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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-ninth 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.5/39/15) and the report of the International Civil Service Commission (ICSC), chapter II of which deals with pensionable remuneration and pension entitlements. 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. Measures to improve the actuarial balance of the Fund

2. In section II of its resolution 38/233 of 20 December 1983, the General Assembly

"*Requests* the United Nations Joint Staff Pension Board, with the assistance of the Committee of Actuaries, to consider, early in 1984, the various proposals discussed at the thirty-eighth session of the General Assembly with a view to reducing or eliminating the actuarial imbalance of the United Nations Joint Staff Pension Fund, including the following measures:

(a) Increasing to a realistic level the interest rate used to calculate the amount of the lump-sum commutation;

(b) Determination of the lump sum in net equivalent terms, subject to the reimbursement of any taxes payable thereon;

(c) Re-examination of the early retirement provisions, taking into account, *inter alia*, the observations made by the Committee of Actuaries;

(d) Imposition of a ceiling on the highest levels of pensions;

(e) Review of the two-track system followed to determine the initial amount of the pension and its subsequent adjustment;

(f) Re-examination of the survivor benefits under the Regulations of the Fund, together with alternative ways of financing them;

and to submit its findings and recommendations thereon and on such other measures as may be deemed appropriate, through the Advisory Committee on Administrative and Budgetary Questions, to the General Assembly at its thirty-ninth session".

3. The Board indicates in paragraph 13 of its report that, as at 1 January 1984, the shortfall in the actuarial balance of the Fund, based on the valuation as of 31 December 1982, was equal to 4.04 per cent of pensionable remuneration. As stated in the same paragraph, "The Board decided that, while it was not absolutely essential to eliminate the imbalance in its entirety, every effort should be made to reduce it as much as possible, bearing in mind that a continuing shortfall resulted in the growth of the imbalance from year to year." The various measures listed in section II of General Assembly resolution 38/233 are discussed by the Board in paragraphs 16 to 56 of its report.

4. The first two measures relate to the portion (normally not more than one third) of the actuarial equivalent of the periodic benefit which a retired participant may commute into a lump sum under the Regulations of the Fund (arts. 28 (f), 29 (c) and 30 (c)).

5. The discount (interest) rate and mortality tables used in calculating the lump sum are decided by the Board under the authority vested in it by article 11 of the Regulations. Prior to 1 January 1979 the rate was 3.25 per cent. The rate was raised to 4 per cent effective 1 January 1979 and to 4.5 per cent as from 1 January 1983.

6. For the reasons given in paragraphs 17 to 19 of its report, the Board decided that the discount rate should be raised from 4.5 to 6.5 per cent in respect of service performed after 31 December 1984. The Board also decided that, in light of recommendations of the Committee of Actuaries, an updated unisex mortality table would be used for calculating the actuarial equivalent of periodic benefits in respect of service performed after 31 December 1984.

7. The Committee notes that although the 6.5 per cent discount rate decided by the Board is less than the nominal rate of return on investment of 9 per cent assumed by the Committee of Actuaries, it is greater than the real rate of return, which is assumed to be 3 per cent, after taking into account inflation of 6 per cent. The Advisory Committee shares the Board's view that a discount rate which is too high would result in fewer participants availing themselves of the commutation provision and that this would be actuarially disadvantageous to the Fund.

8. With regard to the new mortality table decided upon by the Board, the Committee was informed that the previous table was based on information available in 1960. The Committee notes that the new table reflects longer life expectancies and will thus in some measure diminish the effects of increasing the discount rate to 6.5 per cent. The Committee was further informed, however, that neither the decision respecting the discount rate nor that concerning the mortality table was made in isolation of the other, and that the combined effect of both decisions yields a saving, estimated at 0.22 per cent of pensionable remuneration.

9. The table below shows the actuarial savings which would result from different combinations of the mortality table and discount rate:

	1984 Mortality table		1960 Mortality table
	applied prospectively	applied to all service	applied to all service
Discount rate of 6.5 percent applied to all (i.e. past and future) service	0.34	0.31	0.48
Discount rate of 6.5 per cent applied prospectively (i.e. to future service) only	0.22	0.14	0.36

10. As stated in paragraph 6 above, both measures are to be applied prospectively, that is only in respect of service performed after 31 December 1984. In the case of the discount rate, this means that starting in 1985, four rates will be in effect (see paras. 5 and 6 above). It is stated in paragraph 20 of the Board's report, that this was done to "preserve acquired rights". It was explained to the Committee that the Board's intention was to avoid a situation where a staff member who retires on 1 January 1985 would be in a less advantageous position, in so far as the lump sum is concerned, to one who retires 31 December 1984. While the Committee concedes that there may be certain personnel management considerations for avoiding the situation just described, it does not agree that acquired rights are necessarily involved in questions relating to the discount rate. The Committee points out, however, that the new mortality table is also to be applied prospectively.

11. For the reasons given in paragraphs 25 to 29 of the Board's report, the Advisory Committee concurs in the conclusion in paragraph 30 that the lump sum should not be paid in net equivalent terms.

12. Re-examination of the early retirement provisions is discussed by the Board in paragraphs 31 to 33 of its report. For the reasons given in paragraph 32, the Board is not recommending any change in the current reduction factor of 1 per cent per year for participants with at least 30 years of contributory service. The

Board recommends in paragraph 33, however, that the reduction factor for participants who retire between the ages of 55 and 60 with 25 years or more, but less than 30 years of contributory service, be increased from 2 per cent for every year below age 60, to 3 per cent for service performed as from 1 January 1985. The Consulting Actuary estimates the resultant saving at 0.07 per cent of pensionable remuneration.

13. The Advisory Committee recalls that the Regulations of the Fund, prior to 1961, permitted a participant to retire with an immediate annuity, subject to an appropriate actuarial reduction, at any time after his age plus length of service added up to 60. The General Assembly, in resolution 1614 (XV) of 21 April 1961, amended this provision so as to enable a participant to retire at any age between 55 and 60 with an immediate annuity equal in actuarial value to the retirement benefit which would otherwise have been payable at the age of 60.

14. The early retirement provision remained unchanged until 1971, when, the Advisory Committee understands, the representatives of the executive heads proposed the complete elimination of the actuarial reduction applied to periodic benefits where a participant with at least 25 years of contributory service retired between the ages of 55 and 60. The Board, however, agreed to recommend that for participants who had reached age 55 and had at least 25 years of contributory service, the actuarial reduction (estimated at 6 per cent per year) be limited to 2 per cent for each year of difference between the participant's age at retirement and 60. It was understood that the cost to the Fund would be compensated through an increase in the average retirement age that would be attributable to the exercise by the executive heads of the discretion available to them in retaining staff beyond the statutory age of retirement specified in the Staff Regulations.

15. The Advisory Committee, in its related report, noted that the cost of the measure in actuarial lump-sum terms would be about $15.5 million. The Committee noted further that the Board had carried out an actuarial valuation which revealed that the Fund had sufficient financial resources in hand to support the proposed benefit improvements, and that approval of the Board's recommendations would not prejudice the Fund's financial self-sufficiency or impinge in any way upon the budgets of the member organizations. The Advisory Committee did not object to the Board's recommendation (see A/8598, paras. 3, 7 and 10), and it was adopted by the General Assembly in resolution 2887 (XXVI) with effect from 1 January 1972.

16. As stated by the Board in paragraph 32 of its report, since 1 January 1980 a participant with 30 years of contributory service may now retire at age 55 or over with a reduction in benefits equal to 1 per cent for every year below age 60. The Advisory Committee, in its report, did not support this proposal, the actuarial cost of which, in lump-sum terms, was estimated at $17.5 million (see A/34/721, paras. 40 and 43).

17. The Advisory Committee believes that, while it has been demonstrated over the years that liberal early retirement provisions for long-service staff are considered to be desirable, the costs of such provisions are an important factor, especially in view of the need to substantially reduce or eliminate the current actuarial imbalance. The Advisory Committee therefore concurs in the recommendation of the Board as described in paragraph 12 above.

18. The Board states in paragraph 36 of its report that the imposition of a ceiling on the highest levels of pensions would not only be an arbitrary (and thus undesirable) measure, but would also not improve the actuarial balance of the Fund. The Committee was informed that the periods of contributory service of officials in ungraded posts in the United Nations common system (excluding those covered under supplementary article B) as at 31 December 1983 are as follows:

	0-4 years	5-9 years	10-14 years	15-19 years	20-24 years	25-29 years	30 years and over	Totals	Average years	Average months
Executive heads	2	2	4	0	1	1	2	12	15	2
USG/DDG	12	8	9	3	3	0	3	38	11	5
ASG/ADG	33	18	9	9	6	6	8	89	11	8
	47	28	22	12	10	7	13	139		

19. The Committee was further informed that for participants who joined before 1 January 1983 it takes 35 years to earn the maximum full retirement benefit (65 per cent of final average remuneration (FAR)). The Committee was also informed that, assuming, for purposes of this calculation, the pensionable remuneration effective 1 October 1982 will remain unchanged for three years, the theoretical maximum full retirement benefit for an official at the top step of grade D-2 will then be $65,083.85 (65 per cent of $100,129) after 35 years of contributory service. An ASG/ADG will need nearly 28 years of contributory service to earn that benefit (which would correspond to just over 55 per cent of a FAR of $117,891), and a USG/DG - 24 years, 6 months (just under 49 per cent of a FAR of $132,858). As can be seen from the table in paragraph 18 above, such periods of contributory service are attained very infrequently.

20. In view of these considerations, and bearing in mind the recommendations of the International Civil Service Commission with regard to the level of pensionable remuneration for the Professional and higher categories (see paras. 45 and 57 of the ICSC report), 3/ the Committee concurs in the position of the Board that a ceiling on the highest level of pensions should not be imposed.

21. The review of the two-track system followed to determine the initial amount of the pension and its subsequent adjustment is discussed by the Board in paragraphs 38 to 48 of its report. A description of the pension adjustment system and how it has evolved is contained in paragraphs 38 to 41 of the Board's report. In paragraph 42 the Board describes differences between the "dollar track" and the "local tracks" which have come about because of fluctuation between the United States dollar and other currencies.

22. The following table, which was supplied to the Committee, illustrates the evolution of the monthly retirement benefit of a participant who retired at the top step of P-4 at age 60 after 20 years of contributory service at 31 December 1980. On 1 January 1981, when the dollar was still weak in relation to most other major currencies, the participant's benefit was paid on the local track in all but two of the countries listed. Indeed, the local track had been designed precisely to counter the drop in purchasing power attributable to the weakness of the United States dollar. The strengthening of the United States dollar in the 1980s has resulted in a reversal of the situation, with the local track having been overtaken by the dollar track; in countries where the local currency lost most ground, the margin rose as much as over 40 per cent by April 1984.

23. The Committee has no objection to the recommendation of the Board, in paragraph 43 of its report, that the "United States dollar track" be capped at 120 per cent of the "local track". The Committee understands that this decision, which would yield a saving equal to approximately 0.20 per cent of pensionable remuneration, was, in fact, a compromise; as the Board states in paragraph 43, it believes that "the 20 per cent limit provides a fair balance between the entitlement to a full United States dollar-denominated benefit and the need to safeguard the purchasing power of the benefit in local currency terms". In this connection the Committee was informed that a "US dollar track" cap at 110 per cent of the "local track" would yield an actuarial saving of 0.36 per cent and a cap using the "local track" only, which does not allow for an excess, would yield 0.47 per cent.

24. In paragraph 46 of its report, the Board recommends that the periodicity of adjustment of benefits in payment be reduced from twice a year to once (on 1 April), except if the applicable consumer price index (CPI) has moved by 10 per cent or more since the date of the last adjustment (see annex X, para. 19). The Board also recommends that the "trigger point" for making the adjustment be lowered from 5 per cent to 3 per cent (as it had been prior to 1 January 1983, when adjustments were made quarterly). The Advisory Committee concurs in both recommendations of the Board which, it is estimated, will save 0.33 per cent of pensionable remuneration.

25. The Advisory Committee also concurs in the recommendation of the Board in paragraph 47 of its report that the first cost-of-living adjustment that becomes due in each country after 1 January 1985 be reduced by 1.5 percentage points. The reduction would apply to both existing and new benefits, except that it would not apply to the minimum benefits under the Regulations. The resultant saving is estimated at 0.38 per cent of pensionable remuneration.

26. The Committee agrees with the conclusion of the Board (in para. 56 of its report) that the existing survivor benefits payable under the Regulations of the Fund should not be disturbed.

27. The Advisory Committee notes the other economy measures proposed by the Board in paragraph 57 of its report and recommends that they be adopted.

Monthly pension of a P-4 (top step participant who retired on 31 December 1980 at age 60 with 20 years of contributory service

Country of residence	Pension on 1 January 1981				Pension on 1 April 1984			
	$US pension	$US track equiv. in local currency	Local track	Percentage Cols. 3/4	$US pension	$US track equiv. in local currency	Local track	Percentage Cols. 7/8
1	2	3	4	5	6	7	8	9
Austria	1 684.75	22 744.13	25 764.11*	88.3	1 972.67	36 888.93*	30 896.35	119.4
Canada	1 684.75	1 988.01*	1 937.46	102.6	1 972.67	2 446.11	2 526.74*	96.8
France	1 684.75	7 497.14	8 214.92*	91.3	1 972.67	15 978.63*	11 618.63	137.5
Italy	1 684.75	1 533 123.00*	1 423 614.00	107.7	1 972.67	3 156 272.00*	2 241 141.00	140.8
Switzerland	1 684.75	2 880.92	3 665.76*	78.6	1 972.67	4 260.97	4 325.04*	98.5
United Kingdom of Great Britain and Northern Ireland	1 684.75	714.33	803.63*	88.9	1 972.67	1 323.66*	1 047.34	126.4

* Amount payable.

28. In paragraph 58 of its report the Board reaffirms two previous recommendations. With regard to the second one, the Committee recalls that in its report to the General Assembly at its thirty-eighth session, it had stated its agreement in principle with the schedule of increases recommended by the Board (A/38/547, para. 6). Now that the first instalment has been approved by the General Assembly (resolution 38/233), the Committee believes that the implementation of the schedule of increases recommended by the Board should be taken up by the Assembly at its fortieth session in the light of the results of the actuarial valuation as at 31 December 1984.

29. As pointed out by the Board in paragraph 59 of its report, the new economy measures it is recommending, if implemented on 1 January 1985, are estimated to yield a saving equal to 1.33 per cent of total pensionable remuneration. Paragraph 59 also includes a table which summarizes measures recommended by the Board since 1982 and their actuarial effect. It is stated by the Board that the implementation of all the recommendations made by the Board in 1982-1984 would virtually eliminate the actuarial imbalance revealed by the valuation as of 31 December 1982.

B. Pensionable remuneration

30. This is discussed, as regards the Professional and higher categories, in paragraphs 66 to 77 of the Board's report; paragraphs 78 to 83 cover the pensionable remuneration for the General Service category.

31. The Committee notes that the question of the scale of pensionable remuneration for the Professional and higher categories recommended by ICSC will be considered by the General Assembly in the context of the report of ICSC. 4/ In paragraph 68 of its report, the Board indicates that "the proposed scale would result in a reduction in the actuarial imbalance equal to 0.17 per cent of total pensionable remuneration".

32. The report of ICSC, in paragraph 61, also contains a recommendation that the existing scale of pensionable remuneration be adjusted as at 1 October 1984 in accordance with article 54 (b) of the Regulations of the Pension Fund.

33. The Advisory Committee notes that the recommendations of ICSC, if approved by the General Assembly, will result in the following situation:

(a) Staff in the Professional and higher categories appointed on or after 1 January 1985 will have their pensionable remuneration determined in accordance with the scale recommended by the Commission in annex VI to its report;

(b) Staff in the Professional and higher categories in service on 31 December 1984 will also be placed on the recommended scale. However, they will retain the amount of pensionable remuneration they will have reached on 31 December 1984 until that amount is overtaken by the new scale (through a combination of within-grade step increments, promotions, and cost-of-living adjustments to the new scale).

34. In paragraph 60 of its report, the Commission states that if pensionable remuneration amounts calculated on the basis of the current scale are increased as of 1 October 1984 in the manner recommended by the Commission, namely by 5.4 per cent, "while for some staff members the resulting levels would be higher than those considered to be appropriate this would be only a temporary phenomenon" (see para. 33 (b) above). The following table shows how temporary the phenomenon will be at inflation rates of 4, 5 and 6 per cent a year, without taking account of step increments:

Grade	Difference between proposed scale and scale as of 1 October 1984 %	Date when proposed scale, as adjusted for cost-of-living, will overtake 1 October 1984 scale assuming inflation rate of 4% p.a.	5% p.a.	6% p.a.
P-1	+4.4	1 January 1985	1 January 1985	1 January 1985
P-2	+1.2	1 January 1985	1 January 1985	1 January 1985
P-3	-0.8	1 April 1987	1 April 1986	1 April 1986
P-4	-3.5	1 April 1987	1 April 1986	1 April 1986
P-5	-6.1	1 April 1987	1 April 1987	1 April 1987
D-1	-7.9	1 April 1989	1 April 1987	1 April 1987
D-2	-12.6	1 April 1989	1 April 1988	1 April 1988
ASG	-16.4	1 April 1991	1 April 1989	1 April 1989
USG	-17.4	1 April 1991	1 April 1989	1 April 1989

Within-grade step increments at grades below ASG will shorten the periods indicated above.

C. Administrative expenses

35. In paragraphs 130 to 133 of its report, the Board submits revised estimates for 1984 in an amount of $6,729,600, or $6,500 more than the approved appropriations. The Advisory Committee recommends approval of the revised estimates.

36. Estimates of expenses in 1985 are presented in paragraphs 134 to 148 of the Board's report. These amount to $7,475,400 as compared with the initial appropriations of $6,723,100 for 1984. The estimate comprises $2,751,200 for administrative costs and $4,724,200 for investment costs. Of the total increase of $752,300, an amount of $123,500 is attributable to inflation and $628,800 (at 1984 rates) is for resource growth.

37. The 1985 administrative cost estimates are $314,100 higher than the initial 1984 appropriations of $2,437,100. Resource growth of $221,300 (at 1984 rates) relates principally to actuarial consulting services and to established posts and common staff costs.

38. As indicated in paragraph 136 of the Board's report, the additional requirements for consulting services show a cyclical increase attributable to the preparation of the next biennial valuation of the Fund, the results of which will be reported to the General Assembly at its fortieth session.

39. The staffing table proposed for the secretariat of the Fund in 1985 consists of 88 posts (26 Professional and above, and 62 General Service) as against 84 posts (26 Professional and 58 General Service) approved for 1984 (see annex IV, table 3).

40. The proposal for four additional General Service posts (one G-5, three G-3/4) is explained in paragraphs 137 and 138 of the Board's report. A proposal is also made in paragraph 139 of the Board's report that two G-4 accounting posts be reclassified to the G-5 level. The Advisory Committee was not convinced of the need for all four additional General Service posts, especially in view of the fact that computerization and the introduction of word processing should result in increased productivity. Accordingly, the Committee recommends that only three (one G-5 and 2 G-3/4) of the requested posts be approved, with a consequential reduction in the estimate of $17,300. The Committee does not object to the proposed reclassifications from G-4 to G-5.

41. The 1985 investment costs are $438,200 higher than the initial appropriation of $4,286,000 for 1984. Resource growth accounts for $407,500 of the increase.

42. As indicated in paragraph 144 of the Board's report, three quarters of the resource growth ($300,000) relates to advisory and custodial fees. These are linked contractually to the market value of the Fund's portfolio, which it is assumed will be higher in 1985 than at present.

43. The staffing table proposed for investment management consists of 14 posts (6 Professional and 8 General Service) as against 11 posts in 1984 (see annex IV, table 3). One additional Professional post at the P-4 level is requested to meet the need for increased specialization in the Eastern Asia region; it is also proposed to add two new General Service posts at the G-3/G-4 level for the reasons given in paragraph 146 of the Board's report. In view of the need to maintain strict economy, the Advisory Committee recommends acceptance of the P-4 post and one General Service post, with a consequential reduction in the estimate of $17,300.

44. In paragraphs 40 and 43 above the Advisory Committee has recommended reductions totalling $34,600. The Advisory Committee therefore recommends approval of an estimate of $7,440,800 (net) for the 1985 expenses chargeable directly to the Fund.

45. For the reasons given in paragraph 149 of its report, the Board recommends that the budget for administrative expenses of the Fund be placed on a biennial basis as from 1986-1987. The Advisory Committee concurs in this recommendation.

D. Other matters

46. The Committee notes that the actuarial assumptions for the 1984 valuation, which were proposed by the Committee of Actuaries and approved by the Board, include a rate of increase in pensionable remuneration of 6.5 per cent a year (in addition to static increases due to within-grade step increments and promotions), price increases (reflected in increases of pensions to beneficiaries) of 6 per cent a year, and three assumptions as to nominal rate of interest (investment return) of

8, 9 and 10 per cent a year (corresponding to a real rate of return of 2, 3 and 4 per cent a year, respectively). The Committee notes further that the 6.5/9/6 basis corresponds to the assumptions used in the regular valuation as at 31 December 1982.

47. On the matter of exclusion from participation under article 21 of the Regulations of the Fund, the Advisory Committee concurs with the statements of the Board in paragraph 102 of its report.

48. The Committee notes the discussion by the Board (in paras. 105 to 112 of its report) of the effect of marriage and its dissolution on benefits from the Fund and that the Board will report further after it has received additional information.

49. In connection with the special index for pensioners, the Committee was informed that the overpayments made to pensioners residing in Switzerland (para. 116 of the Board's report) involve a total of approximately $40,000 in respect of 170 pensioners. The Committee has no objection to the Board's recommendations (in para. 117 of its report) to amend section C, paragraph (d), of the procedures in annex X to the Board's report to the General Assembly at its thirty-seventh session. 5/

50. The Committee also agrees with the amendment to article 48 (c) of the Regulations of the Fund, proposed in paragraph 121 in connection with the judgements of the United Nations Administrative Tribunal.

51. The Advisory Committee concurs with the recommendation of the Board in paragraph 124 that authority to contribute up to $100,000 a year to the Emergency Fund should be continued in 1985.

52. The Advisory Committee has considered annex III of the report containing the report of the Board of Auditors. The Committee notes the observations of the Board, in paragraph 15 of its report, on compensatory bank balances and its recommendation, in paragraph 16, that the Administration formalize written agreements with the banks. In paragraph 17 it is indicated that the Administration has agreed to the recommendation and has assured the Board that arrangements with the banks are being reviewed.

53. The Committee was informed with regard to statement II of the Fund's financial statements (annex II of the Pension Board report) that the Committee of Actuaries will study the actuarial aspects of existing transfer agreements and report to the Board. The Committee was also informed that amounts refunded in 1983 to member organizations under article 26 of the Regulations reflect delays in receiving separation documents in respect of withdrawals from the Fund prior to 31 December 1982. Since such refunds have been abolished as of 1 January 1983, totals for future years will decrease as requests for "pre-1983" refunds are received and paid.

54. The Advisory Committee notes the report of the Secretary-General on investments of the United Nations Joint Staff Pension Fund (A/C.5/39/15) and the discussion by the Board in paragraphs 84 to 92 of its report, as well as the observations of the Board of Auditors in paragraphs 28 to 33 of its report (annex III to the Pension Board report) and has no comments to make thereon.

55. The Advisory Committee recommends approval of the amendments to the Regulations of the Fund as set forth in annex IX of the Board's report and also of the changes in the pension adjustment system set forth in annex X.

Notes

1/ *Official Records of the General Assembly, Thirty-ninth Session, Supplement No. 9* (A/39/9).

2/ *Ibid.*, *Supplement No. 30* (A/39/30 and Corr.1).

3/ *Ibid.*

4/ *Ibid.*

5/ *Ibid.*, *Thirty-seventh Session, Supplement No. 9* (A/37/9 and Corr.1-4).
