in some cases there was need for transitional arrangements and/or greater clarity in the relevant texts. The Board requested its Standing Committee to consider that question in detail and, if need be, to submit recommendations to the Assembly at its thirty-eighth session." Those recommendations are contained in the addendum to the Board's report.

18. In paragraph 3 of the addendum, it is stated that "Implementation of the changes in 1983 brought to light several ambiguities. Having examined the question, the Standing Committee concluded that immediate corrective action was required in three areas, namely:

"(a) Determination of the rate of accumulation applicable to former participants who again become participants;

"(b) Consequences of the revisions to the provisions for restoration of prior pensionable service; and

"(c) Consequences of the decision that cost-of-living adjustments would not be applied to deferred retirement benefits before the participant reached age 50."

19. In connection with the determination of the rate of accumulation applicable to former participants who again become participants, the question addressed by the Standing Committee was whether a participant who had already had a period of contributory service and who was subsequently separated should be regarded - on re-employment - as a new entrant and thus subject to the reduced rate of accumulation in article 28 (b) of the Fund's Regulations. The recommendations in this regard are contained in paragraphs 6 and 7 of the addendum. The Committee notes from paragraphs 21 and 22 of the addendum that the recommended measures would have virtually no actuarial impact.

20. With regard to the consequences of the revisions to the provisions for restoration of prior pensionable service, the basic recommendation of the Standing Committee as stated in paragraph 12 of the addendum is that "where a participant resumes his contributory service with a member organization within 12 months of separation, without a benefit having been paid to him, his participation in the Fund (as distinct from his contributory service) should not be deemed to have been interrupted". This recommendation would resolve difficulties such as those encountered in the cases of technical co-operation experts where short (less than 12 months) interruptions in service frequently occur. As indicated in paragraph 21 of the addendum, this recommendation would have little, if any, actuarial effect.

21. The recommendations of the Standing Committee with regard to deferred retirement benefits relate to the decision by the General Assembly in resolution 37/131 that after 1 January 1983, deferred pensions, irrespective of the date of their election, would no longer be adjusted until such time as the former participant reached age 50.

22. As stated in paragraphs 17 and 18 of the addendum to the Board's report, the Pension Board, in the light of observations by the Committee of Actuaries, concluded that, in a spirit of fair play, the participants who had elected a deferred retirement benefit before 1 January 1983 (i.e. at a time when they expected the cost-of-living adjustment system to operate irrespective of their age), and who were under age 50 on 1 January 1983, should be given a second chance to consider their options. The Standing Committee, having considered the modalities of implementing the Board's conclusion, decided that the Fund should adopt a no-gain, no-loss approach. Such an approach would require the Fund to pay

to a participant who now opted for a withdrawal settlement (instead of a deferred pension) interest at a rate corresponding to the rate of return earned by the Fund. This has been calculated at 6.5 per cent per year.

23. Information provided to the Advisory Committee indicates that the total number of retired participants who have elected a deferred retirement benefit and who were below age 50 as at 31 December 1982 is approximately 1,400. In paragraph 22 of the addendum it is stated that the procedures recommended by the Standing Committee with regard to deferred retirement benefits have "been designed in a manner that precludes a loss to the Fund".

E. Other matters

24. The Advisory Committee notes that the Board decided to reaffirm the recommendation it made to the General Assembly at its thirty-seventh session that the age of mandatory separation should be raised to 62, while maintaining at 60 the age of retirement in the Regulations of the Fund (see para. 34 of the Board's report). The Committee also notes, from paragraph 168 of the report of ICSC, that the Commission decided not to recommend to the organizations any change at this stage in the existing mandatory age of separation. 2/ For its part, the Committee recalls that pursuant to its terms of reference as set out in General Assembly resolution 14 (I) "the Committee shall deal with personnel matters only in their budgetary aspects". Accordingly, the Committee did not address itself to the personnel policy aspect of the question. In this connection, the Committee recalls that the Board had anticipated that raising the age of mandatory separation to 62 would reduce the actuarial imbalance of the Fund by approximately 0.35 per cent. 3/

25. The Advisory Committee agrees with the Board that the question of the financial obligations of pensioners to their spouses or former spouses should be left to the competent national tribunals.

26. The Advisory Committee concurs with the recommendation of the Board that authority to contribute up to $100,000 a year to the Emergency Fund should be continued in 1984.

27. The Advisory Committee notes that there are no new proposals with regard to either the special index for pensioners (paras. 46 to 50 of the Board's report) or the elimination of the possibility of excluding or preventing staff members from participation in the Fund (paras. 57 to 61 of the Board's report).

28. The Advisory Committee has considered annex III of the report containing the report of the Board of Auditors, which it had the opportunity, at its spring session, to discuss with the Board. The Committee notes from paragraph 70 of the Board's report that, with regard to paragraphs 30 to 32 of the report of the Board of Auditors, the Pension Board approved the proposal that appropriate provisions on internal audit coverage be inserted in the Administration Manual of the Fund. The Committee has no comment on other matters contained in the report of the Board of Auditors.

29. The Advisory Committee notes the report of the Secretary-General on investments of the United Nations Joint Staff Pension Fund (A/C.5/38/19) and the discussion by the Board in paragraphs 35 to 44 of its report, as well as the observations of the Board of Auditors in paragraphs 22 to 29 of its report (annex III to the Pension Board report) and has no comments to make thereon.

Notes

1/ *Official Records of the General Assembly, Thirty-eighth Session, Supplement No. 9* (A/38/9) and Addendum, and Corr.1 and 2.

2/ *Ibid.*, *Supplement No. 30* (A/38/30).

3/ *Ibid.*, *Thirty-seventh Session, Supplement No. 9* (A/37/9), para. 46.
