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# ABBREVIATIONS

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|---|---|
| ACABQ | Advisory Committee on Administrative and Budgetary Questions |
| ACC | Advisory Committee on Coordination |
| CCAQ | Consultative Committee on Administrative Questions |
| CCISUA | Coordinating Committee for Independent Staff Unions and Associations of the United Nations System |
| EPPO | European and Mediterranean Plant Protection Organization |
| FAFICS | Federation of Associations of Former International Civil Servants |
| FAO | Food and Agriculture Organization of the United Nations |
| FICSA | Federation of International Civil Servants' Associations |
| IAEA | International Atomic Energy Agency |
| ICAO | International Civil Aviation Organization |
| ICCROM | International Centre for the Study of the Preservation and the Restoration of Cultural Property |
| ICITO/GATT | Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade |
| ICSC | International Civil Service Commission |
| IFAD | International Fund for Agricultural Development |
| ILO | International Labour Organisation |
| IMO | International Maritime Organization |
| ITU | International Telecommunication Union |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNIDO | United Nations Industrial Development Organization |
| WHO | World Health Organization |
| WIPO | World Intellectual Property Organization |
| WMO | World Meteorological Organization |

# I. INTRODUCTION

1. The United Nations Joint Staff Pension Fund was established in 1949, by a resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their services with the United Nations, under Regulations that, since then, have been amended at various times.

2. The Fund is administered through the United Nations Joint Staff Pension Board, which consists of 33 members, representing the 16 member organizations that are listed in annex IV below. One third of the Board members are chosen by the General Assembly and the corresponding governing bodies of the other member organizations, one third by the executive heads and one third by the participants. The Board reports to the General Assembly on the operations of the Fund and on the investment of its assets. When necessary, it recommends amendments to the Regulations which govern, inter alia, the rates of contribution by the participants (currently 7.9 per cent of their pensionable remuneration) and by the organizations (currently 15.8 per cent), eligibility for participation and the benefits to which participants and their dependants may become entitled. Expenses incurred by the Board in the administration of the Fund - principally the cost of its central secretariat at United Nations Headquarters in New York and the expenses of managing its investments - are met by the Fund.

3. The present report is submitted by the Board following its forty-fifth session (special), held from 24 to 30 June 1993 at United Nations Headquarters in New York. The members, alternate members and representatives accredited to the special session of the Board and those who actually attended are listed in annex V.

4. In accordance with the decision taken by the General Assembly in its resolution 46/220 of 20 December 1991 to biennialize the work of the Fifth Committee, the next session of the Board was scheduled to take place in 1994. However, in its resolution 47/203 of 22 December 1992, the Assembly requested the International Civil Service Commission (ICSC), in close cooperation with the Board, to finalize in 1993 the comprehensive review of the pensionable remuneration and consequent pensions of staff in the General Service and related categories, and to submit recommendations on all aspects of the methodology to determine pensionable remuneration to the Assembly at its forty-eighth session. For this reason, the item entitled "United Nations pension system" had been included in the provisional agenda of the forty-eighth session of the General Assembly, this year. Given the importance of the comprehensive review, the Board decided to hold a special session to deal with this issue. It also dealt with matters that would otherwise have been addressed by the Standing Committee of the Board and reported to the General Assembly, in particular the budget proposals for the biennium 1994-1995 and actuarial matters.

5. The main items dealt with by the Board were: (a) the comprehensive review of the pensionable remuneration and consequent pensions of staff in the General Service and related categories, which had been initiated in 1991 in response to a request made by the General Assembly in its resolution 45/242 of 21 December 1990; (b) the administrative expenses of the Fund; and (c) actuarial matters, including in particular the methodology and actuarial assumptions to be used in the next actuarial valuation of the Fund. The Board also decided to provide the General Assembly with a status report on the problems related to the interpretation and application of the transfer agreements between the Fund and the former Union of Soviet Socialist Republics, Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic, on which the Board had reported to the General Assembly in 1991 and 1992. 1/ 2/ In addition, the Board

dealt with the membership of the Committee of Actuaries and of the Investments Committee, pursuant to articles 9 and 20 of the Regulations of the Fund, respectively.

6. The Board also examined the management of the investments of the Fund and the financial statements and schedules for the year ended 31 December 1992. Although the Board had agreed in 1992 that, in line with the biennialization decision, it would report to the General Assembly on the investments of the Fund and on the financial statements only in even-numbered years, since the Board is submitting a report to the Assembly in 1993, it decided to include the financial statements and schedules which are provided in annexes I and II. In addition, information is provided in section II on the investment return during the year ending 31 March 1993. However, there is no report of the Board of Auditors, as audit reports are now submitted biennially, in even-numbered years.

7. The membership of the Standing Committee, which acts on behalf of the Board when the latter is not in session, is given in annex VI.

8. The membership of the Committee of Actuaries, established under article 9 of the Regulations, is given in annex VII.

9. Section II below contains a summary of the operations of the Fund during the year ended 31 December 1992, as well as information on the investment return during the year ending 31 March 1993. Section III contains an account of those matters that require action by the General Assembly, as well as information on other matters. A draft resolution for the consideration of the General Assembly is contained in annex IX.

## II. SUMMARY OF THE OPERATIONS OF THE FUND FOR THE YEAR ENDED 31 DECEMBER 1992

10. During the year, the number of participants in the Fund increased from 60,183 to 61,968. On 31 December 1992, there were 33,923 periodic benefits in award: 11,264 retirement benefits, 6,093 early retirement benefits, 5,598 deferred retirement benefits, 4,592 widows' and widowers' benefits, 5,679 children's benefits, 642 disability benefits and 55 secondary dependants' benefits. In the course of the year, 3,635 lump-sum withdrawal and other settlements were paid. A breakdown by member organization of participants and of benefits awarded will be found in annex I.

11. During the same period, the principal of the Fund increased from $9,304,981,285 to $10,246,849,744 (see annex II, statement I).

12. The investment income of the Fund during the year amounted to $899,878,894, comprising $532,179,470 in interest and dividends, $354,646,665 in net profit on sales of investments, and $13,052,759 in other income. After deduction of investment management costs amounting to $12,884,664, net investment income was $886,994,230. A summary of the investments as at 31 December 1992, and a comparison of their cost and market values, will be found in annex II, schedules 2 and 3.

13. The market value of the assets of the Fund as at 31 March 1993 was $11,407 million, i.e., $1,296 million more than a year earlier. The total return for the year was 11.6 per cent which, after adjustment by the United States consumer price index, represented a "real" rate of return of 8.2 per cent. This was the eleventh consecutive year in which the Fund achieved a positive return. The rates of return were calculated by an outside consultant, using a generally accepted method for such calculations, which included actual income from interest and dividend payments, realized and unrealized capital gains and losses, changes in the market value and timing of cash flow. The annual total returns over the past five years were as follows:

| Year ended 31 March | Percentage return |
|---|---|
| 1993 | 11.6 |
| 1992 | 7.6 |
| 1991 | 8.9 |
| 1990 | 11.6 |
| 1989 | 5.9 |

14. The cumulative annualized total returns for the last 5, 10, 15, 20 and 25 years were 9.2 per cent, 13.2 per cent, 12.5 per cent, 9.4 per cent and 9.4 per cent, respectively. Over the 33-year period for which data were available, the cumulative annualized total rate of return was 8.6 per cent, representing a yearly inflation-adjusted or "real" return of 3.3 per cent.

## III. MATTERS CONSIDERED BY THE BOARD, INCLUDING RECOMMENDATIONS TO THE GENERAL ASSEMBLY

### A. Comprehensive review of the pensionable remuneration and consequent pensions of staff in the General Service and related categories

#### 1. Introduction

Developments in 1991 and 1992

15. The comprehensive review of the pensionable remuneration and consequent pensions of staff in the General Service and related categories - hereafter referred to as General Service staff - began in 1991, pursuant to the request made by the General Assembly in its resolution 45/242 of 21 December 1990 that ICSC undertake such a review, in full cooperation with the Board. In 1991, ICSC and the Board had considered two basic methodological approaches: (a) determining General Service pensions in accordance with the practices of the local employers used in the salary surveys; and (b) relating General Service pensionable remuneration, and therefore consequent pensions, to the salaries received while in service. In its report to the General Assembly at its forty-sixth session, the Commission recommended a step-by-step series of actions: 3/ the introduction of a revised scale of staff assessment for General Service staff, which was approved by the General Assembly and entered into effect as at 1 January 1992, together with transitional measures; the conduct of a pilot study of the local practice approach to determine General Service pensions; and further studies of the options under the approach of relating pensions to net salaries while in service. The General Assembly, in its resolution 46/192 of 20 December 1991, endorsed the ICSC timetable and concurred with the observations of the ACABQ regarding the importance of completing the review expeditiously and the need to eliminate current anomalies in the system, without creating new ones.

16. In 1992, both the Board and ICSC concluded, on the basis of pilot studies at six duty stations, that the methodological approach of determining General Service pensions in accordance with the practices of the local employers used in salary surveys (i.e., the "local" approach) was not viable and should therefore be abandoned. Both bodies informed the General Assembly of their intention to pursue, instead, a methodology that would relate pensionable remuneration to salaries while in service; 4/ 5/ this is the approach followed by many civil service pension schemes and is consistent both with the defined benefit nature of the United Nations pension system and the methodologies for determining pensionable remuneration currently applicable to General Service and Professional staff. It should be noted at the outset that there is a major difference in the method of establishing pensionable remuneration used in the United Nations system and that followed by other employers. For outside employees, a gross salary is established and is almost invariably defined as the pensionable remuneration. The resulting net salaries, after taxes, vary according to the tax status of each employee. Within the United Nations system, the process works in the opposite way, namely, a net salary is first established for a particular grade and step and staff assessment is applied, in a reverse manner, to the pensionable part of the net salary to determine the corresponding gross pensionable salary.

17. For General Service staff, the starting point for determining pensionable remuneration under the current methodology is thus their net base salary, which is established in accordance with the best prevailing conditions of employment at each locality. For Professional staff, the starting point is their net

remuneration in New York, i.e., net base salary plus post adjustment. Dollar-based staff assessment rates are used in the grossing-up process for both categories of staff, but with two notable differences: (a) the staff assessment rates for General Service staff are derived from the average of tax rates in some 25 countries, while those for Professional staff relate to the average of tax rates in the seven headquarters countries; and (b) for General Service staff, the staff assessment rates corresponding to 100 per cent of the net pensionable salaries are used in the grossing-up process, while the staff assessment rates corresponding to 46.25 per cent of the net remuneration are used for Professional staff. (The 46.25 factor corresponds to the total benefit accumulation of a participant with 25 years of service.) The grossing-up process for Professional staff is based on the income replacement methodology adopted by the General Assembly in 1986 and reaffirmed in 1990. Under that methodology, the pensionable remuneration of Professional staff is set at levels which would yield gross pensions whose ratio to their net remuneration would be comparable to similar ratios in the comparator service, i.e., the United States federal civil service. For such comparisons, pensions based on 25 years of contributory service are used.

18. For General Service staff, it has been the recent practice, pursuant to the salary survey methodologies established by ICSC, to identify non-pensionable components included in the net base salaries and to exclude a portion of such components in defining the net pensionable salaries to which the grossing-up process is applied to derive the gross pensionable salaries, and hence pensionable remuneration.

19. The discussions in the Board last year, as well as in ICSC, focused on the following:

(a) The differences, since 1977, in the grossing-up process for Professional and General Service staff in determining the "tax element" to be added to the net pensionable salary to obtain their pensionable remuneration;

(b) The procedure for adjusting pensionable remuneration between comprehensive surveys;

(c) Whether to continue the current practice of excluding from the pensionable remuneration of General Service staff a portion of the non-pensionable components of their net salaries.

20. As a result of the differences in the grossing-up process, the "tax element" added to the net remuneration of a General Service staff member was significantly higher than that for a Professional staff member with the same, or an even higher, net remuneration. This has been referred to as the "income inversion" anomaly.

21. The Board was unable to reach a consensus at its June 1992 session either on the need for a revised methodology for General Service staff or on changes which would address the "income inversion" anomaly. The relevant extract from the sessional report of the Board was transmitted to ICSC for consideration at its July/August 1992 session. It indicated the differing views of the three constituent groups in the Board on the various issues, provided detailed information on the unsuccessful efforts made by the Chairman of the Board to find an acceptable solution, and set out the views of the three constituent groups on a specific proposal made by the Chairman. This information was also included in the annual report of the Board to the General Assembly at its forty-seventh session. 6/

22. ICSC concluded at its July/August 1992 session that the income inversion anomaly "must be redressed" and indicated that this would require action in three areas: the different rates of staff assessment; the existence of significantly different methodologies; and the different interim adjustment procedures, for the two categories of staff. It reached the following conclusions:

(a) Rather than 100 per cent, 56.25 per cent of net pensionable salary (defined as net salary minus the non-pensionable component), should be used to determine the appropriate "tax element" to be added to General Service net salaries; the 56.25 per cent factor corresponds to the total benefit accumulation of a participant with 30 years of service (see also para. 47 below);

(b) The interim adjustment procedure for General Service staff should be aligned with that used for Professional staff, namely, between comprehensive salary surveys pensionable remuneration would be increased on the same date and by the same percentage as the net salary, i.e., the 1-to-1 interim adjustment procedure;

(c) A single scale of staff assessment rates, for application to all categories of staff, should be developed and presented to ICSC in 1993, along with data collected to date on the "band approach" (i.e., a staff assessment scale reflecting average tax rates for income brackets expressed in terms of percentages above the minimum salary, rather than in United States dollar amounts) and on the "local tax approach";

(d) A study on the non-pensionable component of salary should be carried out.

ICSC also concluded that the effective date for implementing a revised methodology, together with appropriate transitional measures to prevent any reduction in pensionable remuneration, should be 1 January 1994.

23. In section III of its resolution 47/203 of 22 December 1992, the General Assembly, <u>inter alia</u>, reiterated its view that the future work of the Board and ICSC should focus on the elimination or significant reduction of the "income inversion" anomaly. It also:

(a) Endorsed the conclusions of the Board and ICSC as regards the methodological approach for determining General Service pensionable remuneration, i.e., relating the pensionable remuneration and consequent pensions to salaries while in service;

(b) Endorsed the approach to the various aspects of the methodology reflected in the conclusions and recommendations of ICSC and in the proposal of the Chairman of the Board, as described in the respective reports of ICSC and the Board;

(c) Endorsed the conclusions reached by the ICSC on the aspects of the methodology discussed in its report;

(d) Requested ICSC, in close cooperation with the Board, as appropriate, to finalize the comprehensive review in 1993, and to submit recommendations on all aspects of the methodology, including the effective date of implementation and transitional measures to protect acquired rights, to the General Assembly at its forty-eighth session;

(e) Requested ICSC to recommend consequential amendments to the staff regulations of the member organizations and the Board to consider amendments to the Regulations of the Fund, which may be required in order to implement the revised methodology, in their respective reports to the General Assembly at its forty-eighth session.

### 2. Developments at the March 1993 session of ICSC

24. As indicated in its annual report to the General Assembly, 7/ the conclusions reached by ICSC at its March 1993 session may be summarized as follows:

(a) The possible use of either the "band approach" or the "local tax approach", as an alternative to dollar-based staff assessment rates, should not be pursued;

(b) A single set of staff assessment rates applicable to all categories of staff would, under present circumstances, lead to anomalies and distortions for either the Professional or the General Service staff, or both;

(c) A common staff assessment scale, with two separate sets of rates (dependent and single), as is done in most tax systems, should be developed for use in conjunction with salaries at the dependent or single rates, as appropriate;

(d) As long as the two sets of staff assessments rates were derived from the tax rates of the same group of countries and if a common approach was used, the part of the "income inversion" anomaly attributable to differences in the tax element would be significantly reduced;

(e) Since the three factors which had contributed to the "income inversion" anomaly (namely, different rates of staff assessment, significantly different methodologies, and different interim adjustment procedures, for the two categories of staff) had been the result of decisions taken over a long period of time, a phased approach should be taken to rectify the situation gradually, over a reasonable period of time;

(f) A phased approach would significantly reduce the "income inversion" anomaly without leading to actual reductions in the levels of pensionable remuneration;

(g) The current provisions for the establishment of the non-pensionable component should be maintained and the non-pensionable element should be reflected in the salary scales, separately from net salaries, as a non-pensionable allowance by grade and step.

25. The ICSC therefore decided, subject to its consideration at the July 1993 session of the views of the Board:

> "(a) To reaffirm its earlier position that the income replacement approach using 56.25 per cent of the net pensionable salary should be used to determine the pensionable remuneration for General Service staff. The revised procedure should be implemented on the occasion of the first adjustment of the salary scale on or after 1 April 1994, subject to the transitional measures applied on the occasion of the introduction of the 1992 staff assessment scale;
>
> "(b) That thereafter subsequent adjustments of pensionable remuneration, until the introduction of the common staff assessment scale, should be made on the basis of a 1-to-1 interim adjustment procedure;

"(c) That the procedure outlined under paragraph 44 [of the ICSC annual report to the General Assembly] should be used to determine a common staff assessment scale, with two separate sets of rates (single and dependent), as part of the comprehensive review in 1996 of the methodology to determine the pensionable remuneration and consequent pensions of staff in the Professional and higher categories; and that the common staff assessment scale should be introduced in 1997 to determine the pensionable remuneration of the two categories of staff;

"(d) That the Commission would recommend in 1996 the modalities for the implementation of the common staff assessment scale, including appropriate transitional measures, if needed;

"(e) That, following the introduction of the common staff assessment scale in 1997, the income replacement approach would be used to determine General Service pensionable remuneration on the occasion of comprehensive salary surveys, with subsequent adjustment of pensionable remuneration between comprehensive surveys made on the basis of the 1-to-1 interim adjustment procedure." 8/

26. ICSC also indicated that, after considering the views of the Board, it would formulate at its July 1993 session recommendations to the General Assembly on all aspects of the methodology to determine the pensionable remuneration and consequent pensions of staff in the General Service and related categories, including the effective date of implementation and transitional measures to protect acquired rights.

### 3. Developments at the Board session in June 1993

27. The Board considered a note prepared by its Secretary on the issues to be addressed by the Board in the light of developments since the Board session in 1992, namely: (a) the observations and requests made by the General Assembly in section III of its resolution 47/203 (see para. 23 above); and (b) the observations made and conclusions reached by ICSC at its March 1993 session (see paras. 24-26 above).

28. In his statement to the Board, the Chairman of ICSC recalled developments at the sessions of ICSC and the Board in 1991 and 1992. He referred to the importance of the endorsement by the Assembly in its resolution 47/203 of the conclusions reached by ICSC and/or the Board regarding various aspects of the methodology, as well as to the Assembly's request that ICSC, in close cooperation with the Board, finalize the comprehensive review in 1993 and submit recommendations, *inter alia*, on all aspects of the methodology to determine General Service pensionable remuneration, to the Assembly at its forty-eighth session. The Assembly had therefore sent two clear messages: the comprehensive review should be finalized in 1993 and recommendations on all aspects of the methodology and other related matters should be submitted to the Assembly in 1993.

29. The Chairman of ICSC indicated that at its March 1993 session ICSC encountered a number of insurmountable difficulties in arriving at a single staff assessment scale. Some of the pensionable remuneration figures resulting from the application of an indicative single set of staff assessment rates, particularly those for the Professional staff, were quite disturbing and gave rise to some controversy. ICSC also noted that the indicative scale was irreconcilable with certain aspects of the salary systems used for the two categories of staff. ICSC therefore considered alternatives to developing a single set of staff assessment rates, including use of a common scale with two

separate sets of staff assessment rates: one based on dependency rate taxes and the other on single rate taxes, both calculated by using the tax rates of the same group of countries and the same methodology (see paras. 24 and 25 above).

30. The Chairman of ICSC indicated further that, following an exchange of views between the members of ICSC, the representatives of the executive heads, as well as FICSA and CCISUA at an informal briefing, ICSC had decided to establish a working group with the participation of members of CCAQ and the two secretariats. FICSA and CCISUA were also invited to participate in this informal working group and they did so during part of the meetings. At the end of its meetings, and also following some informal consultations, the working group prepared a report which was submitted to ICSC. Its deliberations regarding the General Service pensionable remuneration issue centered on the report of the working group. At the end of these deliberations ICSC agreed, subject to consideration at its July 1993 session of the views of the Board, on recommendations to be submitted to the General Assembly. Those recommendations are reproduced in paragraph 25 above.

31. The Chairman of ICSC concluded by recalling that one year earlier he had stated to the Board that the time had come for ICSC and the Board to formulate their joint recommendations for submission to the General Assembly in 1992. He expressed the hope that the Board would agree that this year the time had certainly come for the two bodies to finalize their recommendations to the Assembly. He indicated that the highly valuable input of the Board would enable ICSC to conclude its examination of this important issue in July 1993.

32. The Board reviewed the various issues and formulated its views for transmittal to ICSC and the General Assembly. In this connection, it considered a detailed chronological summary of past developments in the Board, in ICSC and in the General Assembly.

33. The first and most fundamental question was whether and, if so, how the current methodology should be changed. Last year, the Board reported to the General Assembly that views differed among its three constituent groups. The participants' representatives had consistently maintained the view that the current methodology has proved to be globally satisfactory and has provided sound and stable results over the years. They indicated their opposition to the use of the income replacement approach, believing that it would extend what they considered to be deficient procedures used for Professional staff to the General Service staff. Anomalies and inconsistencies which may have existed in 1991 when the comprehensive review began had largely been addressed by application of the new scale of staff assessment in 1992. On the other hand, most of the representatives of the governing bodies and, in particular, the representatives of the General Assembly took the position that the current methodology had given rise to anomalies and inconsistencies, with the "income inversion" anomaly being the most serious. They emphasized the need to establish procedures which would reduce, either immediately or gradually over time, the "income inversion" anomaly and indicated that the income replacement approach would best meet this need. The representatives of the executive heads had sought to establish a framework for resolving the impasse between the other two groups. At the various sessions of ICSC, CCAQ has recognized the need for some changes in the current methodology. ACC, both last year and at its most recent session, in April 1993, had taken the position that "any modifications to the methodology must be technically sound and should not result in erosion of the current conditions".

34. Although the Board had agreed last year to pursue a methodology that would relate pensionable remuneration to salaries while in service, it had been unable to reach a consensus on various aspects of such an approach; in particular, it

could not agree on the "grossing-up" procedures to be followed in deriving the pensionable remuneration from the net salaries. While the administration and governing body representatives had been prepared to accept, in the context of a consensus, a proposal advanced by the Chairman of the Board after informal consultations, which would have modified the current methodology, the participants' representatives had indicated that they were not in a position to do so.

35. The Board therefore commenced its deliberations at its June 1993 session by considering whether, in light of the events which had taken place since its last session in June 1992, it should proceed from the premise that a change in the current methodology must be recommended to the General Assembly at its forty-eighth session.

36. The staff pension committees of UNESCO and FAO stated that, in their view, the Board was not yet in a position to formulate final recommendations to the General Assembly. Among the reasons cited were the following: (a) the impact of the revised General Service salary survey methodology was still to be determined; (b) further studies were required as regards the construction of a common staff assessment scale, as well as an assessment of the implications of such a scale; (c) further studies were needed of the non-pensionable component, which should be reviewed in the context of both the Headquarters' and the non-Headquarters' salary survey methodologies; (d) since the Board and ICSC would be undertaking comprehensive reviews of the pensionable remuneration methodologies for both General Service and Professional staff in 1996, that would be the appropriate occasion to arrive at recommendations on harmonizing the methodologies; and (e) in assessing the "income inversion" issue, account should also be taken of the impact of the pension adjustment system on the levels of pensions for Professional staff in certain locations and, in particular, the income replacement ratios they represented. For these reasons, the two staff pension committees had unanimously concluded that it was premature to make a final determination concerning changes in the General Service methodology at this time. This position was generally supported by the participants' representatives from the other organizations. FICSA and CCISUA, which have the status of observers in the Board, also made statements opposing any change in the General Service pensionable remuneration methodology at this stage, citing in particular the need to assess the results of the new salary survey methodologies.

37. The Board was informed that the constituent groups in the WMO staff pension committee had been divided on this issue. The representatives of the executive head and a majority of the governing body representatives recognized the need to give serious consideration to the conclusions reached by ICSC. The participants' representatives in WMO had taken the position that the Fund participants had already made significant concessions and believed that the calls for further reductions were based on political motivations rather than sound technical arguments. They shared the view that no changes should be made until the impact of the new salary survey methodology had been evaluated.

38. The WHO participants' representative informed the Board that the WHO staff pension committee unanimously considered that the current special session offered a unique opportunity to consider the issue of General Service pensionable remuneration in the light of changes which had taken place since the review had commenced in 1991.

39. The representative of the governing body of UNIDO indicated that the voluminous documentation reviewed by the Board in 1991 and 1992, as well as this year, showed that there were problems in the current methodology which required resolution. While recognizing the concerns of staff to protect their current

levels of pensionable remuneration, he stated that the Board had to consider fully the conclusions of the Commission and had to respond to the requests contained in General Assembly resolution 47/203. The purpose of the exercise was to eliminate anomalies, just as had been the case in developing changes in the pension adjustment system in recent years. The participants' representatives in the Board were urged to play a role in this exercise.

40. The representatives of the General Assembly reiterated their view that there were anomalies and inconsistencies in the current General Service methodology which must be redressed and that this was the appropriate time to conclude the comprehensive review in a satisfactory manner. They expressed the hope that the session would prove to be a productive one. In their view, the Board should take positions in concert with those of ICSC, namely, support for (a) the income replacement approach; (b) the use of the 56.25 per cent factor; (c) the exclusion of the non-pensionable component in deriving pensionable remuneration from the net salary; (d) the use of the 1-to-1 interim adjustment procedure; (e) implementation of the income replacement approach on 1 April 1994; and (f) support for a common staff assessment scale and its introduction in 1997. The representatives of the General Assembly stressed the importance of seeking a comprehensive and transparent methodology.

41. The representative of the governing body of ILO urged the Board not to defer decisions, as this would be a serious error. He recalled the good work done at the Board session last year, which unfortunately had not resulted in a consensus on a revised methodology. That situation should not be repeated this year. The case for taking a decision at the current session was compelling for both policy and legal reasons. First, if the Board failed to reach an agreement this year, its credibility would be damaged. ICSC and the General Assembly will make recommendations and take decisions, respectively, while the Board, a tripartite body which should negotiate a consensus, would have failed and would therefore lose significant prestige. As regards legal considerations, the representative of the ILO governing body stressed that the General Assembly was very specific in its request that the comprehensive review should be finalized in 1993, on the basis of recommendations on all aspects of the methodology. As a subsidiary organ of the General Assembly, it was incumbent upon the Board to respond to the request from its parent body. He urged the Board to make every effort to arrive at a consensus on the various elements of the methodology, including in particular the proportional factor to be used in the grossing-up process. He noted that in 1992 ICSC had been divided as between the use of 56.25 per cent and 66.25 per cent as that factor.

42. The representatives of the executive heads referred to the unique tripartite structure of the Board, which provided a framework for reaching consensus on issues which, if taken individually, would not command the agreement of all parties concerned. They noted that the extensive documentation considered by the Board and ICSC over the last two years, as well as the reports of their respective sessions, indicated clearly that unanimity on all issues was not possible. It was also clear that the absence of decisions by the Board would itself constitute a decision, albeit one not to play a role in the process, since the comprehensive review in any event will be completed this year on the basis of ICSC recommendations and General Assembly decisions thereon. The representatives of the executive heads recognized that the review of General Service pensionable remuneration could not be considered in a vacuum. The levels of pensionable remuneration and pensions would be affected by the results of the revised salary survey methodologies. Moreover, the review of the conditions of service of all staff was not immune to being affected by the changes taking place in the United Nations system and among Member States. It was noted that during the ICSC session the members of CCAQ sought to minimize the impact of changes in the methodology on the General Service pensionable

remuneration and pensions. The representatives of the executive heads expressed the hope that a consensus could be formed on the various aspects of the methodology, using the conclusions reached by ICSC as a point of departure. They noted that the debates had reflected differences of views on the proportional factor of net salary to be used in the grossing-up process, on the non-pensionable component, on the interim adjustment procedure, on the implementation date and on the transitional measures. The representatives of the executive heads urged that intensive efforts be made to agree on a package covering all of these items, so as to bridge the differences of views that existed on each of the issues when taken separately.

43. In a conference room paper submitted by a number of participants' representatives it was noted that in most, if not all, national pension schemes, pension rights were in fact based on 100 per cent of the gross salary, i.e., the salary before taxes and other mandatory deductions therefrom. Nevertheless, these members of the Board were of the opinion that, in the specific case of the Fund, the so-called income replacement approach was still worth considering. In this respect, they referred to the basic philosophy of the United Nations pension system, according to which pensions could be paid in any country. The income replacement approach would provide that, in addition to the net salary, pensionable remuneration should include a tax element, i.e., the grossing-up factor, to take into account that beneficiaries may have to pay taxes on their pensions. In view of the universality of the United Nations pension system, it was necessary to define technical parameters to determine tax elements which could be applied throughout the system for the various categories of staff. In determining the grossing-up factor, parameters should be designed which would not have detrimental effects on staff members retiring in any particular country, especially staff members with long contributory service, including those having more than the maximum number of years of creditable contributory service. Therefore, the income replacement approach should be based on the use of the maximum accumulation rate, i.e., 66.25 per cent, corresponding to 35 years of contributory service. Moreover, if the income replacement approach was used, it was of crucial importance that the grossing-up data be reliable. As stated by the 1958 Expert Group on Pensionable Remuneration, the pension should enable beneficiaries to "support themselves under conditions not too markedly different from those they enjoyed during their closing years of service". Therefore, under the income replacement approach all elements of net remuneration should be included in determining pensionable remuneration. As regards the proposed 1-to-1 interim adjustment procedure, it was necessary to address the consequences of this procedure on the pensions of those beneficiaries who would reside in countries where tax brackets were not revised annually for inflation. This problem might be appropriately dealt with through annual revisions of the staff assessment rates. Finally, these Board members indicated that, should the income replacement approach be implemented for General Service staff, transitional measures should be adopted which would go beyond the mere freezing of pensionable remuneration levels.

Review of various aspects of the methodology

44. After the initial exchange of views by the various parties, the Board proceeded to an examination of the information provided by the Secretary in his note on the various issues to be resolved and the positions which had been taken on each issue by the Board and/or ICSC.

(a) Addressing the "income inversion" anomaly and the use of the income replacement approach

45. As indicated in paragraph 22 above, in its annual report to the General Assembly in 1992, ICSC concluded that the income inversion anomaly "must be

redressed" and that the income replacement approach would best meet this need. This conclusion was endorsed by the General Assembly in its resolution 47/203 (see para. 23 above). As also indicated earlier, views in the Board differed both as to the significance of the so-called income inversion anomaly and the desirability of a methodology based on the income replacement approach.

(b) Grossing-up factor

46. As the issue of the grossing-up factor was discussed extensively in the Board in 1992, some background information is recalled in paragraphs 47 to 49 below (see also para. 43 above). The issue involves making a judgement as to the proportion of the net pensionable salary which should be used as the basis for determining the staff assessment rate to be applied in deriving the gross pensionable salary. Under the current General Service methodology 100 per cent of the net pensionable salary is used for this purpose.

47. In its report to the General Assembly in 1992, ICSC provided the following rationale for using the 56.25 per cent factor for General Service staff under the income replacement approach:

> "The Commission recalled that, for Professional staff, 46.25 per cent of net remuneration, corresponding to 25 years of contributory service, was used to derive gross salaries from net. The rationale for that approach, explained in detail in ICSC's annual report to the General Assembly for 1986, was based on an average length of service of some 18 years for the Professional and higher categories of staff. The average length of service applicable to the General Service and related categories of staff was between 22 and 23 years. Of the 1,438 General Service staff members who retired between 1989 and 1991, approximately 13.2 per cent had more than 30 years of service, while the remaining 87 per cent had less than 30 years of service. In view of this, the Commission considered that it would be justifiable to take into account 56.25 per cent of net salary, corresponding to 30 years of service, for this category. Some members of the Commission expressed the view that 66.25 per cent of net salary, corresponding to a maximum of 35 years of service, could also be justifiably taken into account for grossing-up purposes." 9/

48. At the Board session in 1992, the representatives of the executive heads favoured the use of 66.25 per cent, corresponding to the maximum benefit accumulation after 35 years of contributory service; the representatives of the governing bodies favoured 46.25 per cent, but indicated a readiness to accept 56.25 per cent; the participants' representatives insisted on retaining the current use of 100 per cent of net pensionable salary.

49. The impact of moving from 100 per cent to 46.25, 56.25 or 66.25 per cent of net pensionable salary on the "income inversion" anomaly ranges as follows, according to the income levels:

46.25 per cent: 2.3 to 3.4 per cent reduction
56.25 per cent: 1.8 to 2.6 per cent reduction
66.25 per cent: 1.2 to 1.9 per cent reduction

(c) 1-to-1 interim adjustment procedure

50. As indicated earlier, ICSC had concluded, at both its July 1992 and March 1993 sessions, that the interim adjustment procedure for the pensionable remuneration of General Service staff should be aligned with that used for the Professional staff, i.e., between comprehensive salary surveys, pensionable remuneration should be increased on the same date and by the same percentage as

the net salary. Views had differed within the Board, with the representatives of the governing bodies and of executive heads supporting the 1-to-1 adjustment procedure, while the participants' representatives expressed concern about its impact in situations where tax rates did not keep pace with the evolution of the local salaries used in constructing the salary scales. The participants' representatives stated that annual revision of the staff assessment scales would keep the relativities between salaries and pensionable remuneration regularly aligned.

(d) Non-pensionable component of net salary

51. At the Board session in 1992, views differed on whether certain elements of the net salary, which reflected non-pensionable allowances or fringe benefits received by outside employees (e.g. subsidized meals, transportation subsidies) should be deducted from the net salary before deriving the gross pensionable salary. The participants' representatives took the position that the current practice of deducting non-pensionable components from the net salary of General Service staff in deriving their pensionable remuneration should be eliminated. The representatives of the executive heads took the same position. The representatives of the governing bodies favoured continuing the current arrangements (i.e., to exclude non-pensionable components, with a threshold of 10 per cent and a maximum exclusion of 25 per cent of pensionable remuneration).

52. In his proposal in 1992, the Chairman of the Board presented two possibilities: (a) no exclusion of non-pensionable components under the income replacement approach; or (b) excluding no more than 10 per cent of the net salary, if the income replacement approach were not accepted in full.

53. In its report to the General Assembly in 1992, ICSC made the following observations on the non-pensionable component:

> "The Commission noted that under the current system, certain elements of salary, such as subsidized meals, transportation subsidies, legislated housing assistance, low-interest loans, discounted company products etc. provided by the surveyed employers were added together to arrive at a non-pensionable component of net salary. For headquarters locations, the threshold for establishing that component was 10 per cent of total net remuneration. For example, at a headquarters location, where the elements considered to be 'non-pensionable' by the outside employers amounted to 15 per cent of the net salary, the pensionable remuneration would be based on 95 per cent of the net salary, while 10 per cent of the non-pensionable elements would be considered as pensionable. There was no established minimum for the non-pensionable component. For non-headquarters duty stations, the threshold was 15 per cent of total net remuneration, which resulted in a minimum of 5 per cent of a non-pensionable component. A ceiling for the non-pensionable component equal to 25 per cent of net salary applied in the case of all duty stations. ICSC further noted that, while a precise determination of what could be deemed to be non-pensionable at headquarters locations was possible, this was not the case at non-headquarters locations. Consequently, at those locations, in general, all non-taxable elements of salary were considered to be non-pensionable. The Commission also noted that, at some duty stations, the non-pensionable elements amounted to a significant portion of net salaries and, as a result, in some of those cases the gross salary (pensionable remuneration) was lower than net salary. It considered that this was also an anomaly in the current system, and a detailed study of this matter was therefore essential." 10/

54. The report went on to state that

> "if a change were made to determine General Service pensionable remuneration using the income replacement approach, it would seem logical to take into account all regular elements of salary. This matter should be addressed on the basis of a study to be undertaken by the secretariats of ICSC and UNJSPB for presentation to the Commission in 1993 at its spring session." 11/

55. At its March 1993 session, ICSC addressed the issue of the non-pensionable component in the context of the salary survey methodology for non-headquarters duty stations, as this matter assumed greater importance at such locations. It decided to maintain the current provisions for establishing the non-pensionable component and indicated that the non-pensionable element should be reflected separately from net remuneration in the salary scales, as a non-pensionable allowance for each grade and step.

56. The differences in views expressed at the June 1992 session of the Board continued to be reflected during the discussions at the June 1993 session. The participants' representatives maintained that the entire net salary should be taken into account in deriving the pensionable remuneration. They stated that, while there may be justification for identifying non-pensionable components in the salary survey methodology, this would not be compatible with the concept of income replacement, which requires that the entire net remuneration be taken into account in determining pensionable remuneration. The representatives of the governing bodies believed that this issue had to be considered in the context of the local practice reflected in salary surveys. The representatives of executive heads stated that the issue had to be considered both in the context of the local practice reflected in salary surveys and from the point of view of a global pension system. Other members of the Board referred to the obligation of the United Nations common system, when designing local salary scales, to ensure respect and compliance with national social security legislation, in particular with regard to elements of salaries that may be considered non-pensionable. It was suggested that the parameters of the current methodology for determining the non-pensionable component might merit re-examination in the light of ICSC's recommendation that an income replacement approach should be used to determine General Service pensionable remuneration. On the other hand, the logic of including in pensions pay components which compensated for actual service requirements (e.g. transportation provisions, meal subsidies) was questioned. References were made in the Board to the proposal advanced by the Chairman of the Board in 1992 (see para. 52 above) and to the initial position taken by ICSC in its annual report to the General Assembly in 1992 (see para. 54 above).

(e) Common scale of staff assessment

57. At its March 1993 session, ICSC concluded that a common staff assessment scale, with two separate sets of rates (single and dependent), should be developed as part of the comprehensive review in 1996 of the methodology to determine the pensionable remuneration and consequent pensions of staff in the Professional and higher categories, and that the common staff assessment scale should be introduced in 1997 to determine the pensionable remuneration of all categories of staff. ICSC also reached conclusions on the procedures to be followed in constructing such a scale.

58. Some members of the Board noted that the responsibility for reviewing staff assessment rates and making recommendations thereon rested with ICSC, under article 10(d) of its Statute. The participants' representatives expressed serious technical reservations on various aspects of the procedure followed by

ICSC in arriving at the modalities for constructing the common staff assessment scale.

(f) Implementation dates

59. The Board noted that ICSC had made two significant changes in its earlier positions on the implementation date for provisions of the revised methodology: (a) 1 April 1994, rather than 1 January 1994, as the date for introducing the 56.25 per cent factor and the 1-to-1 interim adjustment procedure (this shift took into account, inter alia, the recent practice of the Board in recommending implementation dates for pension changes); and (b) a delay in the introduction of the common staff assessment scale from 1994 to 1997.

(g) Transitional measure

60. The transitional measure proposed by ICSC is the same as that applied on the occasion of the introduction of the 1992 staff assessment scale. If the gross pensionable salary scale in local currency terms, resulting from the application of the income replacement approach using the 56.25 per cent factor (or any other factor adopted by the General Assembly) on the occasion of the first adjustment of the salary scale on or after 1 April 1994, were equal to or higher than the existing scale, then the revised scale would be used. If, however, the revised scale were lower than the scale in effect, the latter would continue to be used until the interim adjustment procedure, as revised, produced a scale higher than the one that had been in effect on the date of the first application of the revised methodology. As an illustration, the transitional measure would work as follows in the case of a 4 per cent across-the-board increase in the net salary scale on or after 1 April 1994: the application of the 56.25 per cent (or 66.25 per cent) factor to the revised net salaries would lead to pensionable remuneration increases which would be from 1.8 to 2.6 (or 1.2 to 1.9) percentage points lower than the 4 per cent increase in net salaries. Thereafter, there would be a 1-to-1 relationship between increases in the net salaries and gross pensionable salaries between comprehensive surveys.

61. The transitional measure advanced by ICSC is consistent with those applied on the occasion of all past revisions of staff assessment rates which had a consequential impact on the levels of gross salaries and hence pensionable remuneration (i.e., those applied in 1982, 1987 and 1992).

62. The participants' representatives took the position that any changes involving reductions should be phased in over the three-year period between the introduction of the income replacement approach on 1 April 1994 and the introduction of the common staff assessment scale in 1997, bearing in mind that General Service pensionable remuneration was already frozen in a number of duty stations as a result of the introduction of the 1992 staff assessment scale and that the application of the revised General Service salary survey methodology may result in further freezing of the pensionable remuneration of the General Service staff.

(h) Actuarial implications of various possible changes in the methodology

63. The Consulting Actuary prepared an analysis of the actuarial impact on the Fund of the various possible changes in the methodology for determining the pensionable remuneration of General Service staff. The table below shows the reductions in the actuarial costs, expressed as a percentage of pensionable remuneration, of the change in General Service staff assessment rates introduced in 1992, as well as of all the proportional factors of net salary mentioned as possible bases for calculating the "tax element", i.e., 100, 66.25, 56.25, and 46.25 per cent of the net pensionable salary. The costing methodology employed

by the Consulting Actuary and its results had been reviewed by the Committee of Actuaries.

| | Percentage of pensionable remuneration |
|---|---|
| Revised 1992 General Service staff assessment rates | -.39% |
| Additional impact of changing from 100% grossing-up factor to | |
| (i) 66.25% factor for General Service staff | -.06% |
| (ii) 56.25% factor for General Service staff | -.08% |
| (iii) 46.25% factor for General Service staff | -.10% |

Conclusions of the Board

64. After extensive informal consultations, the Board adopted the following positions as regards the issues set out in paragraphs 44 to 62 above:

Income replacement

Endorsed the use of the income replacement approach to determine General Service pensionable remuneration, which would also involve:

(a) Taking into account the views expressed at the 1992 and 1993 sessions of the Board, recommending that ICSC, in fulfilling its mandate under section III of General Assembly resolution 47/203, including paragraph 4 thereof, reconsider the factor to be used for grossing-up purposes and its relationship to the number of years of contributory service;

(b) Linking the introduction of the 1-to-1 interim adjustment procedure to more frequent revisions of the staff assessment scale. The Board recommended that there should be a two-year cycle for reviewing staff assessment rates, in line with the biennialization of the programme of work of ICSC, following the introduction of a common staff assessment scale (see below);

(c) Noting that the methodology for determining General Service pensionable remuneration should relate to the net remuneration received while in service, recommending that ICSC review, at its forthcoming session, the current methodology for use of the non-pensionable component in determining pensionable remuneration, taking into account, *inter alia*, the income replacement approach, national laws and practices as appropriate, the views expressed in the Board and ICSC in 1992 and 1993 (see paras. 52 and 54 above) and the fact that while General Service salaries are determined according to local conditions, the pension system has globally applicable features.

Common scale of staff assessment

Agreed that a common scale of staff assessment should be introduced for application to all categories of staff in 1997 as recommended by ICSC, it being understood that representatives of the administrations and of the staff would be consulted closely in constructing the actual scale ICSC would recommend to the General Assembly in 1996, and that there would be close cooperation with the Board on this matter.

Dates of implementation

Agreed with ICSC that the income replacement approach should be introduced on the occasion of the first salary adjustment due on or after 1 April 1994 and recommended that the modalities for the treatment of non-pensionable components (see above) should be introduced as of the same date.

Extension to General Service staff of the application of the modification of the Pension Adjustment System introduced on 1 April 1992 for Professional staff

Decided that this matter would be taken up, on a priority basis, at the next regular session of the Board, in 1994.

Transitional measure

Requested ICSC to give favourable consideration to phasing in over two/three successive salary adjustments any negative effect of the use of the income replacement grossing-up factor and that the Board be informed thereon.

### 4. Developments at the ICSC session in July 1993

65. As indicated in its annual report to the General Assembly, at its July 1993 session the Commission took the following positions on the recommendations and requests of the Board:

(a) It decided to recommend to the General Assembly that 66.25 per cent should be used as the grossing-up factor under the income replacement approach;

(b) It recalled that it had already agreed in principle to more frequent reviews of staff assessment; however, as this review cycle could not be introduced until 1997, definitive recommendations thereon would be submitted to the General Assembly in 1996 along with the proposed common staff assessment scale;

(c) It would revert to the issue of the non-pensionable component in 1996; in the meantime, the current provisions would be maintained;

(d) It maintained its earlier position as regards transitional measures. 12/

### 5. Amendment of article 54(a) of the Regulations of the Fund

66. In section III of its resolution 47/203 the General Assembly requested ICSC "to recommend consequential amendments to the staff regulations of the member organizations and the Board to consider amendments to the Regulations of the United Nations Joint Staff Pension Fund, which may be required in order to implement the revised methodology, in their respective reports to the General Assembly at its forty-eighth session".

67. The Secretary presented, for the consideration of the Board, a possible approach to the structure and wording of the consequential amendment of article 54(a) of the Fund’s Regulations, including a proposed new appendix A. He indicated that, in the event of changes in the methodology considered by ICSC, appropriate consequent modifications would be required in the text of the suggested amendment to article 54(a) of the Fund’s Regulations and appendix A thereto.

68. The Secretary noted that member organizations of the Fund are required to accept and apply all the provisions in the Regulations of the Fund (see article 3(c)). Therefore, there would appear to be no legal requirement that member organizations modify their staff regulations and rules in order to incorporate a reference to the revised methodology for determining the gross pensionable salary of their General Service staff. Nevertheless, in order to make the staff regulations complete and self-contained, the organizations may wish to consider adding an appropriate provision to their respective staff regulations.

69. The Board was in general agreement with the approach taken in the proposed amendment to article 54 and authorized the Secretary, in consultation with the Chairman, to modify the proposed text, and to provide alternative texts if necessary, on the basis of the respective recommendations made to the General Assembly by the Board and ICSC.

70. The Board noted that the representative of the executive head of ICAO had requested ICSC at its March 1993 session to consider the introduction of a floor provision in the application of a common staff assessment scale which would provide that, at duty stations where there was no significant overlap of General

Service and Professional salaries (e.g. Montreal), gross General Service salaries should at least be equivalent to outside pensionable gross salaries of the local employers retained in the last comprehensive salary survey. The Board also noted that the ICSC had requested its secretariat to collect detailed information for all headquarters locations and a selected group of field duty stations where outside gross salaries were higher than the common system levels of pensionable remuneration. ICSC indicated that, on the basis of that data, it would consider whether exceptional arrangements were required for the establishment of the pensionable remuneration for ICAO General Service staff in Montreal.

71. The Board agreed to draw to the attention of ICSC that should it recommend any exceptional arrangements, these would have to be incorporated in the text of an amendment to article 54 of the Fund's Regulations.

72. Based on the recommendations of the Commission (see para. 65 above), the text of the amendment to article 54(a) of the Fund's Regulations required to give effect to them, should they be approved by the General Assembly, is set out in annex VIII.

## B. Administrative expenses

### 1. Introduction

73. Article 15 of the Regulations of the United Nations Joint Staff Pension Fund provides that:

> "(a) Expenses incurred by the Board in the administration of these Regulations shall be met by the Fund.
>
> "(b) Biennial estimates of the expenses to be incurred under (a) above shall be submitted to the General Assembly for approval during the year immediately preceding the biennium to which the said estimates relate. Supplementary estimates may similarly be submitted in the first and/or the second year of the biennium to which the budget relates.
>
> "(c) Expenses incurred in the administration of these Regulations by a member organization shall be met by that organization." 13/

74. Pursuant to article 15 (b), the Board submitted revised estimates for the biennium 1992-1993 amounting to $40,769,000, consisting of administrative costs of $12,839,900 and investment costs of $27,929,100 (see annex III below, table 1), and estimates of expenses for the biennium 1994-1995 in the amount of $39,291,900, consisting of administrative costs of $12,609,200 and investment costs of $26,682,700 (see annex III, table 2). Those expenses are a charge entirely on the Fund and do not, in any way, involve the budget of the United Nations or of any other member organization of the Fund.

75. The administrative expenses for the biennia 1990-1991 and 1992-1993 included, inter alia, the costs of the phased implementation of the project to replace the Fund's computer-based systems with a new integrated system and the costs of changes in the organizational structure of the Fund secretariat. It will be recalled that at its thirty-eighth session, in June 1990, the Board considered the budget proposals for the 1990-1991 biennium in the context of the conclusions and recommendations of outside consultants who had undertaken a comprehensive study of the administrative and operational capacities of the Fund's secretariat. The consultants concluded that improvements in data processing support would have the greatest impact on the effectiveness and

efficiency of the central secretariat's operations and its capacity to handle future growth. Accordingly, they recommended the reorganization and strengthening of the then Data Processing Section - now called the Information Management Systems Section (IMSS) - and the development of a strategy to replace the existing computer systems with a fully integrated system based on the latest technology, which would integrate applications hardware needs with telephone communications, document imaging equipment, word processing capabilities, and data linkages, that is, voice, data, image and text handling should ultimately be integrated. The consultants also recommended changes in the organizational structure and operations of the Fund's secretariat, the expansion of the role of the Geneva office and the improvement of the office accommodation of the Fund's secretariat. In the budget for the 1990-1991 biennium, resources were included, inter alia, to strengthen IMSS to implement the first phase of the computer project by delineating the requirements and developing the design for a new integrated system (PENSYS), and to renovate the secretariat's office accommodation.

76. At its sessions in 1990 and 1991 the Board, based on progress reports on the implementation of the changes recommended by the consultants and the Secretary, formulated budget proposals for the 1992-1993 biennium which included resources, inter alia, to implement the next phase of the computer project and to introduce changes in the organizational structure and operations. As regards the computer project, resources were requested and approved by the General Assembly for (a) developing three priority applications of PENSYS; (b) selecting and developing an Optical-disc Based Imaging System (OBIS); and (c) converting the Fund's hard-copy records to an optical-disc medium.

77. The logical design of the integrated system, PENSYS, became the foundation for the physical design of the three priority application areas, i.e., Operations Control System, Benefit Calculation and First Payment System, and Participant System. Following vendor selection and contract negotiations, OBIS was acquired and installed in 1992. All the Fund's hard-copy records have been converted to the optical-disc medium. The "work-flow" feature of OBIS, which integrates PENSYS with the optical records, has now been introduced.

78. The additional resources requested for the biennium 1994-1995 relate, for the most part, to the estimated costs of implementing the next phase of the computer project and for additional staff to cope with the heavy volume of work arising from the growth in the number of participants and beneficiaries. Annex III provides a summary of all planned activities, with their target dates, for the further development of both PENSYS and OBIS. The number of active participants in the Fund continues to increase from year to year, with the total at 31 December 1992 standing at 61,968, as against 58,263 at the end of 1990, an increase of 6.4 per cent. During the same period the number of periodic benefits has increased from 30,901 to 33,923, or by 9.8 per cent. As a consequence, the volume of documents, administrative forms and correspondence which the secretariat must process continues to increase significantly. It is estimated that 130,000 pieces of incoming mail will be processed in the secretariat during 1993.

79. The Fund secretariat remains in a period of transition, evolving from a paper-based, batch-oriented processing environment to an electronic image-based, interactive operation, both in New York and at Geneva. This transition requires a great deal of retraining of staff, as well as fine tuning of the newly installed systems, both as regards hardware enhancement and software development. The secretariat has experienced serious difficulties in coping, in a timely manner, with both the changes in work methods brought about by the new computer systems and the processing of the heavy volume of day-to-day correspondence and inquiries. As a result, significant backlogs of work must be

systematically reduced before the secretariat can begin to reap the benefits of the new systems. In short, while much progress has been made in introducing new technology in the face of numerous obstacles, the secretariat must now turn its attention to restoring normalcy in carrying out its day-to-day responsibilities. The requests for additional staff are based on the reality of the situation as it exists today. It is expected that, with the further development and fine tuning of PENSYS and OBIS, during the next biennium, the operations of the secretariat will stabilize and become more efficient.

80. The estimates for the biennium 1994-1995 reflect the current standard costings and inflation assumptions used by the United Nations in the preparation of its proposed programme budget for the biennium 1994-1995. However, they have been prepared using the format of the 1992-1993 biennium budget, rather than the revised format recently adopted by the United Nations, i.e., the Fund's proposed budget estimates for the biennium 1994-1995 are compared with the Initial Approved Appropriations for the biennium 1992-1993. Under the revised format, the United Nations proposed budget estimates for 1994-1995 are compared with the revised estimates approved by the General Assembly for the biennium 1992-1993 which reflect, inter alia, recostings of the initial appropriations using revised standard salary costs and inflation assumptions based on 1993 rates. While the General Assembly had considered and approved revised estimates for the biennium 1992-1993 for the United Nations which reflected both recostings at 1993 rates and other additional resource requirements, similar action was not taken as regards the Fund's budget for 1992-1993. Therefore, no approved recosted base exists for the Fund. The Board intends to consider how the revised budget format could be applied to the Fund's budget estimates in the future, in the light of the conclusions of the General Assembly this year on the experience with the revised format for the United Nations budget.

### 2. Revised estimates of expenditure for the biennium 1992-1993

81. The revised budget estimates for the biennium 1992-1993, in the amount of $40,769,000, are $365,400 higher than the initially approved appropriations of $40,403,600. The increase consisted of $465,400 for investment costs, partly offset by a reduction of $100,000 for administrative costs. The reduction in administrative costs was due to the expected savings resulting from the rescheduling of the actuarial valuation of the Fund to be as of the end of 1993 instead of 1992. The additional requirements for investment costs comprise increases for overtime ($26,700); for investment reference services ($18,500) to cover new links to computer data bases of such services; for data processing ($261,500) for new computer hardware and software capable of handling a multi-currency system which is required for interfacing with the envisaged world-wide network of custodians; and for bank charges on pension benefit payments ($290,000) resulting from transaction fees which had previously been covered by compensatory balances maintained in the Fund's bank accounts. These investment cost increases have been offset in part by reductions in travel ($41,600), hospitality ($4,800), communication services ($66,400), miscellaneous supplies and services ($15,300) and in-service training ($3,200).

82. In the actuarial valuation of the Fund, provision is made for administrative costs of 0.18 per cent of pensionable remuneration. The recurrent administrative costs proposed by the Board in 1991 amounted to approximately 0.174 per cent of the estimated total pensionable remuneration for the biennium 1992-1993. Following revisions made by the General Assembly, those costs fell to 0.168 per cent of the estimated total pensionable remuneration. Under the revised budget estimates for the biennium 1992-1993 contained herein, the recurrent administrative costs would be further reduced to 0.167 per cent of

the estimated total pensionable remuneration. A breakdown of the 1992-1993 requirements, by object of expenditure, is shown in annex III, table 1.

### 3. Estimates of expenditure for the biennium 1994-1995

83. The budget estimates for the biennium 1994-1995 amount to $39,291,900, as compared with $40,403,600 in the approved budget for the 1992-1993 biennium and $40,769,000 under the revised estimates for the same biennium (see para. 81 above). The resources requested include $12,609,200 for administrative costs, of which $516,800 are non-recurrent, and $26,682,700 for investment costs, of which $342,500 are non-recurrent. A detailed comparison with the initially approved appropriations for 1992-1993 is provided in annex III, table 2. The staffing table proposed for the biennium 1994-1995 is given in annex III, table 3.

84. The recurrent administrative costs amount to approximately 0.187 per cent of the estimated total pensionable remuneration for the biennium 1994-1995. Based on past experience, it is expected that the actual ratio of recurrent administrative costs to the estimated total pensionable remuneration during the 1994-1995 biennium will be less than 0.187 per cent of pensionable remuneration.

#### Administrative costs

85. The estimates of $12,609,200 for administrative costs include a resource growth of $985,700, of which $516,800 relates to non-recurrent costs for data processing to cover consulting fees and the acquisition of software packages in connection with the development of the next phase of the upgrading of the computer systems covering payroll, accounting, year-end, cashier, and policy/administration. The recurrent resource growth of $468,900 comprises: increases in the costs of established posts and related staff costs ($412,100), of temporary assistance and related staff costs ($95,200) and of travel of staff ($4,300); these increases are partly offset by a decrease in the costs for actuarial consulting services ($42,700).

86. The resource growth of $412,100 for established posts and related staff costs relates to the addition of one Professional post (P-3) and four General Service posts (other level), and the reclassification of two Professional posts. The new P-3 level post, to be assigned to IMSS, is required for the smooth operation and maintenance of OBIS and for enhancements and support for the "work-flow" feature of OBIS and for other activities related to backup, recovery and operating system upgrades. These functions relate primarily to Pension Fund equipment and software in respect of which services are not provided by the United Nations Electronic Services Division. The classification of the new P-3 post, as well as the reclassification of the two Professional posts described below, have been confirmed by the Compensation and Classification Section of the Office of Human Resources of the United Nations Secretariat:

(a) One P-5 post to the P-4 level, to bring the budgetary level of the post of Executive Officer in line with the classification level; and

(b) One P-3 post to the P-4 level, to reflect the additional responsibilities and functions assigned to the post of Computer Operations Manager in IMSS. The incumbent of this post will be entrusted with responsibility for the operation of the computer systems which includes the Local Area Network and OBIS, as well as their linkages to the United Nations mainframe computer; for ensuring that the linkages to the Geneva office are reliable and efficient; and for providing timely and accurate responses to the concerns and needs of the users of the computer systems.

87. The four additional General Service posts requested are:

(a) Two posts for the Geneva office, to provide secretarial assistance and accounting assistance, respectively. As part of the phased expansion of the role of the Geneva office, a number of developments have led to a significant increase in the functions discharged at that office. A financial and accounting infrastructure has been established there to enable the payment of benefits directly from Geneva. The calculation and payment of withdrawal settlements in respect of the United Nations Office at Geneva participants began in 1992 and will be extended in 1993 to cover participants of some other organizations in Geneva. Payments from the Emergency Fund and other additional services for participants in Europe will also be provided by that office. Since 1988, the volume of outgoing mail from the Geneva office has increased by some 151 per cent, i.e., an average annual growth rate of 26 per cent. The two new posts would provide the additional secretarial and accounting support needed at this stage. While the phased expansion of the Geneva office reduces the workload in New York, it is not possible to redeploy at this time any posts from New York to Geneva, given the heavy volume of work at both offices;

(b) One post in the Pension Entitlements Section, to provide secretarial and administrative assistance to the Chief of the Section in order, inter alia, to expedite the compilation and periodic updating of various data tables to be transmitted to member organizations;

(c) One post in the Financial Services Section, to help cope with the extensive follow-up work related to the Participants Reconciliation Exception reports, which detail inconsistencies between the contribution and pensionable remuneration amounts reported in the year-end submissions by the member organizations in respect of the participants they employ. These discrepancies are a major cause for delays in the payment of initial benefits.

88. The resource growth of $95,200 for temporary assistance and related costs is required for peak workload periods, for replacement of staff on maternity and extended sick leave and for supplementing the staff at crucial times during the implementation of new or enhanced computer systems, especially when regular staff are being trained in the new applications.

89. The negative resource growth of $42,700 for actuarial consulting services reflects the anticipated savings due to the biennialization of the sessions of the Board.

90. The resources requested for data processing ($1,859,600), which include non-recurrent resource growth of $516,800, are required to create an infrastructure that will:

(a) Provide maintenance and technical support for our installed computer systems, i.e., shared costs of the United Nations mainframe and the relational database management system (RDBMS), on-site minicomputer, the imaging storage facility, the local area network, and personal computer work stations and related peripherals in New York and Geneva;

(b) Facilitate the development and integration of new or enhanced systems: periodic benefit payments (payroll), cost-of-living adjustment, accounting, year-end operations, cashier activities and policy/administrative information.

The additional non-recurrent resources requested will cover consulting fees in connection with further programme development of PENSYS and the cost of acquiring software packages.

Investment costs

91. The estimates of $26,682,700 for investment costs include a net negative growth of $1,079,300 which relates primarily to an anticipated decrease in advisory and custodial fees ($2,500,000), offset somewhat by increases in overtime ($17,000), travel of staff ($8,400), investment consultants ($71,000), costs related to Investments Committee meetings ($12,800), investment reference services ($169,500), communications services ($88,600), data processing ($182,500), training ($22,800), bank charges ($598,100) and office furniture and fixtures ($250,000).

92. The advisory and custodial fees are currently linked contractually to the market value of the Fund's portfolio. Historically, the Fund has utilized a traditional custodial arrangement, i.e., a global custodian servicing the Fund through a network of sub-custodians. Within this structure fees are paid both to the global custodian and to the sub-custodians. The planned establishment of a network of direct custody relationships would gradually eliminate the need for a global custodian. Moreover, the rapid growth in the custody industry in recent years has resulted in greater competitiveness among the providers of custodial services. It is therefore expected that the new custody structure, when implemented, would be at more favourable rates. Based on a projected average market value of $13 billion per year, and on the assumption that a new custody structure will be in place by mid-1994, it is estimated that the combined advisory and custodial fees for the 1994-1995 biennium will be $20,000,000, a decrease of $2,500,000.

93. The resource growth of $17,000 for overtime is required to meet substantial increases in work related to meetings of the Investments Committee, preparation of reports, and the developmental and training requirements involved in installing new computer systems. The resource growth of $8,400 for travel of staff is needed to meet additional travel requirements related to site visits with companies and investment institutions, as well as participation in investment-related conferences and seminars.

94. The resource growth of $71,000 for investment consultants is to cover the additional costs of retaining consultants with expertise in legal services as the network of direct custody relationships widens and for consulting services for the cash management operations as appropriate.

95. The resource growth of $169,500 for investment reference services will provide for the upgrading of the technological capabilities of the Investment Management Service to allow access to additional investment data necessary to make informed investment decisions. A Portfolio Management System is being installed which will facilitate the integration of external investment databases and the specific details of the investments of the Fund. The system will enable the staff to retrieve electronically current material from an increased number of investment reference services.

96. The resource growth of $88,600 for communication services is to cover the additional costs related to direct relationships with custodians in other countries which will require the creation and implementation of direct electronic interfaces with each custodian, specifically designed to match the technological parameters used by the various custodians with those of the IMS in-house accounting and portfolio management systems. Interface programmes will also be required, so as to allow the Investment Management Service to retrieve transaction information electronically from the Depository Trust Company (DTC) and other non-United States central depositories; an interface will also be needed for the direct independent pricing of the Fund's portfolio.

97. The resource growth of $182,500 for data processing is required to meet the additional software programming and other costs related to the Portfolio Management System (see para. 95 above).

98. The resource growth of $22,800 for training covers the additional training needs related to the installation of a new portfolio management system and a new accounting system.

99. The resource growth of $598,100 for bank charges relates to the recommendation made by the Board of Auditors in 1987 that bank charges incurred in the payment of benefits be included in the Fund's budget estimates, instead of being reflected under payment of benefits in statement II of the financial statements. These costs are more than offset by the interest earned on monies that were formerly held as compensating balances for payment services provided by these banks. The auditors had further recommended that cash balances should be kept as low as possible to enhance investment opportunities and that the Fund accept so-called "hard" charges for bank services.

100. The inclusion for the first time of expenditures of $350,000 for office furniture and fixtures relates to the need to upgrade the modular work stations in the Investment Management Service. The objective is to improve the office space and ambiance for senior investment officers, by providing them with enclosed offices which would be more conducive to the efficient discharge of their responsibilities.

### 4. Emergency Fund

101. The Emergency Fund was initially established by the Board in 1973 from voluntary contributions of member organizations, staff associations and individual contributors to alleviate the distress of recipients of small pensions caused by currency fluctuations and cost-of-living increases. Since the introduction of the pension adjustment system in 1975, it has been used to provide relief in individual cases of proven hardship due to illness, infirmity or similar causes.

102. The General Assembly had authorized the Board to supplement voluntary contributions to the Emergency Fund by up to $200,000 for the biennium 1992-1993. During the period 1 June 1992 to 30 April 1993, there were 21 disbursements totalling $12,538. The amounts disbursed over the two-year period, 1 May 1991 to 30 April 1993, totalled $35,483. Total expenditures since 1975 had reached $571,341.

103. As in the past, the bulk of the disbursements was to assist in the payment of medical expenses, including hospitalization, and related expenses not reimbursable from other sources. In all cases involving claims for medical expenses not covered by the after-service medical insurance schemes of the member organizations, prior advice of the medical consultant was obtained. Some payments were being made on a continuing basis for home nursing or domestic help required by pensioners and their spouses because of illness and debility. In some instances, payments were made to help cover funeral expenses.

104. As there was a continuing need for the Emergency Fund, the Board decided to request the General Assembly to authorize the Board to supplement, for the biennium 1994-1995, the voluntary contributions to the Emergency Fund by an amount not exceeding $200,000.

## C. Actuarial matters

### 1. Methodology and assumptions for the actuarial valuation of the Fund as at 31 December 1993

105. In 1992, the Board had reported to the General Assembly on the preliminary recommendations of the Committee of Actuaries as to the actuarial assumptions to be used in the twenty-second actuarial valuation of the Fund. 14/ As a result of the Assembly's decision to biennialize the programme of work of the Fifth Committee, the date of that valuation had been rescheduled to be as at 31 December 1993, rather than 31 December 1992. The Committee of Actuaries had therefore indicated its intention to review the assumptions in 1993, in the light of analysis of further experience data. It had also indicated that, in particular, the mortality rates assumed for pensioners should be reviewed, as well as possible changes in the rates of disability and of early retirement. The Board had also requested the Consulting Actuary and the Committee of Actuaries to consider an alternative set of assumptions for the participant growth rates.

106. As regards the economic assumptions and the method for assessing the value of the Fund's assets, the Committee of Actuaries reaffirmed that they should remain as recommended to the Board last year. The "regular" economic assumptions, based on both long-term and short-term experience, would therefore continue to be: a rate of increase in pensionable remuneration of 6.5 per cent a year (in addition to increases arising from promotions and step increments); a nominal rate of interest (or expected rate of return on investments) of 9 per cent a year; and cost-of-living increases of benefits in award of 6 per cent a year; i.e., the so-called 6.5/9/6 basis. The real rate of return under these assumptions is 3 per cent (investment rate of return minus cost-of-living increase). As in the recent past, valuations will also be made based on assumptions of 6.5/10/6 and 6.5/8/6, that is, real rates of return of 4 per cent and 2 per cent, respectively. From the valuation results using these different rates of return, interpolations can be made to estimate the results for in-between rates of return, such as 2.5 and 3.5 per cent.

107. On the basis of the additional data provided in respect of 1991 and 1992, the Committee of Actuaries agreed that the current rates of withdrawal, death in service and normal retirement should be maintained; however, the further experience review indicated a need to modify the rates of mortality for pensioners, the rates of early retirement for participants with 25 or more years of service, and the rates of incidence of disability.

108. The Board noted that, notwithstanding the decreases made in the rates of mortality for service pensioners in the past (the most recent update of the rates for males was in the 31 December 1990 valuation), the percentage relationship of actual to expected deaths for the calendar year 1991 was 91 per cent for males and 86 per cent for females. On the basis of the recent experience of the Fund, the improvement in the rates of mortality of service pensioners since 1960, the recent experience of the Fund, and the world-wide trend towards lower mortality, the Committee of Actuaries concluded, and the Board agreed, that the mortality rates for service pensioners to be used in the actuarial valuation as at 31 December 1993 should be as follows:

(a) Updated rates for male and female pensioners, which would have resulted in the percentage relationship of actual to expected deaths closer to 100 per cent in recent years; and

(b) Incorporation into the rates developed in (a) above of a 0.5 per cent reduction factor per annum, for both males and females, for the subsequent 10 years, to reflect the clear and continuing trend of increased longevity.

The Consulting Actuary has estimated that the change in (a) above would increase the actuarial costs for the Fund by about 0.75 per cent of pensionable remuneration, and that the change in (b) above would result in a further increase of about 0.30 per cent of pensionable remuneration.

109. The Board also agreed with the conclusion of the Committee of Actuaries that the rates of disability for males should be adjusted since the experience continued to show the incidence of disability to be much lower than expected. The Consulting Actuary has estimated that such a change would decrease the actuarial costs for the Fund by about 0.20 per cent of pensionable remuneration.

110. The Committee of Actuaries also believed, based on the continuing trend of higher than expected early retirements, that the rates of early retirement for participants retiring with 25 or more years of service should be modified. The Committee agreed to propose only a modest change in the assumptions for the forthcoming valuation, to take into account the possibility that, to some extent, the recent trend may reflect a temporary phenomenon, due to targeted staff reductions and recent changes in the pension adjustment system.

111. Following further explanation and clarification of this matter by the Rapporteur of the Committee of Actuaries and the Consulting Actuary, the Board agreed that while, for the moment, no change should be made in the early retirement assumptions that had been used in the 1990 valuation, the Consulting Actuary would provide estimates in the 1993 valuation report of the actual impact changes in the assumptions for future early retirements would have had on the valuation results as at 31 December 1993.

112. In response to the request made by the Board last year for an alternative set of new entrant assumptions, with higher participant growth than that to be used in the regular valuation, the Committee of Actuaries suggested the use of the following additional growth pattern, to which the Board agreed:

| | |
|---|---|
| For Professional staff: | 1 per cent growth for 5 years, 0.5 per cent growth for the next 15 years and zero growth thereafter; |
| For General Service staff: | 1 per cent growth for 5 years, 1 per cent growth for the next 15 years and zero growth thereafter. |

113. The tables below provide a summary of the sets of economic and participant population growth assumptions which will be used in the actuarial valuation of the Fund as of 31 December 1993.

| A. Economic assumptions | I | II a/ | III |
|---|---|---|---|
| | | (per cent) | |
| Increases in pensionable remuneration (in addition to static increases) | 6.5 | 6.5 | 6.5 |
| Nominal rate of interest (investment return) | 8 | 9.0 | 10.0 |
| Price increases (reflected in increases of pensions to beneficiaries) | 6.0 | 6.0 | 6.0 |
| Real rate of interest (investment return after inflation) | 2.0 | 3.0 | 4.0 |
| Usual designation | 6.5/8/6 | 6.5/9/6 | 6.5/10/6 |

| B. Participant population growth assumptions | I b/ | II |
|---|---|---|
| | (per cent) | (per cent) |
| For each of the first 5 years: | | |
| General Service staff | 1.0 | 1.0 |
| Professional staff | 0.5 | 1.0 |
| For each of the next 15 years: | | |
| General Service staff | 1.0 | 1.0 |
| Professional staff | 0.5 | 0.5 |
| After 20 years: | | |
| General Service and Professional staff | 0 | 0 |

a/ The assumptions used in the "regular" valuation as of 31 December 1982 and in each subsequent valuation.

b/ These assumptions are consistent with those used in the "regular" valuation as of 31 December 1988, which included a 5-year period of zero growth and a 15-year period of modest growth, and that as of 31 December 1990, which included a 3-year period of zero growth and a 17-year period of modest growth.

The specific combinations to be included in the actuarial valuations as of 31 December 1993 would be as follows: (a) A.II with B.I (regular valuation); (b) A.I and A.III with B.I; and (c) A.II with B.II. Estimates of valuation results for other combinations could be derived by interpolations and extrapolations. As in previous valuations, hypothetical models of cash-flow projections over the next 30 years would also be prepared, and the accrued liabilities on a "plan-termination" basis would be determined.

<u>Presentation of valuation results</u>

114. The Committee of Actuaries provided the Board with its initial observations on the request made by the General Assembly in section II, paragraph 2, of its resolution 47/203, that the Board "consider the form in which it presents the results of actuarial valuations, taking into account the views of the Committee and the Board of Auditors". The Committee of Actuaries and the Board considered the views expressed by several delegations in the Fifth Committee last year and by the External Auditors on the contents and form of presentation of the valuation reports, as well as the observations made thereon by the Consulting Actuary. In addition to presenting the results of the valuations in dollar terms, the External Auditors had requested that the valuation reports, as well as the reports of the Committee of Actuaries, should provide information on the net assets available for benefits, on the changes in net assets, and on the actuarial present value of promised retirement benefits. The External Auditors also indicated that any deficiency or imbalance of the Fund should be disclosed in financial statements, including a breakdown of the contingent liability of each member organization of the Fund.

115. The Committee of Actuaries made the following observations, which the Board fully endorsed:

> "As regards the observation that the results of the valuation should be made available in dollar terms, the Committee recalled that this had been the practice prior to 1982. It had been discontinued because of misunderstandings as regards interpretations given to the significance of the results when expressed in dollar terms. The Committee believed that such misunderstandings would almost certainly recur if dollar results were again made widely available.
>
> "The Committee was of the view that the valuation reports, together with the financial statements of the Fund, provided sufficient information to assess the actuarial and financial position of the Fund. While recognizing the growing calls for wider disclosures of the assets and liabilities of pension funds, the Committee had serious concerns with some of the observations and requests made by the External Auditors, especially those related to the request for determining the contingent liabilities of each of the member organizations of the Fund. Its concerns, as well as those of the External Auditors, might best be pursued in joint discussions. The Committee therefore requested the Secretary to make arrangements for meetings with the United Nations Board of Auditors and/or the Panel of External Auditors, at which the Committee of Actuaries would be represented by its Chairman and Rapporteur; in addition, it believed that the Consulting Actuary and the Secretary of the Board should participate in the discussions.
>
> "The Committee agreed to review this matter again at its next meeting, in the light of a report on the discussions with the auditors, and to report thereon to the next regular session of the Board."

116. In the course of the discussion in the Board, several members expressed concern over the potential impact of widely circulating, in dollar terms, the type of information requested by the External Auditors, as it could lead to serious misunderstandings and misinterpretations. It could also create undue anxieties among participants and beneficiaries of the Fund.

117. It was drawn to the attention of the Board that, in response to a request made by the General Assembly for the development of United Nations accounting standards, a CCAQ working party was engaged in drafting such standards. The Board therefore requested the Secretary to apprise the Secretary of CCAQ (Financial and Budgetary Questions) of the observations made by the Panel of External Auditors concerning the determination of the actuarial situation of the Fund and the contingent liabilities of its member organizations. In order to ensure that the concerns of the Committee of Actuaries and of the Board were taken into account in developing the United Nations accounting standards, the Board stressed the importance of ensuring that appropriate arrangements would be made for the Board to be represented when CCAQ takes up the issue of contingent liabilities. The Board believed that this representation should be at the same level as envisaged by the Committee of Actuaries for its discussions with the External Auditors.

118. The Committee of Actuaries and the Board will review this matter again next year, in the light of discussions with the auditors and CCAQ, and the Board will report thereon to the forty-ninth session of the General Assembly.

### 2. Transfer agreements between the Fund and the former Union of Soviet Socialist Republics, Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic

119. In 1991 and 1992, the Board reported to the General Assembly on issues related to the interpretation and application of the Fund's transfer agreements with the former USSR, Ukrainian SSR and Byelorussian SSR. 1/, 2/ At its June 1993 session, the Board considered a note by the Secretary on recent developments, including information on the latest communications exchanged between the Secretary and the retirees' associations in Moscow and Kiev.

120. In 1991, the Board had concluded that re-entering Fund participants from these three countries, who had transferred their UNJSPF pension rights under the transfer agreements, should be treated no worse than other re-entrants with respect to the right of restoration. The Board had also requested the Secretary to undertake discussions with the Permanent Missions to the United Nations of the Russian Federation, Ukraine and Belarus regarding the problems and concerns that had arisen in the operation and application of the transfer agreements.

121. In 1992, the Secretary gave a detailed report to the Board on the representations he continued to receive from present and former Fund participants affected by the transfer agreements, on his discussions with the three Permanent Missions concerned, and on his exchanges of communications with the retirees' associations in Moscow and Kiev. He also informed the Board that, effective 2 January 1992, the processing of further transfers under the transfer agreements with those three countries had been suspended. The Board took the following actions in 1992, which were reported to the General Assembly: 2/

(a) It requested the Secretary to pursue, "as vigorously as possible", his discussions with the Permanent Missions of the countries concerned, placing an initial focus on the 87 former participants who at separation could have received retirement or early retirement benefits;

(b) It agreed, in principle, to consider favourably the reinstatement of the UNJSPF pension rights of clearly delineated groups of former participants on the basis of arrangements with the countries concerned for the repayment to the Pension Fund, with interest, of the amounts that had been transferred on behalf of those participants to the USSR Social Security Fund;

(c) It agreed with the Secretary's position, supported by the Committee of Actuaries, that present and former Fund participants from those countries should be treated in the same way as other Fund participants with respect to the right of restoration, i.e., neither better nor worse than other participants.

122. Aside from issues that related directly to the application and operation of the transfer agreements, the Secretary has also continued to receive representations requesting that, for re-entering participants from the former USSR, restoration of prior UNJSPF service should be permitted in two circumstances in which a right of restoration did not presently exist under the Fund's Regulations:

(a) Where the UNJSPF pension rights transferred covered five or more years of contributory service ending after 1 January 1983 (i.e., cases <u>not</u> covered by either article 24 or the Taylor Judgement of the United Nations Administrative Tribunal); and

(b) Where, having separated before the transfer agreements went into effect, upon their re-entry the participants concerned either did not elect to restore, or failed to make the necessary restoration payments, within the time-limits established in the Fund's Regulations and Rules.

123. The Secretary informed the Board that, since 1992, the discussions he had undertaken with the Permanent Missions to the United Nations of the Russian Federation, Ukraine and Belarus had not resulted in tangible progress. He noted that the lack of meaningful developments to date, while disappointing, had to be seen in the context of the difficult and fundamental changes taking place in the economic, social and political areas of the countries concerned. The Secretary reported also reported on the other avenues he was exploring for initiating substantive discussions with the appropriate national authorities.

124. Pursuant to a suggestion made by some members of the Board last year, the Secretary requested the views of the United Nations Legal Counsel as to the legal responsibilities and obligations of the Board under the transfer agreements, particularly with regard to the claim that the transferred UNJSPF pension rights had not resulted in the persons affected receiving commensurate increases in benefits from the applicable national pension schemes. The Board noted the conclusion reached by the Legal Counsel:

> "We see no legal objection to your entering into discussions with those Governments with a view towards seeking a resolution of the problems. We point out, however, that, if nationals of those Governments believe that the Governments have not provided the expected pension benefits under their pension schemes, they should raise those matters with their respective Governments. The Board is, of course, not responsible for the way Governments administer their national pension schemes. Moreover, the Board cannot, in its own responsibility, amend, denounce, suspend or otherwise interfere with the execution of agreements approved by the General Assembly."

125. The Board again expressed deep concern and understanding on the humanitarian level for the plight of the former participants whose UNJSPF pension rights had been transferred to the USSR Social Security Fund under the

Fund's transfer agreements and who were now facing acute hardships. It requested the Secretary to continue, in the most effective manner possible, his discussions with the Governments concerned, focusing initially on the situation of the 87 former participants who, upon separation, had been eligible to receive immediately early retirement or retirement benefits. The Board also agreed that the Secretary should place some emphasis on remedial measures that might be taken by the Russian Federation. In that connection, the Board was informed that the Ministry for Social Security of the Russian Federation had formulated concrete proposals for recognizing the transferred UNJSPF pension rights on the national level, by means of some upward adjustments of the national pension or social security benefits.

126. The Board was informed that some organizations had established special funds to assist their present or former staff members who were facing hardships for any reason. It was suggested that such funds could be used to assist former staff members of those organizations who were nationals of the three countries concerned and that other organizations might consider establishing similar funds. It was further suggested that, just as the Board had reported and would continue to report to the General Assembly on the serious problems encountered in this area, the executive heads of other organizations might arrange for reports to be submitted to the governing bodies of their respective organizations on the representations made directly to them.

127. After considering the legal, financial and administrative implications, including the views of the Committee of Actuaries and of the United Nations Legal Counsel, the Board decided against pursuing, for the time being, proposals aimed at providing ad hoc financial assistance from the Fund to former USSR participants not in receipt of UNJSPF benefits, whether as minimum pensions or as payments from the Emergency Fund. The Committee of Actuaries, while expressing sympathy for the former Fund participants from the three countries concerned, had observed that the Fund could make benefit payments only to its beneficiaries in accordance with the Fund's Regulations and Rules. It therefore had serious reservations about the suggestion advanced in the Board last year that the former Fund participants who had transferred their UNJSPF pension rights under the transfer agreements between the Fund and the Governments of the three countries be paid minimum pensions, whether on an ex gratia basis or by amendment of the Regulations. The Board indicated that it might revert to this matter in the future, depending on the results of the Secretary's ongoing discussions with the Governments concerned.

128. The Board recalled that, as recommended by the Secretary and supported by the Committee of Actuaries, it had agreed last year that re-entering participants from the former USSR should be accorded the same treatment as other Fund participants with respect to the right of restoration, i.e., neither better nor worse than other participants. It noted that the Secretary nevertheless continued to receive representations requesting special consideration and treatment in the circumstances mentioned in paragraph 122 above. The Board therefore decided to reaffirm its earlier decision.

129. The Board requested the Secretary to report to each Board session on the developments as regards the status of his discussions with the Russian Federation on the issues arising from the transfer agreements, as well as other actions which might be taken by individual member organizations of the Fund to provide assistance to the former UNJSPF participants who are nationals of the countries concerned. It also agreed that, in the report of the Board to the General Assembly this year, as well as in future reports, information should be provided on the matters considered by the Board in respect of the pension situation of former participants from the countries concerned.

## D. Other matters

### 1. Membership of the Committee of Actuaries

130. The Committee of Actuaries consists of five members, one from each of the five geographical regions of the United Nations, appointed in accordance with article 9 of the Regulations by the Secretary-General, on the recommendation of the Board.

131. Under the arrangements adopted by the Board in 1986 to stagger the membership of the Committee, the terms of three of the members are scheduled to expire on 31 December 1993:

| | |
|---|---|
| Mr. E. M. Chetyrkin (Russian Federation) | - Region III (Eastern European States) |
| Mr. H. Pérez Montas (Dominican Republic) | - Region IV (Latin American States) |
| Mr. K. Takeuchi (Japan) | - Region II (Asian States) |

132. The Board decided to recommend, and the Secretary-General has approved, the reappointment of Mr. E. M. Chetyrkin, Mr. H. Pérez Montas and Mr. K. Takeuchi for three years, from 1 January 1994 to 31 December 1996.

### 2. Membership of the Investments Committee

133. The Secretary-General, in accordance with article 20 of the Regulations of the Fund, conveyed to the Board the names of the three members, Ms. F. J. Bovich, Mr. J. Guyot and Mr. M. Matsukawa, he intended to propose, after consultation with ACABQ, to the General Assembly at its forty-eighth session, for reappointment as members of the Investments Committee. The Board noted the proposal of the Secretary-General.

### 3. Amendments to the Fund's Administrative Rules and Rules of Procedure

134. The Standing Committee adopted the following amendments of the Fund's Administrative Rules and Rules of Procedure, in order to ease the administrative burden on the Fund's secretariat and to conform to the decision to convene Board sessions on a biennial basis, respectively. (Additions to the existing texts are indicated by underlining and deletions by square brackets.)

(a) Amendment of section J, paragraph J.2, of the Fund's Administrative Rules

"(d) In the event [that] <u>of a discrepancy in</u> the amount of a benefit paid in full in a lump sum, <u>whether due to an error, or to amendment or revision in data reported to the Fund</u> [is found to be in error], a correction shall be made if the <u>discrepancy</u> [error] exceeds <u>25</u> [10] dollars."

(b) Amendment of section D of the Fund's Rules of Procedure

"D.3 The Medical Consultant shall prepare, for each regular session of the Board, [an annual] a report on the application of the medical standards prescribed by the Board and on medical information affecting the granting of benefits from the Fund."

## Notes

1/ Official Records of the General Assembly, Forty-sixth Session, Supplement No. 9 (A/46/9), paras. 61-65.

2/ Ibid., Forty-seventh Session, Supplement No. 9 (A/47/9), paras. 28-39.

3/ Ibid., Forty-sixth Session, Supplement No. 30 (A/46/30) vol. I, chap. III, para. 84.

4/ Ibid., Forty-seventh Session, Supplement No. 30 and Corrigendum (A/47/30 and Corr.1), chap. III, para. 88.

5/ Ibid., Supplement No. 9 (A/47/9), para. 70.

6/ Ibid., paras. 72-79 and annex VIII.

7/ Ibid., Forty-eighth Session, Supplement No. 30 (A/48/30), paras. 35-51 and 72-73.

8/ Ibid., para. 52.

9/ Ibid., Forty-seventh Session, Supplement No. 30 and corrigendum (A/47/30 and Corr.1), chap. III, para. 94.

10/ Ibid., para. 96.

11/ Ibid., para. 97.

12/ Ibid., Forty-eighth Session, Supplement No. 30 (A/48/30), chap. III, paras. 67-74.

13/ See Regulations and Rules of the United Nations Joint Staff Pension Fund (JSPB/G.4/Rev.14).

14/ Official Records of the General Assembly, Forty-seventh Session, Supplement No. 9 (A/47/9), paras. 18-25.

ANNEX VI

## Membership of the Standing Committee

| Representing | Members | Alternates |
|---|---|---|
| United Nations (Group I) | | |
| General Assembly | Mr. T. Inomata | Mr. R. Rae |
| General Assembly | Mr. J. Duhalt | Ms. S. Shearouse |
| Secretary-General | Ms. C. Dodson | Mr. K. Walton |
| Secretary-General | Mr. A. Miller | Ms. D. Bull |
| Participants | Mr. B. Hillis | Mr. N. Kakar |
| Participants | Ms. V. Baeza | Ms. S. Johnston |
| Specialized agencies (Group II) | | |
| Governing body | Mr. C. Bonaparte (FAO) | (to be designated) |
| Executive head | Mr. D. G. Aitken (WHO) | Mr. D. Sanvicenti (WHO) |
| Participants | Ms. M. Dam (WHO) | Mr. A. Marcucci (FAO) |
| Specialized agencies (Group III) | | |
| Governing body | Mr. W. M. Yoffee (ILO) | Mr. Y. Chotard (ILO) |
| Executive head | Mr. D. Daly (UNESCO) | Ms. C. Kerlouegan (UNESCO) |
| Specialized agencies (Group IV) | | |
| Executive head | Mr. D. Goethel (IAEA) | Ms. U. Peer (UNIDO) |
| Participants | Mr. J. Desbiolles (ITU) | Ms. C. Gallagher-Croxen (ICAO) |
| Specialized agencies (Group V) | | |
| Governing body | Mr. R. G. Lewis (IMO) | Mr. P. Cheung (ICITO/GATT) |
| Participants | Mr. S. Mbele-Mbong (WMO) | Mr. V. Yossifov (WIPO) |

## ANNEX VII

### Membership of the Committee of Actuaries

The membership of the Committee is as follows:

Mr. A. O. Ogunshola (Nigeria) - Region I (African States)

Mr. K. Takeuchi (Japan) - Region II (Asian States)

Mr. E. M. Chetyrkin (Russian Federation) - Region III (Eastern European States)

Mr. H. Pérez Montas (Dominican Republic) - Region IV (Latin America)

Mr. L. J. Martin (United Kingdom) - Region V (Western European and other States)

## ANNEX VIII

### Recommendation to the General Assembly for the amendment of the Regulations of the United Nations Joint Staff Pension Fund

| Existing text | Proposed text | Comments |
| --- | --- | --- |
| **Article 54**<br>**Pensionable remuneration** | **Article 54**<br>**Pensionable remuneration** | |
| (a) In the case of participants in the General Service and other locally recruited categories, pensionable remuneration shall be the equivalent in dollars of the sum of: | (a) In the case of participants in the General Service and related categories, pensionable remuneration shall be the equivalent in dollars of the sum of: | To implement the conclusions and recommendations of ICSC with respect to modifications of the methodology for establishing pensionable remuneration for Fund participants in the General Service and related categories. |
| (i) The participant's gross salary. | (i) The participant's gross pensionable salary, as determined on the occasion of comprehensive salary surveys and subsequently adjusted between such salary surveys, in accordance with the methodology approved by the General Assembly and set out in appendix A of the present Regulations. | |
| | [No change in subparagraphs (ii) and (iii); in paragraph (b), the reference to "... the appendix hereto" would be changed to "appendix B hereto". | |
| | Appendix A | |
| | 1. Methodology for determining the gross pensionable salary for participants in the General Service and related categories | |
| | (a) Effective 1 April 1994, and subject to (b) below, the methodology for determining the gross pensionable salary for participants in the General Service and related categories on the occasion of comprehensive salary surveys shall be as follows: | |

| Existing text | Proposed text | Comments |
|---|---|---|

Article 54

Pensionable remuneration

(i) 66.25 per cent of the net pensionable salary, determined in accordance with the procedure approved by the International Civil Service Commission,* is calculated at each grade and step;

(ii) The amounts in (i) above are grossed up, using the applicable staff assessment rates;

(iii) The amounts in (ii) above, divided by 0.6625 and expressed in local currency, constitute the gross pensionable salary.

(b) The methodology in (a) above shall be applied on the occasion of the first adjustment due to the application of the interim adjustment procedure for net salaries on or after 1 April 1994, should such adjustment take place before a comprehensive salary survey.

2. Adjustment of the gross pensionable salary between comprehensive salary surveys

The gross pensionable salary shall be adjusted on the same date and by the same percentages as the net pensionable salary of participants in the General Service and related categories is adjusted.

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* Under the methodology approved by the International Civil Service Commission, the net pensionable salary is the net salary in the salary scales less the non-pensionable component, if any with the latter being shown separately in the salary scales.

## ANNEX IX

## Draft resolution proposed for adoption by the General Assembly

[As the comprehensive review of the pensionable remuneration and consequent pensions of staff in the General Service and related categories is also dealt with in the annual report of the International Civil Service Commission, the paragraphs in the draft resolution on this matter will be formulated on the basis of the General Assembly's consideration of the relevant portions of the respective reports of the United Nations Joint Staff Pension Board and of the International Civil Service Commission. The Board believes, however, that the resolution should contain the following preambular and operative paragraphs:]

*The General Assembly*,

*Recalling* its resolutions 46/242 of 21 December 1990, 46/192 of 20 December 1991 and 47/203 of 22 December 1992,

*Having considered* the report of the United Nations Joint Staff Pension Board for 1993 to the General Assembly and to the member organizations of the United Nations Joint Staff Pension Fund, *a*/ chapter III of the report of the International Civil Service Commission, *b*/ and the related report of the Advisory Committee on Administrative and Budgetary Questions, *c*/

### I

### PENSIONABLE REMUNERATION OF STAFF IN THE GENERAL SERVICE AND RELATED CATEGORIES

[Paragraphs to be formulated, including the amendment to article 54 (a) of the Regulations of the Fund, on the basis of the General Assembly's consideration of the relevant portions of the respective reports of the United Nations Joint Staff Pension Board and of the International Civil Service Commission.]

### II

### ACTUARIAL MATTERS

1. *Takes note* of the observations of the United Nations Joint Staff Pension Board in section III.C of its report *a*/ on the methodology and assumptions to be used in the actuarial valuation of the United Nations Joint Staff Pension Fund as at 31 December 1993, in particular the changes in the rates of mortality for pensioners and the rates of incidence of disability as set out in paragraphs 108 and 109, respectively, of the report of the Board;

2. *Takes note* of the observations of the Board and the Committee of Actuaries on the request made by the General Assembly in resolution 47/203 that the Board consider the form in which it presents the results of the actuarial valuations, and of the intention of the Board to report on this matter, following discussion with the Board of Auditors, to the Assembly at its forty-ninth session;

3. *Takes note* of the observations of the Board in section III.C of its report *a*/ on matters related to the operation and application of the transfer agreements that had been concluded, effective 1 January 1981, between the United Nations Joint Staff Pension Fund and the former Union of Soviet Socialist

Republics, Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic.

III

ADMINISTRATIVE EXPENSES

1. _Approves_ expenses chargeable directly to the Fund, totalling $39,291,900 net for the biennium 1994-1995, and an increase in expenses of $365,400 net for the biennium 1992-1993, for the administration of the Fund;

2. _Authorizes_ the United Nations Joint Staff Pension Board to supplement the voluntary contributions to the Emergency Fund, for the biennium 1994-1995, by an amount not exceeding $200,000.

IV

OTHER MATTERS

_Takes note_ of the other matters dealt with in the report of the United Nations Joint Staff Pension Board.

_Notes_

_a_/ _Official Records of the General Assembly, Forty-eighth Session, Supplement No. 9 (A/48/9)_.

_b_/ Ibid., _Supplement No. 30_ (A/48/30).

_c_/ A/48/___.