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UNITED NATIONS PENSION SYSTEM

Report of the Advisory Committee on Administrative and Budgetary Questions

I. INTRODUCTION

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board to the General Assembly at its fifty-first session. 1/ The Advisory Committee also had before it the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund (UNJSPF) (A/C.5/51/4) and the report of the Board of Auditors to the General Assembly on the accounts of UNJSPF for the year ended 31 December 1995. 2/ During consideration of these matters, the Advisory Committee met with representatives of the Secretary-General and the secretariat of UNJSPF, as well as with the Audit Operations Committee, in regard to the report of the Board of Auditors.

II. ACTUARIAL MATTERS

2. Paragraphs 15 to 51 of the report of the Pension Board 1/ deals with actuarial matters, including the results of the twenty-third actuarial valuation of the Fund as at 31 December 1995; the previous valuation was prepared as at 31 December 1993 and its results were reported to the General Assembly at its forty-ninth session in 1994. 3/ The actuarial valuation determines whether the present and estimated future assets of the Fund will be sufficient to meet its liabilities.

3. The Advisory Committee notes from paragraph 24 of the current report that the Pension Board approved the actuarial assumptions recommended for the Committee of Actuaries to serve as the basis for the regular valuation as at 31 December 1995. The basic assumptions for the regular valuation as at 31 December 1995 reflect significant changes in the demographic and economic

assumptions used for the regular valuation as at 31 December 1993. These changes are described in paragraph 20 of the Board's report.

4. As indicated in paragraphs 25 and 26 of the Pension Board's report, as at 31 December 1995, the actuarial imbalance is 1.46 per cent of the pensionable remuneration, a decrease of 0.03 per cent, as compared with the imbalance of 1.49 per cent of pensionable remuneration as at 31 December 1993. The elements contributing to the decrease in the imbalance are described in paragraph 26. Upon inquiry, the Advisory Committee was informed that the decrease in the imbalance of 0.41 (as a percentage of pensionable remuneration) attributable, in paragraph 26 (f), to "changes in actuarial methods and assumptions, including recognition of the two-track adjustment system" included implicitly the following increases and decreases in the imbalance:

	Percentage
(a) Change in new entrant distribution methodology to include a five-year inflation indexed average	(0.6)
(b) Change in economic assumptions to 5 per cent inflation adjustments of benefits in award; 5.5 per cent increases in pensionable remuneration, in addition to increases for promotions and step increases; and 8.5 per cent nominal return	(2.0)
(c) Adoption of a lower new entrant growth assumption (five-year growth, with zero growth thereafter)	0.29
(d) Inclusion of explicit recognition for the two-track pension adjustment system	1.90
Total	(0.41)

5. In paragraph 32 of the report, the results of the actuarial valuation of the Fund are also presented in dollar terms. The Advisory Committee notes, however, as discussed in paragraph 34, that, when the actuarial imbalance is expressed in dollar terms, it should only be considered in relation to the magnitude of liabilities of the Fund rather than in absolute terms. As at 31 December 1995, the projected deficit in dollar terms represents 4.0 per cent of the projected liabilities of the Fund, as compared with 4.3 per cent of the projected liabilities as at 31 December 1993. The Advisory Committee was furnished with a table showing the actuarial imbalance since 1980 both in absolute terms and as a percentage of projected liabilities (see the annex to the present report).

6. As indicated in the Pension Board's report (para. 50 and annex V, para. 2), the Board accepted the opinion of the Committee of Actuaries and the Consulting Actuary "that the present contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1997, and in the light of future developments". The Advisory Committee shares the view of the Board, as stated in paragraph 51, that the results of the valuation, as at 31 December 1995, are

satisfactory. However, in the light of the actuarial situation of the Fund, the Advisory Committee believes that, at the present juncture, a cautious approach should be taken with regard to any further improvement in benefits that may lead to a review in the rate of contributions.

7. As regards the interest (discount) rate applicable to lump-sum commutation of periodic benefits under article 28 (g) of the Regulations of the Fund, the Advisory Committee notes from paragraph 63 that the Board decided to retain the current 6.5 per cent rate and requested the Committee of Actuaries to re-examine this matter in all its aspects. The Board will review it in 1998, based on the results of the next actuarial valuation of the Fund and any other pertinent information that may be provided by the Secretary of the Board. In this regard, the Advisory Committee is of the view that caution should be exercised so that any change in the current interest rate does not further increase the actuarial imbalance.

8. The Advisory Committee notes from paragraphs 64 to 68 of the Board's report that the Board decided to recommend that the General Assembly amend articles 28 (d) and 28 (g), as indicated in annex XIV to the Board's report, in order to conform with revised maximum periods of creditable contributory service approved by the General Assembly in its resolution 49/224 of 23 December 1994.

III. INVESTMENTS OF THE PENSION FUND

9. As stated by the Secretary-General in his report (A/C.5/51/4, paras. 14 and 20), the market value of the Fund's assets increased by $3,005 million, from $12,534 million on 31 March 1994 to $15,539 million on 31 March 1996, or 24 per cent. The total investment returns for the years ended 31 March 1995 and 31 March 1996 were 8.7 and 14.6 per cent, respectively. After adjustment by the United States consumer price index, the "real" rates of return for the years ended 31 March 1995 and 31 March 1996 were 5.6 and 11.5 per cent, respectively. The cumulative annualized total rate of return over the 36-year period for which data are available was 8.8 per cent, or a "real" rate of return of 3.7 per cent, after adjustment by the United States consumer price index.

10. The Advisory Committee shares the view of the Board, as expressed in paragraph 100 of its report, and notes the good investment performance reported by the Secretary-General for the Fund as at 31 March 1996.

11. With regard to the establishment of an investment benchmark discussed in paragraph 94 of the Board's report, the Advisory Committee notes that it is expected that the benchmark will be in place by January 1997. The Advisory Committee is of the opinion that, in the light of the uniqueness of the Fund's portfolio and its requirement to minimize investment risk, the establishment of a benchmark to compare the Fund's performance must be done with caution and that a pragmatic approach must be followed. This should take into account the Fund's investment policy, which states that, at the time of purchase, all investments of the Fund must meet the criteria of safety, profitability, liquidity and convertibility. These principles have been advocated repeatedly by the Advisory Committee, the Pension Board and the General Assembly.

IV. INVESTMENTS COMMITTEE

12. Article 20 of the Regulations of the Fund provides that members of the Investments Committee shall be appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee. The Secretary-General has conveyed to the Board the names of four members of the Investments Committee whom he intended to propose to the General Assembly after consultation with the Advisory Committee. 4/ The Advisory Committee has written in this regard to the Secretary-General to convey its concurrence.

13. The terms of the members have been staggered in order to provide for continuity in the membership of the Investments Committee. In this connection, the Advisory Committee recalls the principle that, as in the case of membership of other expert committees, no two members shall be nationals of the same State, and the members should be selected on the basis of broad geographical representation, personal qualifications and experience. The Advisory Committee requested the Secretary-General to report to the General Assembly on the application of this principle to the membership of the Investments Committee.

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

14. The Advisory Committee notes that the Board of Auditors examination of the Fund revealed no weaknesses or errors considered material to the accuracy, completeness or validity of the financial statements of the Fund. 5/

15. As indicated in paragraphs 111 and 112 of its report, the Pension Board decided to recommend that the General Assembly request the Secretary-General to continue to make available to the Fund the United Nations machinery for contracting and procurement. These arrangements for the Fund would be carried out in conformity with the applicable Financial Regulations and Rules of the United Nations.

16. The Advisory Committee notes that recommendations with respect to the Fund’s contracting and procurement actions made by United Nations services would be submitted directly to the Secretary of the Fund for decision. In this connection, the Advisory Committee was provided with the legal opinion of the United Nations Legal Counsel confirming that contracting and procurement activities of the Pension Fund fall within the administrative responsibilities of the Secretary of the Board. The Secretary serves as the Chief Executive Officer of the Fund and is responsible for its operations and management; he is accountable to the Pension Board, which in turn reports to the General Assembly.

17. With respect to internal auditing arrangements for the Fund, the Advisory Committee notes from paragraph 116 that the Pension Board decided to maintain its prior decision to assign the internal audit function for the Fund to the Office of Internal Oversight Services. Furthermore, taking into account the recommendation of the Advisory Committee in its previous report on the subject (A/50/7/Add.1, para. 15), the Board agreed that internal audit reports prepared by the Office on the Fund’s operations and activities should be transmitted to the Secretary of the Board. The results of internal audits of the investments

of the Fund would be communicated by the Office to the Secretary-General of the United Nations, through his designated representative, and to the Secretary of the Board. 6/

18. In paragraph 122 of its report the Pension Board requested the Secretary to report to the General Assembly on the detailed measures taken, as well as those already under consideration, to strengthen the verification process. As indicated in paragraph 118, the Board had decided not to endorse a recommendation made by the Board of Auditors that widows and widowers should be required to submit to the Fund, at regular intervals, notarized affidavits to the effect that they had not remarried. Instead, the Board had requested the Secretary to continue to explore new technologies and procedures aimed at strengthening the verification process.

19. The measures taken by the Secretary of the Board to strengthen the verification process, including those related to the design, preparation and mailing of certificates of entitlement to all beneficiaries of the Fund, are stated in paragraph 119 of the report of the Board. In addition, the Advisory Committee was provided with a detailed list of all actions taken in 1994-1995, as well as those taken or under way in 1996 to enhance the verification process of certificates of entitlement. The Advisory Committee welcomes the steps taken and trusts the Secretary of the Board will implement those under way in a cost-effective and pragmatic manner.

VI. COMPREHENSIVE REVIEW OF THE PENSIONABLE REMUNERATION

20. The Board agreed that the income replacement approach and the current methodology related thereto should continue to serve as the basis for the determination of the pensionable remuneration of staff in the Professional and higher categories and in the General Service and related categories. In so doing, the Board agreed to recommend that the General Assembly maintain the use of the 46.25 per cent grossing-up factor for staff in the Professional and higher categories and 66.25 per cent of the net pensionable salary for grossing-up purposes applicable to the General Service staff and related categories. 7/

21. Paragraphs 153 to 159 of the Board’s report contain the conclusions of the Board on the development of a common scale of staff assessment. The Advisory Committee shares the views expressed by the representatives of the governing bodies represented on the Board, as stated in paragraph 158, to limit, in this time of budget stringencies, potential additional costs to Member States that may result from the proposals under consideration.

VII. PENSION ADJUSTMENT SYSTEM

22. The Advisory Committee notes from paragraph 168 of the report that the Board agreed that the monitoring of the costs/savings of the three changes in the pension adjustment system, stated in paragraph 161, should continue to be reviewed every two years, on the occasion of the actuarial valuation of the Fund.

23. In paragraphs 169 to 178 of the Board's report, the subject of the review of the special index for pensioners is discussed. The Advisory Committee notes from paragraph 178 that the Board concluded that there was no consensus to undertake a further study at the present stage. It also notes that the Board accepted the suggestion that the Federation of Associations of Former International Civil Servants (FAFICS) might examine the issue, in consultation with its member associations, and report its findings to the Board.

24. On the subject of variations in pensions according to dates of separation, discussed in paragraphs 179 to 184 of the Board's report, the Advisory Committee notes from paragraph 184 that the Board concluded that this issue had been studied for many years and that any further studies would undoubtedly reach the same conclusions. The Advisory Committee notes that the Board decided that this matter should not be pursued further.

25. Paragraphs 185 to 220 of the Board's report address the problems related to the determination of local currency track pensions in countries where significant changes had taken place in the relationship between the local currency and the United States dollar, through the introduction of a new currency unit, following long periods of steep depreciation of the previous currency unit(s) and high inflation rates. The Board decided to recommend the changes to the pension adjustment system suggested by the Secretary of the Board (see annex XV to the Board's report), to be implemented on 1 January 1997 but with retroactive effect to 1 January 1996. 8/ The Advisory Committee concurs with the recommendation of the Board.

26. As indicated in paragraphs 221 to 227 of the report, at the request of FAFICS, the Board considered a proposed change in the method for determining cost-of-living adjustments of pensions in award. The Advisory Committee notes from paragraph 227 that the Board concluded that it was not in a position to recommend to the General Assembly adoption of either option of the FAFICS proposal stated in paragraph 223.

VIII. IMPLEMENTATION OF TRANSFER AGREEMENTS

27. The Advisory Committee notes from paragraphs 228 to 246 of the Board's report the progress made on activities related to resolving problems concerning the implementation of the transfer agreements between the Fund and the former Union of Soviet Socialist Republics, Ukrainian Soviet Socialist Republic and Byelorussian Soviet Socialist Republic.

28. The Advisory Committee notes from paragraph 246 that the Board approved the proposed agreement set out in annex VI to the Board's report between the Government of the Russian Federation and the United Nations Joint Staff Pension Board. Upon inquiry, the Advisory Committee was informed that the final list of former Fund participants to be covered by the proposed agreement included 349 former participants, as Russian citizens, from the initial list of 433 former participants who had had five or more years of contributory service and who had transferred their accrued pension rights under the provisions of the existing transfer agreements.

29. As indicated in paragraph 236, under the proposed agreement, retirement benefits similar to those provided under the Fund's Regulations would be paid prospectively to the former participants covered, as from 1 January 1997 or age 60, whichever is later. With regard to the actuarial costs, the Advisory Committee was informed that the actuarial costs related to all initial 433 cases were estimated at $47.8 million, based on the use of the assumptions in the regular valuation as at 31 December 1995 (including the Fund's mortality tables, inflation at 5 per cent per annum and interest at 8.5 per cent per annum), with an implementation date as from 1 January 1996. Also included in the total costs was a provision for the administrative costs of implementing the proposed agreement, using the same rate assumed in the actuarial valuations of the Fund, namely 0.18 per cent of pensionable remuneration.

30. The Advisory Committee was informed that with respect to the actuarial costs related to the identified 349 Russian citizens covered under the proposed agreement, as required by the protocol attached to the proposed agreement (see annex VI to the Board's report), revised actuarial estimates would be calculated, taking into account the new proposed implementation date, which was 1 January 1997.

31. The Advisory Committee notes from paragraph 237 that the proposed agreement would not enter into effect until the first of 10 annual instalment payments of the actuarial cost involved had been made to the Fund by the Government of the Russian Federation. Upon inquiry, the Advisory Committee was informed that the proposed agreement would include an interest rate of 8.5 per cent.

32. The Advisory Committee concurs with the view of the Board that, while a single comprehensive agreement would have been preferred, the proposed agreement represents an important step towards attaining the objective of resolving claims of all former participants from the former Union of Soviet Socialist Republics. 9/ In this connection, the Advisory Committee joins the Pension Board in requesting the Secretary of the Board to continue his efforts to achieve a solution relating to the claims of those former participants who are nationals from the other countries concerned and thus would not be covered by the proposed agreement, as well as those who separated before the transfer agreements entered into effect (i.e., before 1981), and those who transferred their pension rights but had had less than five years of contributory service when they separated. 10/

IX. OTHER MATTERS

33. The Advisory Committee notes from paragraph 251 of the Board's report that the Board agreed to a further examination of the procedure for determining the final average remuneration. The Board will revert to the matter in 1998 on the basis of a report by the United Nations Staff Pension Committee.

34. In paragraphs 252 to 261, the subject of the suspension of benefits in cases of re-employment in a member organization is discussed. As indicated in paragraph 261, the Board concluded that further consideration of the issue of a possible amendment of article 40 (a) of the Fund's Regulations should be deferred, pending the General Assembly's consideration and action on the report

of the Secretary-General (A/C.5/51/2) on the question of employment of retirees by the United Nations. The Advisory Committee's report on this issue is contained in document A/51/475.

35. Issues related to entitlement to survivor's benefits for spouses and former spouses are covered in paragraphs 262 to 283. The Board agreed to pursue further its examination of issues on confidentiality of pension information and related changes in the Fund's administrative rule B.4 and on a World Bank-type facility for family support orders. The Advisory Committee notes that the Board was not ready to pursue the more far-reaching issues, such as those requiring revision of articles 34 and 35 of the Fund's Regulations, providing for surviving spouse's benefits in certain cases of marriage after separation from service, and for divorced spouses, which in all likelihood would give rise to actuarial costs.

36. Paragraphs 284 to 300 of the Board's report deal with the possible withdrawal of the Interim Commission for the International Trade Organization/ General Agreement on Tariffs and Trade (ICITO/GATT) from membership of the Fund. The Board concluded that it had not been presented with a formal request from ICITO/GATT for withdrawal from the Fund and was not able to take a particular position on the matter. The Advisory Committee was informed that the General Council of the World Trade Organization (WTO) could not reach a consensus in September 1996 as to whether or not to establish a separate pension scheme for that organization. The Council decided to defer examination of the issue to a later date. The Advisory Committee views with regret the possibility of a withdrawal of ICITO/GATT from the Fund. The Advisory Committee recommends that the General Council of WTO take into account the potentially serious implications of a withdrawal from the Fund prior to reaching a decision.

37. As indicated in paragraph 301, the Board considered a provisional application for membership in the Fund from the International Tribunal for the Law of the Sea. The Board decided, in paragraph 304, to recommend to the General Assembly that it give conditional approval to the Tribunal's application for membership, as from a date yet to be established, following confirmation by the secretariat of the Fund and of the International Civil Service Commission (ICSC) at that time, that the Tribunal "participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies".

38. The International Seabed Authority has expressed interest in becoming a member organization of the Fund as from 1 January 1998. The Advisory Committee notes that, should the Board make a favourable recommendation with respect to the application for membership by the Authority, the issue would be submitted to the General Assembly for approval at its fifty-second session. 11/

X. ADMINISTRATIVE EXPENSES

39. The subject of administrative expenses incurred by the Board in the administration of the Fund, including the costs of its secretariat and of its investment management services, is discussed in paragraphs 306 to 337 of the Board's report.

40. In paragraphs 330 and 331, the Board recommended that the General Assembly approve the establishment of two new posts at the P-5 level and the conversion of four temporary posts (1 P-4 and 3 General Service posts) to established posts for the Investment Management Services of the Pension Fund. The Advisory Committee concurs with the recommendation of the Board. The Advisory Committee also notes from paragraph 317 that the Investment Management Services has experienced difficulty in recruiting and retaining high-quality staff. In this connection, the Advisory Committee recalls that the General Assembly, in section I.A of its resolution 50/208 of 23 December 1995, took note "of the recruitment and retention problems faced by some organizations in respect of certain specialized occupations" and recalled "its endorsement in principle of the use of special occupational rates in organizations with problems of recruitment and retention", and, in that context, requested the Commission "to make recommendations regarding the conditions for the application of such rates, as appropriate". The Advisory Committee will revert to this issue in the context of its examination of the administrative budget of the Fund for 1998-1999. The Advisory Committee notes that the Board also decided to revert, at its next session, to the proposed reclassification of the post of Chief of the Investment Management Services from the D-1 to D-2 level. 12/

41. In paragraph 333, the Board decided, pursuant to article 15 (b) of the regulations of the Fund, to submit revised estimates for the biennium 1996-1997, amounting to $41,395,500. These include administrative costs of $13,979,000, investment costs of $26,974,300 and audit costs in the amount of $442,200, as explained in paragraphs 318 to 324 and 333. The Advisory Committee has no objection.

42. The Advisory Committee notes that the additional resources requested under administrative costs ($476,400) relate primarily to additional computer operation costs to be incurred by the Fund's secretariat as a result of the decision taken by the United Nations Secretariat to move its mainframe computer operations to the International Computer Centre (ICC) in Geneva (A/51/9, para. 333).

43. Upon inquiry, the Advisory Committee was informed that in November 1995, the Fund's secretariat, as well as other users of the New York Computer Service (NYCS) mainframe, had received a copy of a study undertaken by a consulting firm. The objective of the study was to evaluate alternatives for mainframe processing service for New York-based mainframe applications and its scope encompassed all mainframe-related services managed by the Electronic Services Division of the United Nations Secretariat. Thereafter, the Fund received an indication from the United Nations that all mainframe processing would be shifted to ICC by the end of 1996 (now revised to March 1997). For the remainder of the biennium 1996-1997, the Fund's mainframe needs will be met by ICC as part of its service to the United Nations, at no additional cost to the Fund. For the 1998-1999 biennium, the Fund will assess the merits and costs of becoming a separate and independent ICC user, rather than be subsumed under the United Nations.

44. The Advisory Committee was further informed that the Fund had always received computer support services from NYCS at rates that took into account, inter alia, that the Fund's secretariat also served as the local secretariat of

the United Nations Staff Pension Committee under a cost apportionment with the United Nations, explained in paragraph 310 of the Board's report. Although the Fund has established certain computer facilities to improve its operations, such as the creation of an optical-based imaging system and its own local area network, the Fund remains heavily dependent on mainframe operations for its benefit processing, accounting and cash management activities (the Fund accounts for over 50 per cent of the United Nations mainframe capacity utilization).

45. The Advisory Committee notes from paragraphs 334 to 337 that the Board requested its Secretary to prepare both a study on the short-term logistical requirements of the Fund's secretariat, in the context of the Fund's proposed budget for the biennium 1998-1999, and a concept paper, proposing terms of reference for comprehensive study of the requirements of the Fund for the next 10 years or longer. The short-term study, the Advisory Committee was informed, would focus heavily on both the short and longer-term computer needs of the Fund, covering (a) evaluating its outsourcing vendor relationships; (b) identifying opportunities for improvement in the current systems and technology; and (c) recommending a long-term computer strategy.

Notes

1/ Official Records of the General Assembly, Fifty-first Session, Supplement No. 9 (A/51/9).

2/ Ibid., annex III.

3/ Ibid., Forty-ninth Session, Supplement No. 9 (A/49/9).

4/ Ibid., Fifty-first Session, Supplement No. 9 (A/51/9), para. 101.

5/ Ibid., annex III, para. 8.

6/ Ibid., Supplement No. 9 (A/51/9), para. 117.

7/ Ibid., paras. 134 and 142.

8/ Ibid., para. 220.

9/ Ibid., para. 244.

10/ Ibid., para. 246.

11/ Ibid., para. 305.

12/ Ibid., para. 331.

ANNEX

Evolution of the actuarial imbalance of the Fund since 1980 expressed as a percentage of pensionable remuneration, in United States dollars, and as a percentage of projected liabilities

Valuation date	Regular valuation economic assumptions	Required rate of contribution	IMBALANCE: As a percentage of pensionable remuneration	IMBALANCE: In dollar terms (in millions)	IMBALANCE: As a percentage of projected liabilities
31 December 1980	6.5/9/6	27.82	6.82 a/	5 315.7	22.0
31 December 1982	6.5/9/6				
(a) Before changes on 1 January 1983		29.41	8.41 a/	7 057.6	25.6
(b) After changes on 1 January 1983		25.72	4.79 a/	4 018.4	16.4
31 December 1984	6.5/9/6				
(a) Before changes on 1 January 1984 and 1 January 1985		25.94	4.94 a/	4 490.6	16.5
(b) After changes on 1 January 1984 and 1 January 1985		24.76	3.01 b/	2 734.3	10.4
31 December 1986	6.5/9/6	26.15	4.40 b/	3 187.2	13.2
31 December 1988	6.5/9/6	26.21	3.71 c/	3 133.4	10.9
31 December 1990	6.5/9/6				
After measures on 1 January 1990		24.27	0.57 d/	641.0	1.8
31 December 1993 e/	6.5/9/6	25.19 c/	1.49 d/	1 857.1	4.3
31 December 1995 f/	5.5/8.5/5, with 1.9 per cent cost two-track system	25.16 f/	1.46 d/	1 688.7	4.0

a/ Excess over contribution rate of 21 per cent.

b/ Excess over contribution rate of 21.75 per cent.

c/ Excess over contribution rate of 22.50 per cent.

d/ Excess over contribution rate of 23.70 per cent.

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

f/ Reflects reduced inflation assumption from 6 to 5 per cent, corresponding changes in other assumptions, real rate of return of 3.5 per cent in dollar terms and 1.9 per cent expected long-term cost of two-track adjustment system. The latest valuation result also reflects lower assumption as to growth in future number of participants than that reflected in the 1993 valuation results.
