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United Nations pension system

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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-fifth session.[1] The Committee also had before it the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund (UNJSPF) (A/C.5/55/3) and the report of the Board of Auditors to the Assembly on the accounts of the Fund for the biennium ended 31 December 1999.[2] During its consideration of these matters, the Committee met with the Chairman of the Pension Board, representatives of the Secretary-General and the secretariat of UNJSPF.

II. Actuarial matters

2. Paragraphs 14 to 47 of the report of the Pension Board deal with actuarial matters, including the results of the twenty-fifth actuarial valuation of the Fund as at 31 December 1999. The previous valuation had been prepared as at 31 December 1997 and its results were reported to the General Assembly at its fifty-third session in 1998.[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 19 of the current report that the Pension Board approved the actuarial assumptions recommended by the Committee of Actuaries to serve as the basis for the twenty-fifth regular valuation, prepared as at 31 December 1999. Paragraph 23 of document A/55/9 gives the results of the twenty-fifth regular valuation, as compared with the results of the previous valuation as at 31 December 1997. The economic and participant growth assumptions for the regular valuation as at 31 December 1999 were the same as those used in the previous valuation.

4. As indicated in paragraph 24 of the Pension Board's report, the twenty-fifth regular valuation showed, as at 31 December 1999, a decrease of 3.89 per cent in the required contribution rate (from 23.34 to 19.45 per cent), resulting in an actuarial surplus of 4.25 per cent of the pensionable remuneration. The elements contributing to the decrease in the required rate of contribution are described in paragraph 25. As in the previous valuation, the decrease in the required rate of contributions was due mainly to the strengthening of the United States dollar and the investment returns since the last valuation.

5. In paragraphs 28 to 31 of the report of the Pension Board, the results of the actuarial valuation of the Fund are also presented in dollar terms and compared with the magnitude of projected liabilities of

the Fund as at 31 December 1999. The surplus of $5,278.6 million, as at 31 December 1999, under the current regular valuation represented 11.4 per cent of the projected liabilities of the Fund, as compared with the surplus of $417.3 million under the previous valuation, which had represented only 1.0 per cent of the projected liabilities of the Fund. The Committee was furnished with a table showing the evolution of actuarial valuation of the Fund since 1976 both in absolute terms and as a percentage of projected liabilities (see annex to the present report).

6. In paragraph 47 of its report, the Pension Board noted the conclusion of the Committee of Actuaries "that it would be prudent to set aside, for adverse contingencies, a portion of the surplus equivalent in present value to between 2.0 per cent and 2.25 per cent of pensionable remuneration, subject to future review; the balance might be used for benefit/contribution changes. If the experience should continue to be favourable as of the next actuarial valuation (31 December 2001), additional portions of the surplus might then be made available for further benefit/contribution changes" (A/55/9, para. 35). The Board also agreed with the conclusion of the Committee of Actuaries, as indicated in paragraph 37, "that the present contribution rate of 23.7 per cent of pensionable remuneration is sufficient to meet the benefits requirements under the Plan". **The Advisory Committee agrees with this view and recommends that the present contribution rate of 23.7 per cent be retained. In this connection, the Committee recalls the provisions of General Assembly resolution 53/210 of 18 December 1998 "that the Pension Board should continue to monitor closely the evolution of the actuarial valuation of the Fund and that no attempt should be made to reduce the present rate of contributions to the Fund or change any other features unless and until a pattern of surpluses emerges in future valuations."**

7. A review of the two conditional decisions taken by the Pension Board and reported to the General Assembly in 1998 are discussed in paragraphs 48 to 56 of the report of the Pension Board. These were in respect of (a) changing the interest rates applicable to lump-sum commutations of periodic benefits, under article 28 (g) of the regulations of the Fund, from 6.5 to 6.0 per cent, with respect to contributory service performed as from 1 January 2001; and (b) recommending to the Assembly that the threshold for effecting cost-of-living adjustments of pensions in award be reduced from 3 to 2 per cent, effective from the adjustment due on 1 April 2001. **The Advisory Committee notes from paragraph 56 of the report that the Pension Board decided to confirm the two conditional decisions taken in 1998. The Advisory Committee agrees with the position of the Pension Board on these issues.**

8. As indicated in paragraph 57 of the Pension Board's report, the Board "decided to establish a tripartite Working Group to undertake a fundamental review of the benefit provisions of the Fund, in the light of developments in staffing and remuneration policies in the member organizations of the Fund and in pension arrangements at the national and international levels, so as to identify the future long-term needs of the Fund". The Advisory Committee notes that the terms of reference of the Working Group are included in paragraph 59 of the report. **The Committee finds these terms of reference to be rather broad. It trusts that the Working Group will eventually be in a position to focus on specific issues so as to be able to make precise recommendations.** In this connection, the Working Group, when addressing the possible use of any surplus, should consider directing part of it to the re-engineering of the operations of the Fund (see sect. VI below) in addition to considering options for an increase in benefits or a decrease in contributions.

III. Investments of the Pension Fund

9. As stated by the Secretary-General in his report (A/C.5/55/3, paras. 18 and 26), the market value of the Fund's assets had increased by $5,886 million, from $20,170 million on 31 March 1998 to $26,056 million on 31 March 2000, or 29.2 per cent. The total investment returns for the year ended 31 March 1999 and 31 March 2000 were 11.3 per cent and 18.0 per cent, respectively. After adjustment by the United States consumer price index, the "real" rates of return for the years ended 31 March 1999 and 31 March 2000 were 9.2 per cent and 13.8 per cent, respectively. The cumulative annualized total rate of return over the 40-year period for which data are available was 9.3 per cent, or a "real" rate of return of 4.6 per cent, after adjustment by the United States consumer price index. The Advisory Committee was informed that since the end of the reporting period, the investment

environment has significantly changed, as markets have been very volatile. In this connection, the Committee recalls its statement in paragraph 10 of its report A/53/511 that it "is aware that the market value of the Fund is subject to fluctuation".

10. The Advisory Committee notes that, pursuant to General Assembly resolution 49/224 of 23 December 1994, a benchmark introduced on 1 January 1997 has been used to compare the Fund's performance with major international equity and bond indexes. During the two years under review, the Fund underperformed its benchmark in the first year ended 31 March 1999 and outperformed it substantially in the second year ended 31 March 2000 (A/C.5/55/3, paras. 28 and 29).

IV. Investments Committee

11. 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 on Administrative and Budgetary Questions, subject to confirmation by the General Assembly. The Secretary-General conveyed to the Board the names of three members of the Investments Committee whom he intended to propose to the Assembly for confirmation at its fifty-fifth session, after consultation with the Advisory Committee. They would all be reappointed as members for further terms of three years, commencing on 1 January 2001 (see A/55/9, para. 104). The Committee has written in this regard to the Secretary-General to convey its concurrence.

V. Financial statements of the Fund and report of the Board of Auditors

12. The Advisory Committee notes from paragraphs 105 and 107 of the report that the Pension Board examined and approved the financial statements and related data on the operations of the Fund for the biennium ended 31 December 1999, as submitted by the Secretary of the Pension Board, and considered the findings and recommendations of the Board of Auditors (see A/55/9, annexes II and III).

13. Paragraph 10 of annex III to document A/55/9 contains the main recommendations of the Board of Auditors. On the subject of experts and consultants, the Board of Auditors has recommended that the Fund should implement its requirements in advance to allow adequate lead time for processing institutional contractual agreements, so as to reduce the hiring of contractors under the exception clause without recourse to competitive bidding (A/55/9, annex III, para. 53). **The Committee agrees with the view of the Board of Auditors.**

14. The internal audit coverage of the Fund's activities is discussed in paragraphs 57 to 67 of the Board of Auditors' report (A/55/9, annex III). The Advisory Committee notes from paragraphs 61 and 62 that the Internal Audit Unit of the Fund, which is located within the Office of Internal Oversight Services of the United Nations Secretariat (OIOS), was not able to fully implement its audit plans in 1998. Moreover, the Committee notes that OIOS underestimated the complexity of some of the activities of the Fund's operations in the 1999 work plan. The Fund's Internal Audit Unit, which has three established posts (one P-4, one P-3 and one General Service), had the P-3 post vacant between January and September 1998. Out of eight major operational areas of the Fund, which required audit guidelines, OIOS had prepared guidelines for only five areas, leaving investment management, actuarial services and contract services outstanding, as at May 2000. **The Committee recommends that OIOS redouble its efforts to complete its work programme in a timely manner and, as it may deem necessary, request staffing resources commensurate with the responsibilities to be carried out.**

VI. Longer-term administrative arrangements of the Fund

15. With regard to addressing future requirements of the Fund, paragraphs 122 to 146 of the Board's report discuss the essential long-term technological needs of the Fund and the modalities for meeting them with regard to computer systems, process re-engineering and technological improvements. On the basis of two studies by outside consultants and an internal assessment by the staff of the Fund's secretariat, the Fund proposes to modernize the way in which information is obtained and disseminated. The Fund

proposes establishing automated exchanges of personnel action data between the Fund's computer systems and those of member organizations, as a mean to improve the quantity and quality of transactions processed. The electronic exchange of information between the Fund and its member organizations, as well as with participants and beneficiaries, would be the key to effecting major efficiencies.

16. The Fund proposes that this project be carried out in two phases. Phase one would encompass short-term initiatives and would consist of strategic planning, project planning, functional requirements and the development of requests for proposals (RFPs) related thereto. It is expected that upon completion of this phase, the Fund would have a "blueprint" for the specific technology to be used in the further automation of pension information and related transactions. The initial phase would provide a better understanding of the costs involved in fully implementing the project, as well as a clearer indication of the potential productivity gains. Phase two of the project would involve the actual longer-term implementation of the strategic initiatives, and would include the development of interfaces to the Fund's systems with those of the United Nations and the other member organizations. This would include infrastructure development and enhancements, web data collection and the development of the web interfaces and architecture required for the data storage and web applications necessary to view the data in a secure environment. The full scope of this phase would be determined upon the completion of phase one.

17. The Advisory Committee was informed that a critically important aspect of phase one of the project would be ascertaining the level of commitment of the member organizations to participating in the effort to construct electronic interfaces between their computer systems and those of the Fund. The Committee was informed that, in particular, the project can be meaningful only if the United Nations is prepared to both accord high priority to, and provide the requisite administrative and financial resources for, building suitable interfaces between its Integrated Management Information System (IMIS) and those of the Fund. The United Nations and its funds and programmes currently employ 65 per cent of the active participants. The Committee strongly urges the United Nations to take the necessary measures.

18. The Advisory Committee notes that the Pension Board requested that the Pension Fund's secretariat proceed with the implementation of phase one of the proposed technology strategy project "within existing resources to the extent possible. The need for additional resources for the biennium 2000-2001 would be reassessed by the Standing Committee at its meeting in 2001" (A/55/9, para. 146).

19. The Advisory Committee takes note of the progress report with regard to enhancements of the role of the Fund's Office in Geneva and the delegation of personnel and procurement decisions to the Fund, as presented in paragraphs 147 to 154.

VII. Other matters

20. Paragraphs 155 to 176 of the Pension Board's report address the issues concerning the entitlement to survivor's benefits for spouses and former spouses. **The Advisory Committee agrees with the recommendations of the Pension Board to the General Assembly, as indicated in paragraphs 164, 165, 169, 170 and 176 of the Board's report.**

21. On the subject of the judgement of the United Nations Administrative Tribunal requiring action by the General Assembly (A/55/9, paras. 263-272), **the Advisory Committee shares the view of the Pension Board, as indicated in paragraphs 270 and 271.**

Notes

[1] To be issued as *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 9* (A/55/9).

[2] Ibid., annex III.

[3] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 9* (A/53/9), paras. 14-47.

Annex

Evolution of the actuarial deficit (surplus) of the Fund since 1976 expressed as a percentage of pensionable remuneration, in United States dollars, and as a percentage of projected liabilities

Valuation date	Regular valuation economic assumptions[a]	Required rate of contribution	Deficit (surplus)		
			As a percentage of pensionable remuneration	In dollar terms (millions)	As percentage of projected liabilities
31 December 1976[b]	3.5/7.5/3	19.95	(1.05)	(225.0)	3.0
31 December 1978	3.5/7.5/3	21.37	0.37	121.7	1.4
31 December 1980	6.5/9/6	27.82	6.82[c]	5 315.7	22.01
31 December 1982	6.5/9/6				
(a) Before changes on 1 January 1983		29.71	8.41[c]	7 057.6	25.6
(b) After changes on 1 January 1983		25.72	4.79[c]	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[c]	4 490.6	16.5
(b) After changes on 1 January 1984 and 1 January 1985		24.76	3.01[d]	2 734.3	10.4
31 December 1986	6.5/9/6	26.15	4.40[d]	3 187.2	13.2
31 December 1988	6.5/9/6	26.21	3.71[e]	3 133.4	10.9
31 December 1990	6.5/9/6	24.27	0.57[f]	641.0	1.8
31 December 1993	6.5/9/6	25.19[e]	1.49[f]	1 857.1	4.3
31 December 1995	5.5/8.5, with 1.9 per cent cost of two-track system	25.16[f]	1.46[f]	1 688.7	4.0
31 December 1997	(same as 1995)	23.34	(0.34)[f]	(417.3)	1.0
31 December 1999	(same as 1995)	19.45	(4.25)[f]	(5 278.6)	11.5

[a] Since 1978, valuations have been carried out on a fully dynamic basis, that is to say, inflation is assumed to continue indefinitely in future.
[b] Estimated result, showing a surplus, had the 1976 valuation been carried out on a fully dynamic basis.
[c] Excess over contribution rate of 21 per cent.
[d] Excess over contribution rate of 21.75 per cent.
[e] Excess over contribution rate of 22.50 per cent.
[f] Excess over contribution rate of 23.70 per cent.