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REPORT OF THE UNITED NATIONS JOINT STAFF PENSION BOARD

Report of the Advisory Committee on Administrative and Budgetary Questions to the General Assembly at its twenty-seventh session

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 twenty-seventh session. 1/ The Advisory Committee welcomes the steps taken by the Board to expedite the submission of its report, which became available to the Committee nearly two months earlier than was the case in 1971; the Committee trusts that these efforts will not be relaxed, so that in future years reports will be available by the opening date of the regular sessions of the General Assembly.

2. Annex IV of the Board's report contains the report of the Board of Auditors to the General Assembly on the accounts of the United Nations Joint Staff Pension Fund for the year ended 30 September 1971. In annex V the Board submitted a draft resolution which deals with proposed adjustments of benefits in respect of cost-of-living changes and with the administrative expenses of the Fund.

Adjustment of benefits in respect of cost-of-living changes

3. The Board recommends that the General Assembly decide

"(a) To extend for a further period of three years from 1 January 1973 the system of adjustments to benefits in payment contained in General Assembly resolution 2122 (XX) of 21 December 1965 as amended by resolution 2887 (XXVI) of 21 December 1971;

1/ Official Records of the General Assembly, Twenty-seventh Session, Supplement No. 9 (A/8709 and Corr.1).

"(b) To apply the above system, with effect from 1 January 1973, to all benefits payable in periodic form previously excluded therefrom, with the exception of benefits derived from voluntary deposits in the Fund, provided that for the purpose of adjustments under this paragraph benefits shall be deemed to have commenced in 1972;

"(c) To vary the system further with effect from 1 January 1973, in such manner that benefits resulting from separation during the first quarter of a calendar year shall be adjusted by three quarters of the rate applicable to that year, benefits resulting from separation during the second quarter by one half of such rate, and benefits resulting from separation during the third quarter by one quarter thereof:

"(d) To apply, as a transitional measure during 1973, 1974 and 1975, the following additional adjustments to periodic benefits in payment:

Date of separation	Additional annual index adjustment		
	1973	1974	1975
Prior to 1973	9	6	3
1 January-31 December 1973 . .	-	6	3
1 January-31 December 1974 . .	-	-	3

Provided that these additional adjustments shall be limited to benefits not exceeding $3,000 per year, and to the first $3,000 of any higher annual benefit, and that the total payment for any year shall not be less than that applicable in the previous year."

4. In paragraph 22 of its report the Board stated that "the members of the Board representing the General Assembly were unable to endorse the proposals, but did not object to their submission". The Advisory Committee was informed that this reservation applies solely to the transitional measure in recommendation (d) above, and that the Board were unanimous in recommending extension, with certain adjustments, of the system initially approved in General Assembly resolution 2122 (XX) of 21 December 1965 (see recommendations (a), (b) and (c) above). The Advisory Committee was also informed that although the members of the Board representing the General Assembly did not endorse recommendation (d) they did not object to its submission to the Assembly since it appeared to them to be a rational attempt to deal with a real problem. They felt, however, that endorsement on their part might be construed as committing the General Assembly in advance to a proposal that had no precedent.

5. With reference to recommendation (a), the Advisory Committee recalled that the system of adjusting benefits in the light of cost-of-living changes was originally approved by the General Assembly in its resolution 2122 (XX) on the grounds that "it is desirable to replace the temporary system of adjustment of pensions after their award provided in General Assembly resolution 1799 (XVII) of 11 December 1962 by a system under which variations in the cost of living shall be reflected in the level of pensions, annuities and deferred annuities to the same extent as they are reflected in the final average remuneration of serving staff".

6. The system - as amended by the General Assembly in resolution 2887 (XXVI) of 21 December 1971 - is based on an index reflecting, as of 1 January of each succeeding year, the average increase during the immediately preceding three years of the post-adjustment (or cost-of-living) element in the pensionable remuneration of serving staff in the Professional and higher categories. Movements in the index take place (a) when the weighted average of the post adjustments payable at the main organization duty stations increases by 5 per cent (and thus causes a notional 5 per cent to be added to the pensionable remuneration of serving Professional and higher-category staff under the Staff Regulations and Rules of the organizations), and/or (b) when, on the occasion of increases in the base salaries of these staff, a certain number of post adjustments are incorporated into the new scales. 2/

7. The system is financed entirely from the Fund's resources. It was because of its relatively high cost that the General Assembly deemed it desirable to extend it for specific periods of time, subject to periodic examination of the Fund's capacity to continue to meet the costs.

8. As is clear from the wording of resolution 2122 (XX) (see paragraph 5 above), the system reflects the desire of the General Assembly to introduce a measure of equity between serving and retired staff. Inflationary pressures have not slackened since 1969, when the General Assembly last extended the system. In the circumstances the Advisory Committee has no objection to the unanimous recommendation of the Board that the system be continued for a further period of three years from 1 January 1973 (recommendation (a)).

9. Recommendation (b) provides for the extension of the system to all benefits payable in periodic form (other than those derived from voluntary deposits in the Fund) that have hitherto been excluded from it. The Advisory Committee understands that the proposed measure would affect the minimum retirement benefit, the minimum widow's benefit and minimum and maximum children's benefits, which have been excluded so far on the grounds that they either already represent upward adjustments from the levels at which they would be payable under the standard provisions, or are intended to be limited to specific ceilings. The proposal is motivated by recognition on the part of the Board that the purchasing power of those benefits had, in the meantime, been so eroded that remedial action becomes necessary.

10. Recommendation (c) is described by the Board as a "minor refinement in the basic system" designed to eliminate an unjustifiable anomaly.

11. The Advisory Committee has no objection to recommendations (b) and (c), both of which were unanimously endorsed by the Board.

12. Recommendation (d) is, in the words of the draft resolution, "a transitional measure during 1973, 1974 and 1975". It is presented in the Board's report as a measure "to compensate for currency realignments".

2/ United Nations Joint Staff Pension Fund document JSPB/G.4/Rev.7, p. 41, para. 2.

13. The proposed additional adjustment, if approved by the General Assembly, would be made to the first $3,000 of all periodic benefits in payment, regardless of the nature of the changes in the parity of individual currencies: in other words, it would also apply to benefits payable in currencies which have not been revalued in relation to the United States dollar and the recipients of which have not suffered any loss on that account.

14. The Advisory Committee understands that in proposing this method of adjustment the Board had in mind that one of the cardinal principles of the United Nations pension system is that the benefits are a function of average pensionable remuneration and that they are not affected by the nationality or country of retirement of the recipient. That same principle was applied by the General Assembly when it introduced in 1965 the system of adjustment of benefits in respect of cost-of-living changes. Thus the system, which was based on the weighted average of post adjustments, was non-selective, and tended to over-compensate some pensioners and under-compensate others, depending on whether the cost-of-living movement in their country of retirement lagged behind or exceeded the average.

15. Nevertheless, the Advisory Committee inquired whether it would be possible to devise a more selective scheme which would compensate only those pensioners who had been affected by currency realignments. The Committee was informed, however, that in addition to the constraints imposed by the generally recognized principle of universality of benefits, the Board believed that practical difficulties militated against such a course. While recognizing those difficulties the Advisory Committee is not convinced that they are insuperable. It suggests that the Board should give the matter further consideration at its future sessions.

16. When it considered the impact of currency realignments on the emoluments of serving staff, the Expert Committee on Post Adjustments concluded that such realignments, though more immediate in their impact, were not intrinsically different from normal cost-of-living movements and should be compensated for within the system of post adjustments. The Board appears to have drawn a parallel conclusion since, given the non-selective nature of recommendation (d), it cannot be regarded as a measure designed to compensate for specific currency realignments. Presumably the Board also had in mind the General Assembly's desire, implicit in the wording of resolution 2122 (XX) of 21 December 1965, to introduce a measure of equity as between serving and retired staff.

17. For the former, the post adjustment system provides a machinery capable of compensating them, without undue delay, for the loss of the purchasing power of their emoluments. The system of adjusting Pension Fund benefits (see paragraph 6 above) entails longer delays. Consequently, in countries where the upward movement in cost of living (including, as appropriate, the effects of currency realignments) exceeds the weighted average, pension benefits lag behind emoluments in their responsiveness to rising prices. Theoretically, a remedy might lie in reducing to less than three years the period used for purposes of averaging. Such a measure, however, would be inconsistent with the provision that the benefits of retiring staff are calculated by reference to their average pensionable remuneration over the last <u>three</u> years.

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18. Recommendation (d) seeks to reduce the time-lag by supplementing the normal cost-of-living adjustment, which is likely to be of the order of 4 or 5 per cent in 1973. In the first year the supplement would be 9 percentage points. Taking account of the continuing inflationary pressures and in the expectation that the weighted average index of post adjustments would continue to rise, the Board recommends that the supplement be reduced to 6 points in the second year and to 3 points in the third, "provided that the total payment for any year shall not be less than that applicable in the previous year". It follows from the latter provision that if the index fails to move in the manner forecast by the Board a residual supplementary adjustment may still be payable after 1975.

19. The Advisory Committee first considered the general principle of whether it is appropriate to compensate pensioners for losses attributable to currency realignments. It is arguable that as pensions are expressed in dollars, pensioners must accept fluctuations in their local currency receipts. Moreover, no adjustments were made when the local currency receipts were increased following the devaluation of the pound sterling in 1967, the French franc in 1969, and, more recently, the Chilean escudo. And, given the present unstable monetary situation, there is no certainty that the losses which have been incurred will persist for several years; thus, following the floating of the pound, those pensioners who live in the United Kingdom have already had their local currency receipts restored. On the other hand it can be argued that gains due to devaluation of local currencies are usually short-lived since they tend to be quickly offset by cost-of-living increases. Revaluations on the other hand do not appear to bring in their train cost-of-living decreases. It is undeniable therefore that a substantial number of pensioners have suffered an appreciable loss in their purchasing power consequent upon the realignment of currencies which occurred during the last two years. Those losses have moreover now persisted for more than a year. To meet this special situation the Board has devised a solution which, if not wholly logical, preserves the basic principle of the pension adjustment scheme and sets limits in both time and money to the additional benefit.

20. While the arguments are finely balanced, the Advisory Committee would not object to a temporary adjustment of the kind proposed by the Board on the understanding that it did not confer on the pensioners the right to compensation for future currency realignments. In the present situation some adjustment can be justified on the grounds of preserving equity between serving staff and pensioners. Moreover, the Advisory Committee believes that the General Assembly would not wish to dismiss completely the recommendation of the Board, which has developed considerable expertise on the subject and which is representative of all shades of views in the United Nations system.

21. Even assuming, however, that the General Assembly is prepared in principle to grant compensation for the recent currency realignments, the Advisory Committee is not convinced that the formula proposed by the Board is fully justified. The maximum adjustment (9 percentage points in 1973) bears a close resemblance to the average reduction of benefits in local currency terms which the Board estimated at between 8 and 9 per cent. It should, however, be noted that in calculating that average the Board took account of only some 2,500 benefits payable on

1 January 1972 which appeared to it to be affected by the currency alignments.[3/] Since it is proposed to apply the supplement to all pensioners (see paragraph 13 above), this method of calculation is open to question. Had all the 3,850 benefits (excluding children's benefits) payable on that date been brought into the calculation, the average reduction in local currency terms would have been approximately 6 per cent; such an approach would be more consistent with the system of averaging described in paragraph 6 above.

22. For this reason the Advisory Committee believes that even allowing for the limitations proposed by the Board, their recommendation - which would result in an addition to the majority of pensions, wherever they may be drawn, of 13 or 14 points (4 or 5 for cost of living and 9 for currency realignments) - can be held to be over-generous. The Advisory Committee suggests, therefore, that lower percentage adjustments (e.g. 6, 4 and 2 points for 1973, 1974 and 1975 respectively) might be more appropriate than those recommended by the Board. Allowing for the normal cost-of-living increase, this would ensure an addition of at least 10 points to the majority of pensions with effect from 1 January next.

23. The Advisory Committee hopes that this report will help Members to a better appreciation of the many considerations involved and so enable them to reach an informed judgement on the merits of the Board's proposal to introduce, for the first time, arrangements to compensate for changes in currency parities. The Committee believes that such judgement should be based primarily on considerations of principle and equity. While the element of hardship upon which the Board also relied cannot be entirely discounted, the Advisory Committee notes that for several reasons, including changes in the rate of accumulation and the method of calculating final average remuneration, pensions have been increased substantially in recent years. For example, a staff member who retired in 1967 on a pension of $2,000 is today drawing $2,726 when the total range of improvements is taken into account. The proposal of the Board coupled with the normal cost-of-living increase would bring the total pension to $3,049 on 1 January next - an increase of 52 per cent over the 1967 award.

24. Equally, the cost of implementing the Board's recommendation should not in the view of the Advisory Committee be the determining factor. In this connexion the Committee noted from paragraph 21 of the Board's report that the Committee of Actuaries had advised the Board that the cost of the proposals would amount in total to about $1.5 million in actuarial terms, and that that amount, which would be a charge entirely on the Fund, could be absorbed without difficulty within the present margin of assets over liabilities. Hence, the recommendation meets the requirement stated by the Advisory Committee in its observations on the report of the United Nations Joint Staff Pension Board to the General Assembly at its twenty-sixth session that "it should be clearly understood that the implementation of any proposals... would be dependent upon the Fund being able to support them without any subvention from the regular budgets of the United Nations or of the other participating organizations" (A/8598, para. 9). Moreover, since the cost of

3/ Official Records of the General Assembly, Twenty-seventh Session, Supplement No. 9 (A/8709 and Corr.1), para. 15.

implementing the Board's recommendation would only amount to between .01 and .02 per cent of the Fund's 21 per cent contribution rate, it can hardly be said to conflict the Advisory Committee's recommendation made in paragraph 40 below.

Administrative expenses

25. In part II of its draft resolution the United Nations Joint Staff Pension Board seeks General Assembly approval of expenses totalling $1,386,400 (net) for 1973 and supplementary expenses totalling $260,861 (net) for 1972 for the administration of the Fund. A comparison of the administrative budgets of the Fund for 1971, 1972 and 1973 is given on pages 8 and 9.

26. On a net basis, 1973 estimates exceed the 1972 appropriations by $457,870, or 49.3 per cent. If the supplementary estimates for 1972 are taken into account, the increase amounts to $197,009, or 16.6 per cent.

27. The total manning table proposed for 1973 consists of 40 posts, the same as in 1972. Two reclassifications are proposed - one from P-3 to P-4 and one from G-5 to P-2. As a result of the latter, the number of staff in the Professional and higher categories is increased by one to 14, and that of General Service staff is decreased by one to 26.

28. The main item in the supplementary estimates for 1972 is an increase of $289,300 in the fee paid to the company handling the day-to-day management of the Fund's investments. The Advisory Committee was informed that the increase is attributable partly to the growth of the Fund's portfolio and partly to a renegotiation of the previous contract; it is partly offset by the extra income which now accrues to the Fund from the investment of monies previously at the temporary disposal of the company. In the view of the Board and of the Secretary-General the arrangement compares favourably with the terms offered by other brokerage firms.

29. Considering the magnitude of the amount involved (over three quarters of a million dollars in 1973) the Advisory Committee believes that the arrangements must be kept under constant review.

30. The decrease of $42,650 in the 1972 expenditure on wages and common staff costs for the Fund's own investment staff is attributable to delays in recruitment.

31. The increase in 1973 over the revised figures for 1972 includes a further rise of $117,100 in contractual investment costs (to $775,400) based on the estimated growth of the Fund and of the market value of the stocks in its portfolio. Other factors contributing to the increase are the absence of the delayed-recruitment factor referred to in the preceding paragraph, and higher actuarial costs (up $25,000 attributable to the fact that the Fund's biennial actuarial review will take place in 1973). The increase of $27,000 under salaries and common staff costs of the secretariat of the Fund is due to normal increments and cost-of-living adjustments and to the effect of the two reclassifications referred to in paragraph 27 above.

	1973 Estimates	1972 Initial appropriations	1972 Supplementary estimates	1972 Total	1971 Obligations
	$	$	$	$	$
Salaries and wages					
Established posts	313 600	293 600	-	293 600	251 282
Overtime	8 500	8 500	-	8 500	9 444
Temporary assistance	67 400	62 700	-	62 700	62 491
Common staff costs					
Established posts	64 700	57 700	-	57 700	51 719
Temporary assistance	14 500	12 500	-	12 500	10 797
Investment costs					
Contractual investments	775 400	369 000	289 300	658 300	300 923
Salaries and wages (including common staff costs)	132 300	130 830	(42 650)	88 180	8 492
Investments Committee	7 000	7 000	-	7 000	7 000
Investment reference services and banking charges	2 500	4 400	-	4 400	250
Consultants					
Actuarial services	40 000	7 000	7 500	14 500	48 301
Management	1 500	5 000	-	5 000	16 522
Medical examinations and subscriptions	1 000	700	-	700	280

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	1973 Estimates	1972 Initial appropriations	1972 Supplementary estimates	1972 Total	1971 Obligations
	$	$	$	$	$
Travel of staff					
To meetings	8 600	4 000	1 000	5 000	6 143
On official business	4 000	3 100	-	3 100	2 357
On home leave	9 000	3 200	-	3 200	8 043
External audit	6 000	6 000	-	6 000	6 000
Committee of actuaries	2 500	2 000	-	2 000	3 029
United Nations Staff Services					
Investment officer	-	-	-	-	15 000
Computer services	20 000	20 000	-	20 000	20 000
Hospitality	900	900	-	900	718
Communications	4 000	4 000	-	4 000	4 000
Miscellaneous supplies and services .	1 200	-	1 000	1 000	14 575
Administrative tribunal	-	-	711	711	414
Total: gross	1 484 600	1 001 430	256 861	1 258 291	847 730
Less: Staff assessment	98 200	72 900	(4 000)	68 900	59 465
Total: net	1 386 400	928 530	260 861	1 189 391	788 315

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32. The Advisory Committee draws attention to the proposed increases for temporary assistance (up $4,700 to $67,400) and travel of staff to meetings (up $3,600 to $8,600). The Committee recommends that efforts be made to reduce expenditure under these heads; economies should also be possible in respect of overtime, for which $8,500 is requested for 1972.

33. The 1973 estimate of $1,386,400 net constitutes in its entirety a charge against the Fund. It excludes an amount of $193,600 corresponding to one third of the estimated cost of the salaries, common staff costs and travel on home leave which is provided for under the United Nations regular budget in recognition of the fact that the secretariat of the Fund also administers the United Nations portion of the pension scheme and services the United Nations Staff Pension Committee. 4/

34. The Advisory Committee noted that in paragraph 24 of its report the Board indicated that the 1973 estimates of $1,386,400 net consist of $895,900 of investment costs and $490,500 of administrative costs proper and that the latter is approximately 0.13 per cent of the total pensionable remuneration as at 30 September 1971 (the same percentage as for the previous year).

35. Subject to its observations in paragraphs 29 and 32 above, the Advisory Committee has no objection to the Board's estimate of administrative expenses for 1973 and supplementary estimates for 1972 in the amounts indicated in paragraph 25 above.

Report of the Board of Auditors

36. The report of the Board of Auditors on the accounts of the Fund for the year ended 30 September 1971 is given in annex IV to the report of the United Nations Joint Staff Pension Board. The statement of assets and liabilities and of income and expenses, together with five supporting schedules, which were submitted for audit, appear in annex I together with the audit opinion. The Advisory Committee feels that it would make for a more logical sequence if the two annexes were to follow one another.

37. With reference to paragraph 12 of the report of the Board of Auditors, the Advisory Committee was informed that the question of obtaining relief for the Fund from having to pay stock transfer taxes on transactions involving its portfolio is being pursued by the Secretary-General.

38. In paragraphs 13 and 14 of its report the Board makes observations and recommendations designed to strengthen the Secretary-General's control over and responsibility for the investments of the Fund. In 1972, i.e. after the period reported upon by the Board of Auditors, the Fund's investment staff was considerably strengthened with the concurrence of the Advisory Committee (A/8598, para. 13).

4/ Ibid., Supplement No. 8 (A/8708 and Corr.1), para. 20-11 and foot-note 62.

This measure will make it possible to provide closer supervision over the formulation and execution of investment policies as recommended by the Board of Auditors.

Actuarial valuation of the Fund

39. The Advisory Committee noted the information in paragraphs 34 to 36 of the report of the Pension Board concerning the assumptions and methods for valuation of the Fund.

40. The Committee believes that the actuarial valuation to be carried out as of 30 September 1972 provides the opportunity for reviewing the rates of contribution under the United Nations Pension scheme. These rates (14 per cent of pensionable remuneration payable by the organizations, and 7 per cent payable by the participants) have remained unchanged since the establishment of the Fund a quarter-century ago. Given the growth of the Fund, the Committee is of the opinion that it would be useful to establish whether the actuarial position of the Fund is now such that it would be possible to reduce these rates of contribution, either permanently or temporarily, without prejudicing the ability of the Fund to meet the payment of present and future benefits. For this purpose it should be understood that the Fund should continue to provide benefits comparable to those available under the best national civil service schemes, and that the United Nations scheme should remain fully funded. The review should also include an assessment of the impact on the Fund of other variable factors. It should, for example, have regard to possible changes in the age of retirement or in the practice whereby the Fund retains half (7 per cent) of the contributions made by the organizations in respect of staff who, because they leave the service with less than five years' service, do not normally qualify for pension. The Advisory Committee recommends that the Board request the Committee of Actuaries to undertake such a study, and that it provide information thereon in its report to the General Assembly at its twenty-eighth session; the Secretary-General, in his capacity of Chairman of the Administrative Committee on Co-ordination, should have the opportunity to present such observations as he may have.

Investments of the Fund

41. The Advisory Committee noted the information on the above subject contained in paragraphs 28 to 33 of the report of the Pension Board.
