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UNITED NATIONS PENSION SYSTEM

Report of the Advisory Committee on Administrative and Budgetary Questions

I. INTRODUCTION

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-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 (UNJSPF). 2/ During consideration of these matters, the Committee met with representatives of the secretariat of UNJSPF and, with regard to the Fund's investments, with the representative of the Secretary-General.

II. ACTUARIAL MATTERS

2. The report of the Pension Board deals with actuarial matters in paragraphs 17 to 95, including in particular the results of the twenty-second actuarial valuation of the Fund as at 31 December 1993 presented in paragraphs 17 to 55. The Committee notes that the previous valuation was prepared as of 31 December 1990 and reflected the Regulations and the pension adjustment system in effect on that date but that subsequent valuations will be carried out every two years.

3. As regards the valuation results and additional disclosures, the Committee notes that the report also deals with the requests made by the General Assembly in resolution 47/203 of 22 December 1992 and 48/225 of 23 December 1993. In this connection, the Pension Board was requested to consider the form in which it presented the results of actuarial valuations, taking into account the views of the Committee of Actuaries and the Board of Auditors. The auditors had requested that the results of the actuarial valuation of the Fund be presented

in dollar terms and provide information on the net assets available for benefits, the changes in net assets and an actuarial present value of promised retirement benefits. 3/

4. The Committee notes that a set of economic assumptions were approved by the Pension Board and served as the basis for the regular valuation. These are described in paragraph 25. The results of the regular valuation are described in paragraphs 26 and 27 of the Board's report. The Committee notes, as discussed in paragraph 41 of the Board's report, that when the imbalance is expressed in dollar terms, it should be considered in relation to the magnitude of the liabilities of the Fund rather than in absolute terms. Under the regular valuation assumptions, as at 31 December 1993, the imbalance is 1.49 per cent of pensionable remuneration (an increase of 0.92 per cent over the imbalance as at 31 December 1990); the projected deficit in dollar terms represents 4.3 per cent of the projected liabilities, as compared with 1.8 per cent as at 31 December 1990. In order to place the imbalance in its proper perspective, the Committee was provided with a table showing the actuarial imbalances of the Fund since 1980, expressed as a percentage of pensionable remuneration, in United States dollars and as a percentage of projected liabilities, as well as the actions taken by the General Assembly, based on recommendations from the Pension Board. This is reproduced as annex I to the present document.

5. As indicated in paragraph 41 of the Board's report, the Advisory Committee further notes that the imbalance does not indicate a shortfall in the Fund's ability to meet current obligations, but it indicates the future effects of continuing the current contribution rate under the actuarial assumptions. The Committee was informed that significant elements increasing the imbalance in the regular valuation were (a) the interest accumulating on the imbalance in the Fund as of the previous valuation, (b) revised mortality tables used for non-disabled retired male and female participants, widows and widowers, reflecting longer life expectancy and (c) changes in the demographic composition and pensionable remuneration of future new entrants. These were partially offset by the net positive effect of changes in the value of United States dollars on the net benefit increase payable on behalf of retired and deceased participants and on the scales of pensionable remuneration of General Service staff.

6. The Advisory Committee notes that the valuation results are highly dependent on the underlying economic and demographic assumptions used in the actuarial valuation. The Committee notes that the assumption on the future participant growth (i.e., "20-year participant growth" assumption) heavily influences the results of the valuation. It also observes from table 1 of the Secretary-General's report that the real rates of return of the Fund's investments over the last 10 years have been greater than 3.0 per cent (the assumption for the real rate of return), with an average annual rate of return over the last 34 years of 3.5 per cent.

7. On a "plan termination basis" (art. 26 of the UNJSPF Regulations and Rules), the Committee was informed that the Fund was in a strongly funded position, as it had more assets than needed to pay the pensions if no adjustments were made in pensions for changes in the cost of living. The Committee notes, however, as discussed in paragraph 31 of the Board's report,

that the Fund's position changes drastically when account is taken of the assumption that benefits would increase at the rate of inflation of 6.0 per cent per year. In the first instance, the ratio of the actuarial value of assets to the actuarial value of the accrued benefits is 136.2 per cent (i.e., the assets provide a 36.2 per cent security margin) and in the second case, with the cost-of-living adjustment of 6.0 per cent per year, the actuarial ratio drops to 80 per cent (i.e., the assets are short by about 20 per cent to cover liabilities).

8. The Committee notes that the Pension Board accepted the recommendation of the Committee of Actuaries that "based on the results contained in the valuation report, and after consideration of further relevant indicators and calculations ... the present contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1995" and that there is "no need to take other measures to reduce the actuarial imbalance". 4/ The Advisory Committee also notes that it is the Pension Board's intention to review the need for action at the time of the next scheduled valuation as at 31 December 1995 in the light of developments between now and the completion of the next valuation. The Advisory Committee is of the view that the situation calls for careful and active monitoring, for the purpose of identifying measures to be taken to correct the actuarial imbalance, if need be.

9. As regards the interest (discount) rate applicable to lump-sum commutation of periodic benefits under article 28 (g) of the Regulations of the Fund, the Advisory Committee was informed that the Pension Board decided to retain the current 6.5 per cent discount rate, which would be reviewed again by the Standing Committee next year, and to request the Committee of Actuaries to develop a revised unisex mortality table, based on the longevity assumptions used in the regular valuation as at 31 December 1993. The Committee notes that the Pension Board agreed to recommend to the General Assembly the implementation of the revised unisex mortality table in determining lump-sum commutations, as of the first day of the month following the Standing Committee meeting (i.e., 1 July 1995). This is expected to result in an actuarial cost of 0.1 per cent of the pensionable remuneration. 5/

10. The Advisory Committee further notes that from paragraph 65 of the Board's report, as estimated by the Consulting Actuary, based on the regular valuation as at 31 December 1993, the interest rate of 6.5 per cent per year used to calculate the lump-sum commutations permits a reduction in the required rate of contributions of 1.79 per cent of pensionable remuneration, compared with the contribution rate that would be required if a uniform discount rate of 3.0 per cent were applied for future service. In this connection, the Committee of Actuaries has cautioned against frequent changes in the discount rate. It was noted that, for staff with long contributory service, the composite rate applied is in effect lower than the nominal 6.5 per cent, because of the application of low interest rates in earlier years. The Advisory Committee trusts that the views of the Committee of Actuaries in this regard will be taken into account by the Standing Committee in 1995 when this matter will be reviewed again.

11. In addition to the issues mentioned above, the Pension Board, as shown in paragraph 83 of its report, agreed by consensus to recommend to the General Assembly for implementation, with effect from 1 July 1995, a number of other changes in the United Nations pension system. The Committee notes that the package of measures as recommended by the Pension Board to the General Assembly for implementation, with effect of 1 July 1995, is expected to result in an overall actuarial savings of 0.04 per cent of pensionable remuneration. 6/

III. INVESTMENTS OF THE PENSION FUND

12. The market value of the Fund's assets increased to US$ 12,534 million on 31 March 1994 from US$ 11,407 million on 31 March 1993, an increase of US$ 1,127 million, or a total investment return of 9.7 per cent, which, after being adjusted for inflation, results in a "real" rate of return of 7.0 per cent. 7/ The Committee notes from table 1 of the Secretary-General's report that for the past 10 years the compound annual nominal and real rates of return of 12.8 per cent and 8.8 per cent, respectively, were higher as compared to those for the longer period of 34 years for which data were available (8.6 per cent and 3.5 per cent, respectively).

13. Upon inquiry as to how the Fund's investment performance would compare with other pension funds or benchmark indicators, it was explained that, during the last few years, the investment returns of the World Bank's pension fund had outperformed those of UNJSPF. With regard to other indicators, it was noted that the Morgan Stanley Capital International World Index (MSCI World) and the Salomon Brothers World Bond Index (weighted) provided a reasonable and widely published approximation of an international equity portfolio and an international bond portfolio respectively. Over the last 16 years, MSCI World had a total annualized return of 14.2 per cent, compared to an annualized return of 13.4 per cent achieved by the Fund's total equities. Over the same period the Salomon Brothers World Bond Index had an annualized return of 11.3 per cent compared to an annualized return of 11.4 per cent achieved by the Fund's bond portfolio.

14. The Committee points out that, in comparing the rate of return achieved by UNJSPF with the rates achieved elsewhere or benchmark indicators, it should be borne in mind that there are difficulties in comparing portfolio performances owing to differences in timing of cash flows, investment restrictions, investment objectives, quality standards and levels of acceptable risk. All investment decisions of the Fund are required to meet the criteria of safety, profitability, liquidity and convertibility, which have been advocated repeatedly by the Pension Board, the Advisory Committee and the General Assembly. The Fund follows a policy of broad diversification of its investments by type of security, industry groups, countries and currencies.

IV. CUSTODIAL ARRANGEMENTS

15. The Advisory Committee recalls that, in its last report on the United Nations pension system, 8/ it noted that investment costs were expected to decrease as a result of economies in advisory and custodial fees under a custody

structure expected to be implemented by mid-1994. In this regard, the Committee requested that a summary of a report on custodial arrangements of the Fund be included in the next report of the Pension Board to the General Assembly. The report should address all related aspects, including legal and security issues, as well as the cost-effectiveness of the new arrangements.

16. The Committee notes that paragraphs 107 to 114 of the Board's report deal with the issue of custodial arrangements. The Committee was informed that, under the new custodial arrangements, the safety of the assets will be ensured by diversifying the number of custodians. The new arrangements call for direct relationship with a limited number of regional custodians, all of which are based in well-developed markets. This provides the level of counterpart risk diversification that the Fund will require. A Master Record Keeper will consolidate all data and perform accounting and record-keeping functions. In addition, under these arrangements, all the Fund's assets will be held in the name of the United Nations for UNJSPF and held separately from the assets of the United Nations, the custodian and all other clients.

17. Under the previous arrangements, from 1946 to 1989, the custodial and advisory services were contracted to Fiduciary Trust Company International (FTCI) under one single contract. FTCI subcontracted global custodial services to the Royal Bank of Scotland, which in turn subcontracted custodial services locally around the world. Under that arrangement, all assets of the Pension Fund were registered in the name of the Royal Bank of Scotland for the account of FTCI. The Fund had no direct control over the custodial arrangements made by FTCI and the Royal Bank of Scotland. Since 1989, two separate contracts for advisory and for custodial services have been signed with FTCI. As a global custodian, FTCI subcontracted custodial arrangements to local subcustodians. For the years 1992 and 1993, the Committee was informed that the total costs for these services were $5,921,221 and $5,979,950, respectively.

18. For the year 1994, the Committee was informed, the expenses incurred by the Fund would be a result of part of the year under the old arrangement with FTCI and part of the year under the new arrangements. Based on the existing contracts with FTCI and the new custodians, in 1994 those expenses are anticipated to be $3,315,940 payable to FTCI and $1,561,800 combined fees payable to the Master Record Keeper and the new custodians. Savings in custody fees of over $1 million are expected in 1994. In 1995, based on existing contracts the total custody fees are expected to be approximately $2.7 million.

19. The Advisory Committee notes that these arrangements are expected to enhance the security of assets, while achieving significant cost reductions in the investment management operations. Upon inquiry, the Committee was assured that the arrangements would also enhance investment management control and the operational efficiency of the Fund. The Committee is of the view that the new arrangements should be monitored closely to ensure that the expected goals are indeed attained.

V. INVESTMENTS COMMITTEE

20. The Advisory Committee points out, as indicated in paragraph 129 of the Board's report, that in accordance with article 20 of the Regulations and Rules of UNJSPF,

> "the Investments Committee shall consist of nine members appointed by the Secretary-General after consultation with the Board and the Advisory Committee on Administrative and Budgetary Questions, subject to confirmation by the General Assembly."

21. From paragraph 133 of the report, the Advisory Committee notes that the current composition of the Investments Committee includes, in addition to the nine members confirmed by the General Assembly under article 20 for renewable three-year terms, two ad hoc members appointed by the Secretary-General for one-year terms. Upon inquiry, the Committee was informed that, in all respects, with the exception of the procedure for their appointment and their term of office, the regular and ad hoc members have carried out the same function, with no distinction among them.

22. With regard to the primary objective in making appointments to the Investment Committee, the Advisory Committee concurs with the view, as reaffirmed by the Board in paragraph 144, that appointments "should be made to ensure a high-level investment expertise in the Committee, taking into account the global investment policy of the Fund and the major areas of the investment decision-making process, overall asset allocation and strategy, the selection of companies and securities in which the Fund should invest and the timing of investments". Furthermore, the Advisory Committee recalls the principle that, as in the case of membership in other expert committees, no two members shall be nationals of the same State, and members should be selected on the basis of broad geographical representation, personal qualifications and experience.

23. The Advisory Committee notes the Board's conclusion in paragraph 145 "that a recommendation to the General Assembly to amend article 20 of the Regulations to enlarge the size of the Investments Committee should be deferred".

VI. INTERNAL AUDITS OF THE FUND'S OPERATIONS

24. The United Nations Board of Auditors, the External Auditors of the Pension Fund, addressed the issue of the internal audit coverage of the Pension Fund's activities in its report to the General Assembly on the accounts of UNJSPF for the year ended 31 December 1993. 9/ The Board of Auditors noted that for the past several years the internal audit of the activities of UNJSPF had been infrequent and coverage inadequate. Recognizing that the internal audit function was an essential part of the overall internal control mechanism of the organization, the Board of Auditors recommended that consideration be given either to formally designating the Office of Inspections and Investigations as the internal auditors of the Fund or alternatively establishing arrangements for a separate internal audit function for the activities of the Fund.

25. The Advisory Committee welcomes the Board of Auditors' comments in this regard. It notes, however, that investment activities carried out by the United Nations Investment Management Service for the Pension Fund may be audited without restrictions by the United Nations Internal Audit Division, as these are managed by the Secretary-General. In this regard, the Advisory Committee requests the Pension Board to present to the Advisory Committee the financial implications of the two options mentioned by the Board of Auditors in the context of the budget proposal for the biennium 1996-1997. Taking into account the inter-agency nature of the Fund's operation, the internal audit function should be structured so as to ensure a wide coverage of the Fund's activities. It should provide the Pension Board and its executive management with a systematic and independent review mechanism of the Fund's operations for the purpose of improving its management practices and the overall efficiency and economy of its operations.

VII. ADMINISTRATIVE EXPENSES

26. In section III of resolution 48/225 of 23 December 1993, the General Assembly approved expenses for the administration of the Pension Fund, chargeable to the Fund, in the amount of $39,291,900 (net) for the biennium 1994-1995, comprising $12,609,200 for administrative costs and $26,682,700 for investment costs.

27. As indicated in paragraph 293 of its report, the Board has submitted revised estimates for the administrative expenses of the Pension Fund for 1994-1995 amounting to $39,682,100. The proposed increase of $390,200 over the approved appropriations is for administrative costs, consisting of $315,200 for temporary assistance, $25,000 for travel and related costs and $50,000 for data-processing costs. No changes in the investment cost estimates are proposed.

28. The Advisory Committee was informed that the request for temporary assistance is necessary as a result of significant increases in the backlog of work, which has been exacerbated more recently by the need to recalculate the pension benefits of over 850 former Geneva-based General Service staff as a result of retroactive revisions of the 1991, 1992 and 1993 General Service salary scales in Geneva, in response to a judgement of the International Law Commission Administrative Tribunal (ILO AT Judgement #1265, Berlioz et al.). The temporary assistance estimate of $315,200 is based on the standard costs of 3 General Service staff (2 in Geneva and 1 in New York) for 18 months each. As most of the work will be carried out in Geneva, a senior General Service staff member will be redeployed from New York to Geneva for a period of up to four months to train the Geneva staff in the retirement benefit calculation procedures. On the basis of the information provided, the Advisory Committee has no objection to the proposal.

29. Upon request, the Committee was furnished with detailed calculations and specifications for the computer hardware and software systems in Geneva. The Committee agrees with the Board's proposal that it is in the best interest of efficiency to purchase the required equipment at this time, particularly in view of the expanding role of the Geneva Office in the area of calculating, processing and paying benefits.

Notes

1/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 9 (A/49/9).

2/ A/C.5/49/3.

3/ Official Records of the General Assembly, ibid., para. 32.

4/ Ibid., paras. 45 and 47.

5/ Ibid., paras. 70 and 71.

6/ Ibid., annex VI.

7/ Ibid., para. 98.

8/ A/48/517, paras. 16 and 17.

9/ Official Records of the General Assembly, ibid., annex III, paras. 61-64.

Annex I

EVOLUTION OF THE ACTUARIAL IMBALANCE OF THE UNITED NATIONS JOINT STAFF PENSION FUND SINCE 1980

A. Imbalance as a percentage of pensionable remuneration, in United States dollars, and as a percentage of projected liabilities

Valuation date	Required rate of contribution	Imbalance: Percentage of pensionable remuneration	Imbalance: Millions of dollars	Imbalance: Percentage of projected liabilities
31 December 1980	27.82	6.82 a/	5 315.7	22.0
31 December 1982				
(a) Before 1/1/1983 changes	29.41	8.41 a/	7 057.6	25.6
(b) After 1/1/1983 changes	25.72	4.79 a/	4 018.4	16.4
31 December 1984				
(a) Before 1/1/1984 and 1/1/1985 changes	25.94	4.94 a/	4 490.6	16.5
(b) After 1/1/1984 and 1/1/1985 changes	24.76	3.01 b/	2 734.3	10.4
31 December 1986	26.15	4.40 b/	3 187.2	13.2
31 December 1988	26.21	3.71 c/	3 133.4	10.9
31 December 1990				
After 1/1/1990 measures	24.27	0.57 d/	641.0	1.8
31 December 1993 e/	25.19 e/	1.49 d/	1 857.1	4.3

a/ Excess over contribution rate of 21 per cent.

b/ Excess over contribution rate of 21.75 per cent.

c/ Excess over contribution rate of 22.50 per cent.

d/ Excess over contribution rate of 23.70 per cent.

e/ Includes impact of demographic changes, particularly those related to longer life expectancy of pensioners. The net impact was to increase the imbalance by 1.02 per cent of pensionable remuneration.

B. Actions taken by the General Assembly on the Pension Fund's actuarial situation, 1982-1989

Effective 1 January 1983 (General Assembly resolution 37/131)

1. Lowered the rates of benefit accumulation for new Fund participants.

2. Raised interest rate for lump-sum commutation from 4 to 4.5 per cent.

3. Reduced frequency of cost-of-living adjustment of pensions to twice a year, with trigger point raised from 3 to 5 per cent.

4. Eliminated adjustment of deferred pensions until participant reaches age 50.

5. Eliminated the return to the employing organizations of one half of the contribution made on behalf of participants leaving with less than five years of contributory services.

6. Reduced qualifying period for Fund participation from one year to six months.

Effective 1 January 1984 (General Assembly resolution 38/233)

1. Increased contribution rate from 21 to 21.75 per cent of pensionable remuneration.

Effective 1 January 1985 (General Assembly resolution 39/246)

1. Raised the interest rate for lump-sum commutations from 4.5 to 6.5 per cent.

2. Increased the reduction factor for early retirement for participants leaving with between 25 and 30 years of contributory service.

3. Reduced the pensionable remuneration of staff in the Professional and higher categories.

4. Reduced frequency of cost-of-living adjustment of pensions to once a year, with trigger point of 3 per cent.

5. Reduced first cost-of-living adjustment by 1.5 percentage points.

6. Established 120 per cent cap for those on the two-track pension adjustment system.

7. Implemented special index for pensioners.

8. For new beneficiaries, changed the date monthly pensions became payable to the end of the month.

9. Advanced date for payment of monthly contributions by the member organizations to within the first two working days of the month.

Effective 1 April 1986 (General Assembly resolution 40/245)

1. Imposed ceiling on highest levels of pensions.

Effective 1 April 1987 (General Assembly resolution 41/208)

1. Reduced further the pensionable remuneration of staff in the Professional and higher categories.

2. Placed ceiling on the maximum amount of lump-sum commutations.

Effective 1 July 1988 (General Assembly resolution 42/222)

1. Increased contribution rate from 21.75 to 22.2 per cent of pensionable remuneration.

Effective 1 July 1989 (General Assembly resolution 42/222)

1. Increased contribution rate from 22.2 to 22.5 per cent of pensionable remuneration.

Effective 1 January 1990 (General Assembly resolution 44/199)

1. Increased the normal retirement age for new participants from 60 to 62.

2. Eliminated cost-of-living adjustments of future deferred retirement benefits until the participant reaches age 55.

3. Increased contribution rate from 22.5 to 23.7 per cent.

Annex II

UNITED NATIONS JOINT STAFF PENSION FUND:
TOTAL RETURN

31 March 1985-31 March 1994

March	Nominal rate	Real rate
1994	9.7	7.00
1993	11.60	8.20
1992	7.60	4.30
1991	8.90	3.80
1990	11.56	6.03
1989	5.90	0.90
1988	3.10	(0.80)
1987	24.69	22.00
1986	41.52	38.10
1985	8.09	4.40
