United Nations
GENERAL ASSEMBLY
THIRTY-FIFTH SESSION
Official Records*

UNISA COLLECTION

FIFTH COMMITTEE
54th meeting
held on
Thursday, 11 December 1980
at 10.30 a.m.
New York

SUMMARY RECORD OF THE 54th MEETING

Chairman: Mr. BUJ-FLORES (Mexico)

Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. MSELLE

CONTENTS

*This record is subject to correction. Corrections should be sent under the signature of a member of the delegation concerned *within one month of the date of publication* to the Chief of the Official Records Editing Section, room A-3550, 866 United Nations Plaza (Alcoa Building), and incorporated in a copy of the record.

Corrections will be issued after the end of the session, in a separate fascicle for each Committee.

Distr. GENERAL
A/C.5/35/SR.54
16 December 1980

ORIGINAL: ENGLISH

80-58137

/...

The meeting was called to order at 10.35 a.m.

AGENDA ITEM 100: UNITED NATIONS PENSION SYSTEM (*continued*) (A/35/9 and Add.1, A/35/30, chap. III and Corr.1, A/35/720; A/C.5/35/37, A/C.5/35/41 and Corr.1, A/C.5/35/63; A/C.5/35/L.39)

(a) REPORT OF THE UNITED NATIONS JOINT STAFF PENSION BOARD (*continued*)

(b) REPORT OF THE SECRETARY-GENERAL (*continued*)

1. Mr. DESTEFANIS (Italy) said that the most important goals were: first, to ensure that future pensioners would be no worse off financially than present pensioners, and that neither group would suffer hardship as a result of inflation or currency fluctuations; secondly, to extend to General Service pensioners the same protection guaranteed to those in the Professional category and above; and, thirdly, to ensure that the Fund was financially sound so that member organizations would not have to make additional financial contributions under article 27 of the Fund's Regulations and Rules. To achieve those goals, many different requirements had to be reconciled, and a number of unpredictable factors had to be taken into account, *inter alia*, the life span of future pensioners, the rate and extent of increases or decreases in the number of participants, the average age at entry into the Fund, and the expected average length of service.

2. Given that the Fund's income, as explained in paragraph 20 of the Secretary-General's report (A/C.5/35/41) included interest, dividends and both realized and unrealized capital gains, yet another unknown variable was the real value of its capital in relation to inflation and currency fluctuations. Its current level was reportedly considerably more than $1.8 billion, but it remained to be seen whether that would be sufficient to meet all obligations.

3. Turning to the draft resolution in annex VI to the report of the United Nations Joint Staff Pension Board (A/35/9), he noted that the definitions reflected the joint proposal of the International Civil Service Commission (ICSC) and of the Board with respect to pensionable remuneration. While his delegation would have preferred a simpler, less costly scheme, it was prepared to support the proposal on the understanding that its operation would be carefully monitored by the Board and reviewed by the General Assembly, perhaps in three years' time.

4. His delegation whole-heartedly approved of the request for special arrangements for pensions below $4,000 a year, and also supported the admission to the Fund of the International Centre for the Study of the Preservation and the Restoration of Cultural Property, in view of the fact that the United Nations Educational, Scientific and Cultural Organization could not provide coverage for the staff of that institution.

5. The transfer of pension rights from the Fund should be approved in so far as the agreements followed the pattern already set, since such transfers facilitated staff mobility between national and international civil services. The proposal to renew the Fund's authority to grant *ex gratia* payments of up to $100,000 for

/...

(Mr. Destefanis, Italy)

another year enjoyed his delegation's support; it concurred with the observations of the Advisory Committee with respect to approval of administrative expenses for 1981 and supplementary expenses for 1980 in the sums of $4,744,200 and $181,700 respectively.

6. A prudent approach should be taken to the new scheme. It was hoped that the Board's monitoring during an initial trial period would show that it was possible to meet the needs of pensioners adequately without impairing the Fund's financial soundness. In response to General Assembly resolution 34/221, the two competent bodies with expertise in the field had presented a compromise, but approval of the proposals would in no way close the door to a future comprehensive examination of the United Nations salary and pension systems from the global perspective, instead of solely from the perspective of one particular national civil service.

7. Mr. LANDAU (Austria) welcomed the fact that the Board and ICSC had produced a set of agreed proposals to make the United Nations pension system more responsive to the severe fluctuations in salary and pension levels brought about by high inflation and by drastic changes in the relationships between major currencies.

8. The most important subject covered by the Board's report (A/35/9) was the determination of pensionable remuneration and the establishment of proper pension levels taking account of differences in income levels and cost of living at different places of retirement. The establishment of a system for the initial adjustment of pensions to correct major disparities in the purchasing power of pensions established on a uniform basis at different places of retirement, as explained in considerable detail in annex V to that report, was basically sound, and his delegation could also agree to the application of the system to the General Service category. It did, however, have some reservations concerning the extent to which those adjustments were being applied. The initial adjustment for pensioners residing in high cost-of-living countries could reach about 50 per cent at the P-2 level, the percentages declining for pensioners who had served at higher grades.

9. In the light of the adoption of draft resolution A/C.5/35/L.31/Rev.1, which established new levels of pensionable remuneration, he inquired of the Chairman of the Board what effect those new scales, which were to be adjusted periodically by the United States consumer price index, would have on the revised pension adjustment scheme as set out in annex V. In particular, he wondered whether pensions would be substantially higher than the illustrations given.

10. Bearing in mind the very substantial improvements proposed by the Board and by ICSC, and the observations of the Advisory Committee in paragraph 32 of its report (A/35/720), his delegation fully shared the view expressed in paragraph 33 of that report on the need for ICSC to give high priority to the elaboration of a special index for pensioners. The differing impact of national taxation on United Nations pensions was probably the most important single factor to be taken into account in the development of such an index, and that complex matter required expert handling. That implied the continued involvement of ICSC and its subsidiary groups, as well as of the secretariat of the Fund and the Board.

/...

(Mr. Landau, Austria)

11. The Board was, of course, assisted by the Committee of Actuaries and by an Investments Committee, while ICSC could rely on the expertise of the Advisory Committee on Post-Adjustment Questions. However, in the opinion of his delegation, the work of examining the effect of national income tax on United Nations pensions could gain substantially from the addition of a group of tax experts. In that respect, he referred to the need to answer the very important question raised in paragraph 34 of the Advisory Committee's report.

12. It would have been helpful if information had been made available on the pensions received by national civil servants who had served in comparable positions in the countries of retirement of United Nations pensioners. Such a comparison was as necessary as that between United Nations salary levels and those of the comparator civil service.

13. In the light of the information given in paragraph 62 of the Board's report, his delegation could accept the proposal that the measures should be extended only to existing pensioners whose entitlement had commenced after 1977. It welcomed the modest adjustment proposed in section E of annex V of the Board's report for pensions below $4,000 a year as a step in the right direction.

14. Once it had successfully disposed of the problem of the initial adjustment of pensions, the Board should take up the question of the welfare of the hundreds of pensioners who had retired many years ago but who, because of their relatively advanced age on entry to the system, had not had a chance to accumulate adequate retirement benefits. The benefits had been increased at frequent intervals, but more needed to be done. A proposal had been submitted by the Board some years previously involving the recalculation of benefits on the basis of the most recent final average remuneration in force. That could yield substantial increases in pensions for those who had retired many years ago; since the number of such pensioners still alive should be small, the cost should be low. Similarly, a proposal to pay a 10 per cent supplement to pensioners who had reached the age of 75, in recognition of their additional needs as a result of advanced age and infirmity, should be actively pursued. A document on that subject had already been prepared by the secretariat of the Fund, and the Board should be requested to study the proposals and to report thereon to the General Assembly at its thirty-sixth session.

15. In general, his delegation was in agreement with most of the comments made on the Board's report by the Advisory Committee. However, in the light of the extensive demands which would be placed on the staff of the Fund as a result of the introduction of the new adjustment system, it might be more prudent to give the secretariat all the resources which the Board considered essential. In that connexion, he agreed with the comments made by the Chairman of the Board that it would be paradoxical to effect improvements in the pension system and yet not facilitate their implementation. He suggested that the Advisory Committee's recommendations should be amended in the light of the comments made by the Chairman of the Board.

16. Mr. ARGUELLES (Philippines) said that his delegation agreed with the proposal of the Joint Staff Pension Board in paragraph 31 of its report and with the principle that pensionable remuneration for contribution purposes should not be allowed to fall below the level of pensionable remuneration for benefit purposes. Pensionable remuneration for contribution purposes should continue to be indexed in accordance with the movement of WAPA. In that connexion, his delegation would oppose any change in the budget requirements of Member States for their share of contributions to the Fund.

17. While the proposed new system would increase the actuarial liabilities of the Fund, it was to be hoped that the increase could be met by long-term savings expected to result from the replacing of WAPA by the United States CPI for the purpose of indexing pensionable remuneration used to compute benefits for participants in high-cost countries. His delegation had no difficulty in supporting the transitional measures for existing pensioners outlined in paragraphs 63 to 65 of the Board's report. It commended the Board's decision to increase pensions based on 15 or more years of service that amounted to $4,000 or less, so as to provide progressively larger adjustments to the smallest pensions.

18. His delegation had no objection to the proposed modification of the pensionable remuneration of the General Service category. It would appreciate further details concerning the objections of FICSA to the establishment of a new global scale of assessment at the current time. ICSC had concluded that the pension benefits of the General Service category could not be related to those of the Professional category in the absence of any guidelines or methodology to compare pension entitlements. That was a subject which the General Assembly might wish the Board and the Commission to study as soon as possible. His delegation felt strongly that the General Service staff should not be the losers in any package intended to improve the status of United Nations pensioners throughout the world.

19. He endorsed the recommendations of the Board and the Advisory Committee that the International Centre for the Study of the Preservation and the Restoration of Cultural Property should be admitted to membership in the Fund and the agreements entered into by the Board with the Governments of the Soviet Union, the Byelorussian SSR and the Ukrainian SSR. It was to be hoped, however, that the Governments of those three countries would give satisfactory assurances regarding the protection of the pension rights of individuals covered by the agreements.

20. The administration of the Pension Fund was of great importance in ensuring that services to pensioners were expeditious and efficient. The normal workload of the Fund's secretariat had been growing as a result of the complexities of the pension adjustment system and appropriate backstopping should be provided for its functions and activities. The administrative costs of the Fund were well within the desirable range, while the increase in investment costs was well justified. His delegation supported the request for two temporary posts at the P-3 and G-5 levels, the reclassification requests made by the Board, and the supplementary estimates for 1980 amounting to $181,700.

/...

(Mr. Arguelles, Philippines)

21. His delegation endorsed the purposes of the Emergency Fund and supported the Board's recommendation that the annual limit of $100,000 should be maintained, to be supplemented by voluntary contributions from member organizations, as recommended by the Advisory Committee.

22. He expressed his delegation's confidence that the Secretary-General and the Investments Committee would pursue a rational policy of diversifying the Fund's investments in keeping with the guidelines laid down by the General Assembly and the regulations of the Fund. As the value of the Fund's assets increased, greater care was needed in managing its investments. He welcomed the increase in direct investments in developing countries and hoped that the Investments Committee would make further efforts to identify additional investment opportunities in developing countries, while at the same time increasing support by the Fund for major development institutions and regional development banks.

23. Mr. RUEDAS (Assistant Secretary-General for Financial Services) introducing the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund (A/C.5/35/41 and Corr.1), said that, in seeking to take action pursuant to General Assembly resolution 34/222, the Secretary-General had encountered certain problems with respect to the call for a possible decrease in investments in transnational companies. Those problems, which were clearly stated in the report, related to the lack of definition of a transnational company and to the fact that the participation of such companies in high-growth areas such as technology meant that they tended to provide the highest investment returns; in addition, many of those companies were encouraged to invest in developing countries by the Governments of those countries. If the Fund divested itself of all its investments in transnational companies, the returns on investments would in all probability decline and investment prospects in developing countries would be neglected.

24. The main objective of resolution 34/222 was to increase investment by the Pension Fund in development-oriented equities and securities. The Secretary-General had been successful in pursuing that objective, in spite of the difficulties described in his report. Although marketable equity investments in developing countries often provided better returns than investments in developed countries, domestic securities markets in developing countries, where they existed, were relatively small. Greater time and effort were required to identify suitable investments in developing countries, while many such countries placed restrictions on portfolio investors who were not domiciled there. The development of capital markets was a slow process. The Fund's investments in development-related public bonds and equities had increased by $100 million as at the end of June 1980 and by more than $30 million between that date and the end of October 1980. The increase represented a substantial share of the funds which had become available for investment during the period. Investments in Africa had increased by 75 per cent during the year ending 31 March 1980. That figure had to be viewed with some caution, however, in view of the low base. Investments in Africa had increased by a further 10 per cent since 30 June. Indeed, there was no African country which had floated a public bond issue that was not represented in the Fund's portfolio. A survey mission had visited Africa

/...

(Mr. Ruedas)

in 1980 and had helped to increase the Fund's knowledge of the region and its capital markets. The Secretariat was monitoring investment opportunities in a number of countries and was considering the possibility of sending a follow-up mission in 1981.

25. It was essential to distinguish between "portfolio investment" and direct investment in developing countries. If the Secretary-General was required to develop the capability to make direct investments in developing countries, the costs of administering the Fund would increase substantially since it would have to duplicate the expertise existing in the World Bank and other international financial institutions. Accordingly, as recommended by the Investments Committee, the Secretary-General had adopted a policy of supporting development institutions as the most effective means of increasing development-oriented issues in the Fund's portfolio.

26. During the year under review, the Fund had had to cope with a major decline in bond markets, substantial falls in the value of currencies other than the United States dollar and significant decreases in the value of some equity markets outside the United States. As a result, there had been a negative return on the entire portfolio. Total return should be understood as comprising income actually received in the form of interest and dividends and changes in the market value of the Fund's investments. It was therefore a theoretical calculation. As at the end of December 1979, the market value of the Fund's assets had been $2,007 million; by 31 March 1980 it had fallen to $1,875 million, the figure used to calculate the negative return referred to in the Secretary-General's report. The main reason for the decline in value had been the temporary increase in the value of the United States dollar in relation to other major currencies. Such a situation was bound to occur in a diversified portfolio, half the assets of which were invested in securities denominated in currencies other than the United States dollar. A short time later, in April 1980, the market value of holdings had risen to $2,040 million. Thus the negative return reported by the Secretary-General should be viewed as a momentary phenomenon. At the preceding session, the Secretary-General had reported a return on the Fund's investment that was the second highest in 20 years. It was essential, therefore, to take a long-term view of the Fund's performance. The average return over 20 years had been 5.49 per cent, which was quite satisfactory in comparison with the performance of other pension funds.

27. Private investors were free to pursue investment opportunities with high returns and high levels of risk. The management of the Fund, however, had a fiduciary responsibility to invest prudently. The Fund's policy of diversifying its portfolio meant that it did not always earn the highest possible rate of return, but disasters and a fundamental deterioration in the value of its assets were avoided. By way of example, he indicated that in 1980 the return on investments in United States equities had been 10 per cent, while the yield on investments in equities outside the United States had been minus 10 per cent. In the year ending 31 March 1978, on the other hand, investments outside the United States had earned 20 per cent, while United States investments had shown a negative return of minus 5.6 per cent. Thus, with perfect hindsight, the Fund should have put all its assets in investments outside the United States after 1978. That would have been

/...

(Mr. Ruedas)

a brilliant investment decision, carrying with it a very high risk, but the over-all performance of the Fund would have suffered.

28. The only certainty in investment was that change and uncertainty would continue to prevail. The Secretary-General, in consultation with the Investments Committee, would continue his efforts to preserve the assets of the Fund, to enhance return by means of diversification, to secure the best professional advice at every moment, and to increase investment in developing countries, especially in Africa, in accordance with the basic principles governing the Fund's investments.

29. Mr. JASABE (Sierra Leone) said that African financial institutions, which were already well established, were becoming increasingly interested in attracting outside capital and had made great efforts to meet the requirements of the portfolio investor. In that light, given the highly variable rate of return of the Fund's investments in past years and in view of the call to the Secretary-General in resolution 34/222 to sell the Pension Fund's holdings in transnational corporations and reinvest the proceeds in developing countries, particularly in Africa, he wondered to what extent the considerations of liquidity, profitability and convertibility invoked by the Secretary-General in paragraph 17 of his report (A/C.5/35/41) in justification of the Fund's current, monetaristic investment policies had affected the Fund's holdings in transnational corporations, how much in total was invested in such corporations and whether that amount was greater or less than the amount invested before the adoption of resolution 34/222. He also asked whether the Investments Committee had had any contact with the African Centre for Investment or the central banks in African countries, and whether the amount invested in the African Development Bank had risen during the past year.

AGENDA ITEM 92: MEDIUM-TERM PLAN FOR THE PERIOD 1980-1983 (continued)

Identification of activities that have been completed or are obsolete, of marginal usefulness or ineffective (continued) (A/35/709; A/C.5/35/40 and Add.1; A/C.5/35/L.36)

30. Mr. FRASER (United Kingdom) said that the sponsors of draft resolution A/C.5/35/L.36 had agreed, after consultations with other delegations, to make a number of revisions in the draft. The first foot-note should refer to documents A/C.5/35/40 and Add.1. Paragraph 2 should read:

> "Decides to terminate the activities identified in the Secretary-General's report as obsolete, ineffective or of marginal usefulness, taking into consideration the opinions of competent bodies;"

and paragraph 3:

> "Approves the proposals of the Secretary-General that an integrated and comprehensive procedure for the identification of completed, obsolete, ineffective and marginally useful activities should be established within the framework of the planning, programming and budgeting cycles of the United Nations;".

/...

(Mr. Fraser, United Kingdom)

The phrase "an in-depth study" in paragraph 4 should be replaced by the words "a comprehensive study", and in paragraph 5 "at its twenty-first session" should be substituted for "in the context of this study". Finally, the closing phrase of paragraph 6 should be amended to read: "... for the consideration of the Committee for Programme and Co-ordination and the Advisory Committee on Administrative and Budgetary Questions in their examinations of the programme budget proposals;".

31. The CHAIRMAN suggested that the Committee should adopt the draft resolution as orally revised.

32. It was so decided.

33. Mr. ABRASZEWSKI (Poland) welcomed the fact that the draft resolution on the elimination of obsolete, ineffective and marginally useful programmes had been adopted without objection, since the matter was one close to his delegation's heart. While he entirely agreed with the formulation of the second preambular paragraph, he felt that the subject should begin to be looked at in a broader perspective: as a means not only of financing new activities, but also of enhancing the effectiveness of the United Nations generally. The reference to "competent bodies" in paragraph 2 met his delegation's concern that intergovernmental bodies should always be the ones to decide whether a given activity ought to be terminated. That procedure must continue to be followed. His understanding of the reference in the following paragraph to the "planning, programming and budgeting" cycles of the Organization was that the programme budget was of paramount importance. In conclusion, he welcomed the assurances given to the Committee that the Secretary-General would report to both CPC and ACABQ on the results of his efforts in the context of his programme budget submissions.

34. Mr. BROTODININGRAT (Indonesia) said that his delegation had joined the consensus on the draft resolution in part because the draft still allowed scope for further study by CPC, the Economic and Social Council and the General Assembly itself of the methods and criteria used to determine when a programme had become obsolete, ineffective or of marginal usefulness. Regarding the forthcoming study by CPC, he stated that he appreciated the import and impact of the exercise in optimizing the efficiency and effectiveness with which the Secretariat used resources, but could in no circumstances accept any attempt to use the study and the consequent redeployment of resources as a pre-condition for the financing of new activities. And, as in the case of the planning process, his delegation attached great importance to involvement of sectoral and regional intergovernmental bodies in the identification of programmes that were obsolete, ineffective or of marginal usefulness.

35. Mr. TOMMO MONTHE (United Republic of Cameroon) said that his delegation had also joined the consensus although it was not altogether happy with paragraph 6, whose effect would be to make the identification of obsolete and ineffective programmes a part of the budgetary, rather than the planning, exercise. Had that paragraph been the subject of a separate decision, he would have reserved his delegation's position on it.

The meeting rose at 12.30 p.m.