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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 forty-sixth session ¹/ and the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund (A/C.5/46/15). The Committee was also provided with the report on the twenty-first actuarial valuation of the United Nations Joint Staff Pension Fund. The Committee received additional information from the secretariat of the Fund, and, with regard to the Fund's investments, from representatives of the Secretary-General.

I. ACTUARIAL MATTERS

2. Paragraphs 12 to 26 of the report of the United Nations Joint Staff Pension Board deal with the actuarial valuation of the Fund as at 31 December 1990. As stated in paragraph 12 of the Board's report, "the primary purpose of the actuarial valuations is to determine whether the present and estimated future assets of the Fund will be sufficient to meet its liabilities".

3. The actuarial assumptions approved by the Board in June 1990 and the results of the 31 December 1990 valuation are discussed in paragraphs 14 to 18 of the Board's report. In this connection, the Advisory Committee notes the reduction in the Fund's actuarial imbalance, from 3.71 per cent of pensionable remuneration as at 31 December 1988 to 0.57 per cent of pensionable remuneration as at 31 December 1990; a breakdown of the elements contributing to the decrease in the imbalance rate are provided in paragraph 18 of the Board's report.

4. A number of other actuarial matters are discussed by the Board in section III A of its report, including the question of the interest rate applicable to lump-sum commutations of periodic benefits and the actuarial implications of extending the maximum number of years of creditable contributory service. Bearing in mind the Fund's current actuarial imbalance, as well as the fact that the interest thereon and changes in the pension adjustment system (see paras. 15 to 22 below) will further increase the imbalance, the Advisory Committee does not believe that a reduction in the interest rate for lump-sum commutations is justified.

5. With regard to the question of the length of contributory service, the Advisory Committee notes from paragraph 53 of the report of the Board that the Board was unable to arrive at a consensus and "therefore decided to defer the matter until 1993, when it could be reconsidered in the light of the Fund's actuarial situation, as reflected in the valuation as at 31 December 1992".

II. INVESTMENTS OF THE FUND

6. Investments issues, including the management of the Fund's assets, are discussed in paragraphs 66 to 78 of the Board's report; the annual report of the Secretary-General on investments of the Fund is contained in document A/C.5/46/15. Matters relating to investments of the Fund are also discussed in paragraphs 79 to 92 of that section of the Board's report dealing with the financial statements of the Fund and the report of the Board of Auditors; the report of the Board of Auditors to the General Assembly is contained in annex III of the Board's report.

7. As at 31 March 1991, the market value of the Fund's assets amounted to \$9,338 million, an increase of \$780 million from the value as at 31 March 1990. As stated in paragraph 67 of the Board's report, the investment return for the year ended 31 March 1991 was 8.9 per cent; this represents a "real" rate of return of 3.8 per cent after the adjustment for inflation.

III. FINANCIAL STATEMENTS OF THE FUND AND THE REPORT OF THE BOARD OF AUDITORS

8. As stated in paragraph 79 of the report of the United Nations Joint Staff Pension Board, the Board "examined and approved the financial statements and related data on the operations of the Fund for the year ended 31 December 1990"; and, in paragraph 82, "the Board took note of the report of the Board of Auditors on the accounts of the Fund for the year ended 31 December 1990".

9. The Advisory Committee notes from annex III of the Board's report, containing the Board of Auditors' report that the Board's earlier recommendation relating to the improvement of systems on pension benefits has been "initially addressed with the progress made towards development of an

integrated computerized system called the United Nations Joint Pension Administration System (PENSYS)". According to the Board of Auditors, in paragraph 7 of their report, "this system, if effectively developed and implemented, may not only ensure prompt payment of benefits and crediting of remittances but may improve built-in checks and controls within the system".

10. The Advisory Committee also notes that, although some efforts have been made in respect of the recommendations of the Board of Auditors regarding guidelines on limits in the amount of holdings on investment trusts, special country funds and real estate investments, and the delay in remittances by organizations, "these have remained to be audit findings for the current year" and are discussed in the Board of Auditors' report.

IV. COMPREHENSIVE REVIEW OF PENSIONABLE REMUNERATION AND CONSEQUENT PENSIONS OF STAFF IN THE GENERAL SERVICE AND RELATED CATEGORIES AND THE PENSION ADJUSTMENT SYSTEM

11. The comprehensive review of the pensionable remuneration and consequent pensions of staff in the General Service and related categories is discussed at length in paragraphs 83 to 109 of the Board's report, including a description of methodological alternatives to the current system. In this connection, the Advisory Committee notes from paragraph 85 of the Board's report that "the common principles and guidelines for determining the pensionable remuneration of all categories of staff in relation to their net salaries, which had been in effect until 1976, had given way to divergent arrangements. This was largely due to the changes in the salary, staff assessment and pensionable remuneration systems applicable to staff in the Professional and higher categories."

12. The Advisory Committee further notes that, in paragraph 89 of the report of the Board, "views differed in the Board on whether the current methodology gave rise to problems and/or anomalies and on the merits of the alternative methodologies presented in the document before it", and that, in paragraph 106, "there was no agreement in the Board at this stage either on retaining the existing methodology or on supporting a specific alternative methodology". Therefore, as stated in paragraph 107, the Board suggested that, "pending further studies of alternative methodologies, the current methodology should continue to apply, subject to the review of the current staff assessment rates". At the same time, the Board agreed that, "should a revision in staff assessment rates result in lower gross salaries and, hence, in a lower pensionable remuneration derived therefrom, transitional measures should be approved which would maintain the current level of gross salaries until overtaken on the occasion of subsequent revisions of the salary scales at each duty station".

13. The studies which the Board suggested that the International Civil Service Commission (ICSC) and the Board pursue are outlined in paragraph 108 of the Board's report. In this connection, the Advisory Committee notes the

agreement of the ICSC, as stated in its report, that "an in-depth study of all aspects of the matter should proceed in close cooperation with the Pension Board". 2/ Because, in the Commission's view, such a study is "bound to be a complex and time-consuming exercise", it recommended to the General Assembly that a step-by-step approach be taken, as outlined in paragraph 84 of its report to the Assembly. 3/ As indicated therein, for the present, the Commission intends to "bring to the attention of the General Assembly the scope of the problem and the complexities involved". In addition, pending the completion of further studies, the Commission recommended that the current methodology should continue to be used; however, a revised staff assessment scale to be used in determining the pensionable remuneration was also recommended. The Advisory Committee also notes that the Commission intends to submit its final recommendations on the matter to the General Assembly at its forty-seventh session.

14. The Advisory Committee's observations regarding the above-mentioned revised staff assessment scale will be contained in its report on the financial implications of the ICSC report. With regard to the general issue, the Advisory Committee agrees that the recommended studies should be undertaken; it also believes that the recommendations which are formulated should aim to eliminate current anomalies in the system without creating new ones. The Advisory Committee also underscores the importance of completing the studies and submitting recommendations expeditiously, i.e., within the suggested time-frame.

Pension adjustment system

15. As stated in paragraph 133 of the Board's report, the General Assembly, in its resolution 45/242 of 21 December 1990, inter alia, approved transitional measures recommended by the Board to determine the initial local currency pensions of staff in the Professional and higher categories, and requested the Board "to give priority to the development of a long-term approach to the determination of the initial local currency pensions ... and to submit recommendations on appropriate changes in the pension adjustment system to the General Assembly at its forty-sixth session".

16. Paragraphs 141 to 179 of the Board's report summarize the Board's consideration of this issue at its February and July 1991 sessions, including a description of the various modifications under discussion. As explained therein, at its July session, the Board agreed on a longer-term modification of the adjustment system, the application of which would provide a greater compensation for cost-of-living differences for future beneficiaries at locations with higher post adjustment classifications than at New York in determining the initial local currency pension. The proposal of the Board, which is summarized in paragraph 175 of its report, involves modifying the four parameters currently used to determine the initial local currency pension.

17. Also in paragraph 175 of its report, the Board agreed that "the costs of the proposed modification should be monitored over time and a judgement reached by the Board on the occasion of the next valuation of the Fund as to

the need for and, if so, the timing of changes in the contribution rate". In this connection, the Advisory Committee notes from paragraph 176 that "the Consulting Actuary estimated the cost of the proposed modifications ... to be in the order of 0.3 per cent of pensionable remuneration".

18. The Advisory Committee notes in paragraph 154 of the report of the Board that the proposed modification falls between modifications C and D for which the costs were estimated at 0.28 per cent and 0.36 per cent, respectively. The Advisory Committee also noted in paragraph 157 that, while the Committee of Actuaries found the estimates, which were based on the average of the additional liabilities for the period 1 January 1987 through 1991, to be broadly satisfactory, it also emphasized that "any estimates based on projections into perpetuity of the situation prevailing on a given date, or on projections of future evolutions of inflation and/or exchange rates, are, by their nature speculative"; hence, the Board's decision to monitor the costs of the proposed changes.

19. In view of the significant changes to the existing parameters, the Advisory Committee sought additional information regarding the basis of the seemingly low estimated cost of 0.3 per cent. The Committee was informed that, based on the current distribution of beneficiaries and the current post adjustments levels, it is assumed that a relatively small proportion of future beneficiaries would receive higher local currency pensions as a result of the proposed changes. In other words, the proportion of beneficiaries who would be eligible for the increased protection offered by the modification is projected, at this stage, to be quite small. In this connection, the Advisory Committee notes that the proposal would have no impact on the levels of benefits currently in award.

20. The Advisory Committee notes from paragraph 175 of the report of the Board that the agreement reached by the Board also provided for studies to be prepared with respect to the applicability of the proposed modification to General Service staff and a possible change of the "120 per cent cap" under the two-track pension adjustment system. As explained in paragraph 139 of the Board's report, the cap represents the limit on the extent to which the adjusted dollar track can exceed the adjusted local currency track amount under the current pension adjustment system.

21. In considering the recommendations of the Board concerning the modifications to the pension adjustment system, the Advisory Committee bore in mind that the Board's proposal, which was based on a consensus agreement, was the result of intensive consultations and represented a compromise.

22. At the same time, the Advisory Committee notes that adoption of the proposal will lead to an increased actuarial imbalance, the full extent of which cannot be calculated at this stage, owing to the uncertainties in respect of the actual cost of the proposal which will depend on the future evolution of the dollar in relation to the currencies of the countries of retirement of future beneficiaries. The cost will also be affected by the evolution of the post adjustment classification at the base of the system,

New York, which impacts on the scale of pensionable remuneration of staff in the Professional and higher categories and on their consequent dollar pension entitlements. While the Board has agreed that the costs of the proposed modification should be monitored in order to determine the need for changes in the contribution rate, the Advisory Committee also believes that the Board should, on the basis of experience with the cost of the scheme, determine whether any "fine tuning" of the proposal is warranted in order to limit the costs. In this connection, and as stated in paragraph 134 of the Board's report, the Advisory Committee reiterates its support for the guidelines set forth in General Assembly resolution 31/196 of 22 December 1976, in which the Assembly decided that "the principle of compensating by whatever means for country-to-country differences in the cost of living should be given limited recognition falling short of equality of purchasing power so as to ensure that the new scheme does not require an increase in the present or future financial liabilities of Member States".

23. The Advisory Committee also notes that, in the past, the Fund has been helped by the return realized on investments; given the increased costs resulting from this proposal, it is essential to pursue investment strategies to maximize the return. In addition, the Advisory Committee is of the view that the Board should continue to seek other economy measures. In this connection, the Committee notes that, as stated above, a study on the "120 per cent cap" will be submitted to the Board. Given the increased protection offered by the proposed modification to the pension adjustment system, the Advisory Committee understands that some have questioned the need for the continuation of the "120 per cent cap"; however, in view of the fact that the Board remains seized with the issue, the Committee will await the results of the study before commenting on the matter.

24. As discussed in paragraphs 192 to 199 of its report, the Board also considered the size and composition of the Board, as well as the periodicity of its sessions. As stated in paragraph 195, the Board "decided to propose no changes in the size and composition of the Board at the present time". With regard to the periodicity of its session, the Board decided to recommend a two-year cycle of regular sessions, with its next regular session to be held in 1993. In making the above recommendation the Board noted in paragraph 199 "that special sessions of the Board could be convened when needed to deal with unforeseen developments requiring urgent attention between its regularly scheduled sessions", and that other matters would be entrusted to the Standing Committee. The Board also recommended that the reporting requirement, as stipulated in the Fund's Regulations, should be changed from annually to at least once every two years.

25. The Advisory Committee has no objection to these proposals.

V. REVIEW OF THE METHODOLOGY FOR THE DETERMINATION OF THE PENSIONABLE REMUNERATION OF UNGRADED OFFICIALS

26. The question of the methodology for the determination of the pensionable remuneration of ungraded officials is discussed in paragraphs 110 to 132 of the Board's report. The General Assembly, taking into account the regulations of the Fund, may wish to consider this matter with a view to eliminating the inconsistencies in the amounts of pensionable remuneration of certain of these officials.

VI. ADMINISTRATIVE EXPENSES

A. Revised estimates for the biennium 1990-1991

27. The revised estimates of \$32,689,500 for the biennium 1990-1991 are \$2,116,100 higher than the initially approved estimates of \$30,573,400. The increase, as shown in table 1 of annex XII of the report of the Board, comprises \$1,571,400 for investment costs and \$544,700 for administrative costs.

28. The Advisory Committee notes from paragraph 225 of the Board's report that most of the increase in investment costs, i.e., approximately \$1.4 million (rounded), relates to advisory and custodial fees that are contractually linked to the market value of the Fund's portfolio. The balance of the growth for investment costs, i.e., \$182,100, relates to bank charges resulting from "transaction fees which had previously been covered by compensatory balances maintained in the Fund's bank accounts" (see para. 34 below).

29. A breakdown of the increased requirements of \$544,700 for administrative costs is provided in paragraph 223 of the Board's report. As indicated therein, \$279,000 is due to the difference between the projected actual costs of established posts and the initial estimates, which had been based on the standard salary costs used by the United Nations in its programme budget for the biennium 1990-1991. An amount of \$150,000 relates to actuarial consulting services "for the additional work on a longer-term modification of the pension adjustment system and on the additional projections of cash flow and liabilities required in the preparation of the latest actuarial valuation of the Fund".

30. The Advisory Committee recommends that the revised estimates should be approved.

B. Estimates for the biennium 1992-1993

31. The estimates of expenses for the biennium 1992-1993 total \$40,674,300 net, comprising \$13,210,600 for administrative costs and \$27,463,700 for investment costs. Table 2 of annex XII of the Board's report provides a

comparison of these estimates with the initial appropriations for 1990-1991; the proposed staffing table for 1992-1993 is given in table 3 of the same annex.

32. As indicated in paragraph 235 of the Board's report, the estimates of \$27,463,700 for investment costs include resource growth of \$6,998,800; of that amount \$6.2 million relates to advisory and custodial fees that are contractually linked to the value of the Fund's portfolio. The balance of the resource growth is due to a variety of factors: increases under established posts (\$141,800), bank charges (\$188,000), new investment information services (\$228,000), and an additional meeting each year of the Investments Committee (\$101,000).

33. The increase of \$141,800 for established posts and common staff costs relates to the proposal for a new General Service post (Other level) in the Investment Unit, and to the reclassifications of two posts (one P-4 to P-5 and one P-3 to P-4), as discussed in paragraph 237 of the Board's report. On the basis of information provided to it, the Committee does not object to these proposals.

34. The resource growth of \$188,000 for bank charges in 1992-1993 (as well as a similar charge in the 1990-1991 revised estimates (see para. 28 above)), relates to a recommendation of the Board of Auditors. The Advisory Committee notes from paragraph 239 of the report of the United Nations Joint Staff Pension Board that "previously, such charges had been included under the item 'loss (gain) on exchange' in statement II of the financial statements". The Committee also notes that these costs "will be more than offset by interest earned on the investment of monies resulting from the reduction in the compensating balances held in banks that provide payment services".

35. The estimates of \$13,210,600 for administrative costs include resource growth of \$4,120,400, comprising \$2,617,500 in non-recurrent costs and \$1,502,900 in recurrent costs. In this connection, the Advisory Committee notes the statement in paragraph 203 of the Board's report that the growth relates "for the most part, to the costs of implementing the next phase of the computer project [to replace the computer-based systems with the new integrated PENSYS system], to changes in the organizational structure and operations, and to the additional staff resources required to cope with the increasing volume of work". The organizational changes as well as a progress report on the computer project, the first phase of which was initiated during the current biennium, are discussed in paragraphs 206 to 215 of the Board's report.

36. The Advisory Committee notes from paragraph 209 of the Board's report that the logical design document of the project has been completed and "will serve as the foundation for all subsequent phases of the project, namely, the physical design of the system, including identification of specific hardware needs, and the programming and implementation phases". And, as stated in paragraph 210 of the Board's report, annex XII provides a summary of "all planned developmental activities, with their associated target dates, for the phased implementation of PENSYS".

37. As discussed in paragraphs 211 and 212, "concurrent with the development of PENSYS, efforts are continuing to integrate application hardware requirements with modern technologies" by which "voice, data, image, and text will ultimately be integrated into the system". In this connection, the Advisory Committee notes that the proposed Optical-disc Based Imaging System (OBIS) "will make possible the scanning (recording), storage and retrieval of all participants' and beneficiaries' records as well as of other Fund documentation. In addition, it will facilitate an electronic work flow process, virtually eliminating paper". In this connection, the Advisory Committee notes from paragraph 231 of the Board's report that \$1.6 million of the non-recurrent growth in administrative costs would provide for acquisition and implementation of the OBIS system, and \$600,000 would cover the cost of converting active participants' records to OBIS. An amount of \$560,000 in recurrent growth is also related to OBIS; the Advisory Committee notes that this would provide for the cost of maintenance and technical support for OBIS.

38. The Advisory Committee does not object to these estimates; at the same time, it trusts that the implementation of both the PENSYS and OBIS will proceed according to schedule in order to minimize the costs involved. The Committee also underscores the importance of staff development and training in order to achieve full utilization of the functions possible under these systems and thus to maximize benefits to be derived therefrom.

39. As discussed in paragraphs 228 to 230 of the report of the Board, recurrent growth amounting to \$783,900 is shown under established posts and related staff costs to cover three additional Professional posts (one P-5, one P-4 and one P-3), seven General Service posts (Other level), and the reclassification of three Professional posts (one P-4 to the P-5 level, one P-3 to the P-4 level and one P-2 to the P-3 level).

40. The Advisory Committee considered the above requests at length, bearing in mind not only the individual justifications, but also the total growth proposed for the administrative budget as a whole. The Committee sought and received additional information concerning the current and proposed staffing table of the secretariat of the Fund, as well as further details concerning each proposed new post/reclassification. In this connection, the Advisory Committee requests that future proposals of this nature include more detailed information, including, when possible, workload indicators.

41. On the basis of the information before it, the Committee recommends approval of the three reclassifications, as well as the proposed P-5 post for the Chief of the proposed Financial Services Section and the P-3 post for a Finance Officer at the Geneva office. With regard to the latter post, the Committee notes from paragraph 214 of the Board's report that "the phased enhancement of the role of the Geneva office is continuing ...". The Committee trusts that the responsibilities of the Geneva and New York offices will be carefully delineated in order to avoid duplication of work.

42. Inasmuch as the Secretariat already has the services of a senior legal officer, the Committee was not convinced of the need for a new P-4 post in the Office of the Secretary to assist with legal and analytical work and therefore recommends against this post, with a consequential deletion of \$95,100 in the estimate.

43. Bearing in mind, inter alia, the nature of assistance required in the Information Management Systems Section (IMSS), the increased level of temporary assistance and the productivity gains which can be expected as a result of the above-mentioned computer systems, the Committee is not convinced of the need for all of the seven additional General Service posts being requested. It therefore recommends that four be approved to be allocated at the discretion of the Fund's Secretary. The consequential reduction in the 1992-1993 estimates amounts to \$175,600.

44. The question of office accommodation is discussed in paragraphs 217 and 218 of the Board's report; as indicated therein, the study requested by the Board on longer-term solutions to the space problem of the Fund's secretariat will be initiated during the second half of 1992. The Advisory Committee concurs with the Board that a longer-term solution is needed and therefore urges the Secretary of the Fund to proceed with the study with a view to formulating concrete proposals.

VII. OTHER MATTERS

45. As stated in paragraph 243 of its report, the Board has also recommended that, in accordance with past practice, and in view of the continuing need, it should be authorized to contribute up to \$200,000 to the Emergency Fund in the biennium 1992-1993. The Advisory Committee has no objection to this proposal.

Notes

1/ Official Records of the General Assembly, Forty-sixth Session, Supplement No. 9 (A/46/9).

2/ Ibid., Supplement No. 30 (A/46/30), vol. I, para. 79.

3/ Ibid., para. 84.
