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UNITED NATIONS PENSION SYSTEM

Report of the Advisory Committee on Administrative and
Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has reviewed the report of the United Nations Joint Staff Pension Board to the General Assembly at its thirty-second session. ^{1/} The Committee also had before it the Secretary-General's report on investments of the United Nations Joint Staff Pension Fund (A/C.5/32/25). In the following paragraphs the Committee submits its comments and recommendations on:

- (a) Administrative expenses;
- (b) Emergency fund;
- (c) Admission of the International Fund for Agricultural Development to membership in the Fund;
- (d) Transfer of pension rights;
- (e) Investments of the Fund;
- (f) Actuarial valuation of the Fund as at 31 December 1976;
- (g) Adjustment of pensions.

The Committee has no comment to offer on the sections of the Board's report on voluntary deposits, maximum length of contributory service, and financial statements of the Fund for the year ended 31 December 1976 and the report of the Board of Auditors.

^{1/} Official Records of the General Assembly, Thirty-second Session, Supplement No. 9 (A/32/9).

(a) Administrative expenses

2. In section V of resolution 31/196 of 22 December 1976, the General Assembly approved an amount of \$3,129,400 (net), chargeable directly to the United Nations Joint Staff Pension Fund, for the administrative expenses of the Fund in 1977. In this connexion, the Advisory Committee notes that there is a discrepancy between the total net 1977 appropriation of \$3,134,400 indicated in table 1 of annex III to the Board's report and the total net appropriation of \$3,129,400 approved in resolution 31/196. It appears to the Advisory Committee that the discrepancy is due to the fact that the total reported by the Board reflects a reduction of \$10,000 in staff costs from the level originally proposed, whereas the Assembly had recommended that the estimates be reduced by \$15,000 in this area.

3. In paragraph 15 of its report, the Board submits supplementary estimates for 1977 in an amount of \$49,800 for the reasons set forth in paragraph 22 of its report. The Advisory Committee has no objection to these estimates.

4. The Board's estimate of administrative expenses for 1978 amounts to \$3,373,200 (net). This represents an increase of 31.7 per cent over actual expenses in 1976. The increase over the initial approved appropriations for 1977 is \$243,800 net or 7.8 per cent.

5. In paragraph 16 of its report, the Board refers to the distinction between administrative costs, which account for \$1,335,100 of the total administrative expense estimate for 1978, and investment costs, which account for the remaining \$2,038,100.

6. Under administrative costs the Board proposes to establish three additional G-4 posts in 1978. As indicated in paragraph 17 of the Board's report, one of the three new posts is intended for the Data Processing Section. The incumbent would work on the application of existing cashier and separations systems, and on a new mechanized benefit process which the Board proposes to introduce in 1978 (described in paragraph 19 of the Board's report). The Committee understands that the introduction of the mechanized process should result in staff economies. Accordingly, the Committee recommends that only two of the three proposed new posts be granted.

7. In paragraph 18 of its report, the Board proposes the incorporation of 10 posts, currently financed under temporary assistance, into its regular establishment. Since provision for these temporary posts was originally made in connexion with the introduction of the dual pension adjustment system in 1975, and since, in accordance with resolution 31/196 that system is to be reviewed by the General Assembly at its thirty-third session, the Advisory Committee recommends that consideration of the conversion to a permanent basis of the posts in question be deferred.

8. Under investment costs, the Board proposes, in paragraph 21 of its report, the addition of a post at the P-5 level in the Investment Management Section of the Office of Financial Services. The addition of this post, which is being sought by the Secretary-General, would strengthen the Section and enable it to perform various studies on investments and related questions requested by the Board. The Advisory Committee has no objection to the establishment of this post.

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9. For the reason given in paragraph 6 above, the Advisory Committee recommends that the estimate of administrative expenses for 1978 be reduced by \$9,800 from \$3,373,200 (net) to \$3,363,400 (net).

(b) Emergency Fund

10. As stated in paragraph 24 of the Board's report, the General Assembly authorized the Board in 1974, and again in 1975 and 1976, to supplement voluntary contributions to the Emergency Fund by an amount of up to \$100,000 for an experimental period of one year in each case. Bearing in mind the considerations set forth by the Board, the Advisory Committee concurs in the Board's recommendation that its authority to supplement voluntary contributions to the Emergency Fund up to an annual amount of \$100,000 should be continued.

(c) Admission of the International Fund for Agricultural Development to membership in the Fund

11. In paragraph 26 of its report, the Board states that it has received an application from the Preparatory Commission of the International Fund for Agricultural Development (IFAD), under article 3 of the Regulations, for that organization, upon its establishment, to become a member organization of the Fund. In paragraph 28, the Board recommends that the General Assembly should decide to admit IFAD to membership in the Fund with effect from the date on which it becomes a specialized agency of the United Nations.

12. Inherent in the Board's recommendation is the assumption that, once IFAD has become a specialized agency, membership in the Fund shall be open to it by virtue of the provision of article 3 (b), quoted in paragraph 26 of the Board's report, that membership in the Fund shall be open to the "specialized agencies referred to in Article 57, paragraph 2, of the Charter of the United Nations". The Advisory Committee notes that the full text of article 3 (b) 2/ includes the phrase "and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies."

13. Whether this phrase should be taken to require that every organization, including specialized agencies, must participate in the common system to be eligible for admission to the Fund is, in the opinion of the Advisory Committee, a matter for interpretation. Since all existing specialized agencies participate in the common system of salaries, allowances and other conditions of service, the question has not arisen so far. But if the draft relationship agreement with IFAD, as contained in annex V of the report of the Economic and Social Council, 3/ is

2/ "(b) Membership in the Fund shall be open to the specialized agencies referred to in Article 57, paragraph 2, of the Charter of the United Nations and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies."

3/ Official Records of the General Assembly, Thirty-second Session, Supplement No. 3 (A/32/3).

approved by the General Assembly, IFAD will become the first specialized agency which, in view of article IX of the draft relationship agreement, need not fully participate in the common system of the United Nations and the specialized agencies.

14. In considering the question of the admission of IFAD to the pension fund, the General Assembly will thus be faced with a precedent creating situation. In the opinion of the Advisory Committee, action by the Assembly would, of necessity, involve: (a) a pronouncement on the eligibility for admission, under article 3 (b) of the Fund's regulations, of agencies which do not fully participate in the common system and (b) a decision whether IFAD, if deemed eligible, would, as a matter of policy, be admitted to the pension fund.

(d) Transfer of pension rights

15. In paragraphs 30 to 32 of its report, the Board describes steps it has taken towards an agreement with the Commission of the European Communities on transfer of pension rights. Details of the proposed agreement were not before the Advisory Committee; they are to be submitted to the General Assembly in an addendum to the report of the Board.

(e) Investments of the Fund

16. Investments of the Fund are discussed in paragraphs 33 to 44 of the Board's report. In addition, the Secretary-General has submitted a report on United Nations Joint Staff Pension Fund investments in transnational corporations and in developing countries (A/C.5/32/25).

17. The Committee notes from paragraph 37 of the Board's report that the Board believes that a more comprehensive examination of investment policies and practices should be carried out, which would include a study of the adequacy of the existing advisory arrangements for investment in both developed and developing countries, and the desirability of substantially strengthening the staff of the United Nations engaged in investment activities. The Board requested the Secretary-General to carry out such a study and to provide a report to the Board thereon not later than at its 1979 session.

18. The Committee notes the objectives and criteria for investment of the assets of the Fund, set forth by the Secretary-General in paragraph 4 of his report. These same objectives and criteria, which the Secretary-General regards as essential for all Fund investments, are fully endorsed by the Board in paragraph 38 of its report.

19. The Advisory Committee recalls that in a report to the thirtieth session of the General Assembly, it stated that it "trusts that the Secretary-General will continue to be guided in his choice of investments exclusively by the soundness of the particular investment involved and that placement of the assets of the Fund in individual countries will derive solely from the belief that these markets present the best potential investment opportunity for the Fund" (A/10335). The Advisory Committee finds the objectives and criteria set forth by the Secretary-General in paragraph 4 of his report to be compatible with this statement. In this connexion,

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the Committee notes the statement of the Board, in paragraph 41 of its report, that it believes that the criteria of safety, profitability, liquidity and convertibility can be applied equally to investments in both the developed and the developing world and that where these criteria are equally satisfied priority should be given to the investment in developing countries.

(f) Actuarial valuation of the Fund as at 31 December 1976

20. The actuarial valuation of the Fund as at 31 December 1976 is described in paragraphs 45 to 55 of the Board's report.

21. As indicated in paragraph 46, the report of the Consulting Actuary reveals an actuarial imbalance of \$211.0 million, representing an excess of anticipated liabilities over present and prospective assets. The imbalance is equivalent to .98 per cent of future pensionable remuneration. The valuation as at 31 December 1974 had shown an imbalance of \$116.6 million or a .55 per cent of future pensionable remuneration.

22. The Committee notes from paragraph 47 of the Board's report that the actuarial assumptions used in the 1976 valuation differed from those used in 1974. In paragraph 54, the Board reports that it urged the Committee of Actuaries, in determining the assumptions for the next valuation, to consider the Fund's past experience, particularly with respect to the inflation rate, and suggested that it should study, in this connexion, the weighted average of inflation rates over the past 20 to 30 years. The Board suggested that account might also be taken of the actuarial assumptions used by other funds, particularly those of the World Bank, the International Monetary Fund and other international organizations.

23. The Advisory Committee notes the views and recommendations of the Board, expressed in paragraph 52 of its report, on the status of the Fund and the level of benefits. The Advisory Committee recommends that in view of the present status of the Fund no further liberalization of benefits be made unless additional financing is to be provided.

(g) Adjustment of pension

24. Further study by the Board of a unified system of adjustment for pensions in payment to replace the dual WAPA/CPI system is described in paragraphs 56 to 60 of the Board's report. For information purposes, the temporary measures applicable to existing pensions are outlined in paragraphs 61 to 67. These measures have been introduced under authority of section VII of General Assembly resolution 31/196 which, inter alia, authorized payments during 1977, in an aggregate amount not to exceed \$500,000, to be made by the Pension Fund to compensate those pensioners whose pensions in the country of their residence have declined in purchasing power to a significant extent. The Board indicates in paragraph 68 of its report that all the payments so authorized by the Assembly are unlikely to be completed before the end of 1977. The Assembly must therefore decide whether it wishes to confirm the Board's assumption: (a) that where technical difficulties (described in paragraphs 65 and 66 of the Board's report) prevent completion of payments in 1977 it is the intention of the Assembly that they be completed in 1978 and (b) that in view of the extension of the WAPA/CPI system until the end of 1978, any balance remaining after completion of the initial payments should be utilized to make additional payments, pro-rata, in respect of similar losses during that year.