



Nineteenth session

REPORT OF THE UNITED NATIONS JOINT STAFF PENSION BOARD*

Nineteenth report of the Advisory Committee on Administrative and Budgetary Questions to the General Assembly at its nineteenth session

1. The Advisory Committee on Administrative and Budgetary Questions has considered the annual report of the Joint Staff Pension Board^{1/} which contains, in addition to the usual statistical and financial information relating to the operation of the Fund during the year ended 30 September 1963, and the report of the Board of Auditors thereon, several recommendations for action by the General Assembly which were formulated by the Joint Staff Pension Board at its twelfth session held in Paris from 13 to 24 July 1964. The Advisory Committee considered in conjunction with this report a statement by the Secretary-General (A/C.5/1020) on behalf of the executive heads of the member organizations of the Fund (with the exception of the International Civil Aviation Organization (ICAO), whose Council has still to consider the matter) relating to the two principal recommendations of the Board, and reports by the Fund's consulting actuary, and the Committee of Actuaries appointed by the Secretary-General to advise the Board, on four alternative actuarial valuations of the Fund carried out during 1964.

2. The recommendations for which the approval of the General Assembly is requested by the Board may be summarized as follows:

- (a) A change in the level of base pensionable remuneration from the present mid-point between the gross and the net salary, known as half-gross to the gross salary level;

* Item 76 of the provisional agenda.

1/ Official Records of the General Assembly, Nineteenth Session, Supplement No. 8 (A/5808).

- (b) A systematic arrangement for the adjustment of pensions in payment, based on cost-of-living movements as reflected in the post adjustment element in the pensionable remuneration of serving staff in the Professional category, to replace the 1 per cent per annum increase which has been authorized by the General Assembly as a provisional measure during the last three years;
- (c) A change in the conditions of eligibility for benefits of the widowers of deceased female participants or pensioners;
- (d) An increase in minimum pensions;
- (e) Certain minor amendments to the Regulations designed, in the main, to reduce hardship in certain eventualities and having no significant cost implications.

Level of pensionable remuneration

3. The proposal to raise the level of pensionable remuneration from the half-gross to the full-gross basis rests essentially on the conclusion reached by the Pension Review Group in 1960, that there is "a clear case in principle for using a gross scale for pension purposes ...". The Pension Review Group considered it an anomaly that in the United Nations family of organizations, pensions were based on a net salary exempt from tax whereas the pensions themselves were subject to tax. At the same time, outside these organizations, pensionable remuneration was normally, and probably invariably, based on gross pay.^{2/}

4. The Pension Review Group was, however, unable to recommend the immediate implementation of the full-gross formula largely because only two organizations (United Nations and ICAO) applied a gross salary system and because it considered that their gross scales at that time would be too high as the base for pensionable remuneration having regard to comparable outside gross levels. It accordingly recommended a move from net to half-gross (mid-way between gross and net) "leaving the complete achievement of a full-gross basis until such time as the gross salary system is more of a reality than it is at present ...".^{3/}

^{2/} Ibid., Fifteenth Session, Annexes, agenda item 63, document A/4427, paras. 72-97.

^{3/} Idem., para. 97.

5. The Advisory Committee noted that the imperfections referred to by the Pension Review Group had largely been removed and it consequently agrees that the gross basis now appears appropriate for pensions, provided that gross salaries are kept under review to ensure that they remain in line with outside gross remuneration in the main Headquarters areas. The Committee's comments on the financial and budgetary aspects of the proposed change are to be found in paragraphs 9-12 below.

Adjustment of pensions in payment

6. The Advisory Committee notes the detailed study which has been given to this complex subject by the Board since 1960, when attention was focussed on its importance by the Pension Review Group. The complexities are due principally to the large number of duty stations at which staff are employed under local conditions, and the fact that changes in cost of living vary, often considerably, from country to country. Furthermore, the extent of future changes is difficult to forecast accurately, so that the cost implications of any scheme must necessarily remain a matter of some uncertainty. The interim increase of 1 per cent per year authorized by the General Assembly in 1962, for the years 1962, 1963 and 1964, is in part a reflection of these factors.

7. The Board now considers that some form of systematic adjustment is necessary - as is the practice of many national governments - to keep the purchasing power of pensions once awarded reasonably abreast of increases in the cost of living. The Board proposes to do this by way of applying to all retired staff a cost-of-living adjustment based on the post adjustments which are incorporated into the pensionable remuneration of serving staff in the Professional and higher categories. This proposal is in a sense a conservative one, implying as it does a considerable time-lag between the increase itself and its reflection in the adjusted pension. The Advisory Committee believes, however, that this goes as far as would be wise until experience permits some practical assessment of the cost of the present proposals. It accordingly supports the proposals of the Board in their present form, and endorses in particular the recommendation that no adjustment should take place beyond 1966 without further review by the General Assembly of the financial situation of the Fund at that time.

Remaining proposals

8. The further proposals of the Board are relatively minor in character and only those relating to dependent widowers and to the minimum level of pensions have any financial significance for the Fund. In regard to the former, the Advisory Committee would be inclined to question whether any change involving dependency should be considered unless and until the Board has examined the possibility of adopting a single definition of dependency for all Pension Fund purposes. In the meantime, it recommends that no change be made to article VII of the Pension Fund Regulations. The proposal to increase minimum pensions is, in effect, complementary to the general adjustment proposals reviewed in paragraph 7 above, since these are not to be applied to pensions computed under the minimum provisions. The Committee considers that the increase recommended is reasonable, having regard to general increases in the cost of living since the minimum provisions were introduced and therefore supports it.

Financial aspects

9. The Board, in consultation with its expert actuarial advisers, has estimated the cost to the Fund of the four proposals reviewed above, in the actuarial sense to be as follows:

- (a) \$36 million in respect of the change to a full gross salary basis for past service;
- (b) \$3 million in respect of the adjustment of pensions;
- (c) \$2.1 million in respect of dependent widowers (in paragraph 8 above, the Committee has recommended deferment of this proposal);
- (d) \$0.9 million in respect of the adjustment of pensions.

The Advisory Committee notes that it is proposed to finance the entire cost of these, which total \$42 million, from the present and future resources of the Fund, and in particular from an actuarial surplus, disclosed by the valuation as at 30 September 1963, of some \$44.6 million.

10. The Advisory Committee was, at first sight, inclined to question whether the relatively narrow actuarial margin remaining, \$2.6 million, represented an adequate safeguard against possibly adverse experience in the future. It

ascertained, however, from an examination of the various actuarial reports, that the valuation upon which the above estimates were based was carried out on a conservative basis and is probably not unduly optimistic. The Advisory Committee accepts the view of the Committee of Actuaries, therefore, that the results of the valuation in question represent an adequate degree of caution and leave some provision against possible adverse experience in the future. The Committee consequently has reason to believe that the four measures proposed by the Board can be carried out without significant financial risk. The Committee would however emphasize that, as regards the future, it is essential to ensure that the principle of financial self-sufficiency of the Pension Fund is preserved and that nothing should be done which is likely to entail any appreciable risk to its actuarial soundness.

Budgetary implications

11. One only of the four proposals made by the Board has budgetary consequences for the member organizations. This is the proposal for the change in the level of pensionable remuneration, which will have the effect of increasing the amounts represented by the 7 per cent and the 14 per cent of the above which the participants and the member organizations will respectively contribute to the Fund in the future. The annual additional cost is rather more than \$2 million, of which the participants' share as a whole is some \$700,000, and that of member organizations \$1,400,000.

12. It is pointed out by the Board, and the Advisory Committee agrees, that this additional charge is a necessary one if the principle of full gross pensionable remuneration is accepted. In support, the Board draws attention to the fact that the Fund itself will absorb the total capital cost of the measure, from the inception of the Fund in 1946 to 31 December 1964, amounting to some \$36 million, so that no increased contributions on a retroactive basis are required. It also points out that the longer contributions are made, by both participants and organizations, on less than the full-gross pensionable remuneration basis, the higher the relative capital costs will become and that a point could soon be reached when these costs would exceed the Fund's own resources.