



General Assembly

Distr.
GENERAL

A/44/682
25 October 1989

ORIGINAL: ENGLISH

Forty-fourth session
Agenda item 132

UNITED NATIONS PENSION SYSTEM

Report of the Advisory Committee on Administrative and Budgetary Questions

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 forty-fourth 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 (A/C.5/44/6). The Committee received additional information from the secretariat of the Fund and, with regard to the Fund's investments, from representatives of the Secretary-General.

I. ACTUARIAL MATTERS

2. Paragraphs 11 to 26 of the Board's report discuss the actuarial valuation of the Fund as at 31 December 1988. As stated in paragraph 11 of the report, "the primary purpose of the actuarial valuations is to determine whether the present and estimated future assets of the Fund will be sufficient to meet its liabilities".

3. As stated in paragraph 13 of the report of the Board, the valuation as at 31 December 1988 was "prepared on the basis of the actuarial assumptions approved by the Standing Committee on behalf of the Board in June 1988 and in accordance with the Regulations and Administrative Rules of the Fund in effect on the valuation date, but taking into account the contribution rate that would be applicable as from 1 July 1989, that is, 22.5 per cent of pensionable remuneration". The Advisory Committee notes that the same sets of economic assumptions were used in the nineteenth valuation as at 31 December 1986, but that a different growth assumption was used for the "regular" valuation as at 31 December 1988.

4. The Advisory Committee notes from paragraph 19 of the Board's report, that "there has been a total decrease of 3.11 per cent in the imbalance over the period

31 December 1980 to 31 December 1988 (from 6.82 to 3.71 per cent of pensionable remuneration)". In this connection, the Advisory Committee notes from the breakdown of that decrease in paragraph 19 that the factors that reduced the imbalance by 7.93 per cent (6.30 per cent from economy measures and increases in the contribution rate borne by both participants and member organizations, and 1.63 per cent from experience variations) were significantly offset by two factors that increased the imbalance by 4.82 per cent, that is, changes made in the demographic assumptions (1.89 per cent) and the accumulated interest on the continuing imbalance (2.93 per cent). As indicated in paragraph 26, it is estimated that the accumulated interest would increase by a further 0.70 per cent during the next two years.

5. In this connection, as recalled in paragraph 31 of the Board's report, the General Assembly, in its resolution 42/222 of 21 December 1987, had requested the Board, *inter alia*, "to continue studying all possible measures to restore over the long term the actuarial balance of the Fund, bearing in mind the desirability of avoiding further increases in the rate of contribution". The Board was also requested "to submit an interim report to the General Assembly at its forty-third session and, in any event, to complete its study for presentation to the Assembly at its forty-fourth session".

6. The findings and conclusions of the above-mentioned interim report, 2/ submitted to the Assembly at its forty-third session by the Standing Committee on behalf of the Board, as well as a summary of measures already taken to reduce the actuarial deficit, are discussed in paragraphs 32 to 44 of the Board's current report. As noted in paragraph 4 above, the positive impact on the deficit of those measures has been significantly offset by changes made in the demographic assumptions based on assessments of the actual experience over a period of years and the accumulated interest on the continuing imbalance.

7. Paragraphs 45 to 60 of the Board's report deal with other remedial measures considered by the Board and the attendant actuarial savings that would result therefrom. As stated in paragraph 62, "after extensive negotiations ... with the agreed objective of developing a package of measures that would virtually eliminate the actuarial imbalance over the long term and would provide a period of stability, the Board decided by consensus to recommend at this stage ... the following package of measures":

<u>Measures</u>	<u>Actuarial savings (percentage of pensionable remuneration)</u>
(a) Increase the normal retirement age under the Fund's Regulations from age 60 to 62 for new participants	1.27
(b) Elimination of cost-of-living adjustments for future deferred retirement benefits until the separated participant reaches age 55 instead of age 50	0.91
(c) In cases of early retirement, increase the reduction factor to 6 per cent per year at ages 55 and 56 for new participants while retaining age 55 as the early retirement age	0.16
(d) Increase the rate of contribution from 22.5 per cent to 23.7 per cent of pensionable remuneration	<u>1.20</u>
Total	<u>3.54</u>

8. In paragraph 67, the Board emphasizes that the above-mentioned package "represents the results of carefully balanced negotiations" (between members representing the General Assembly and other governing bodies, the Secretary-General and other executive heads, and participants) and that it should be considered as a whole. The Advisory Committee notes that if the package of measures were adopted, the current imbalance of 3.71 per cent of pensionable remuneration would be reduced by 3.54 per cent to 0.17 per cent; as stated in paragraph 64 of the Board's report, that "would be well within an acceptable range".

9. As stated in paragraph 63 of its report, the Board, in recommending the increased rate of contribution of 23.7 per cent, was not unaware of General Assembly resolution 42/222 concerning the desirability of avoiding further increases in the rate of contribution; it had also taken into account the slight improvement in the actuarial position of the Fund since the 31 December 1986 valuation. However, in the same paragraph the Board "reaffirmed its previous recommendation, endorsed by the Committee of Actuaries, that the Fund required a contribution rate of 24 per cent of pensionable remuneration for the pension system to be viable". At the same time, as stated in paragraph 66, "the Board agreed to continue to monitor closely the actuarial position of the Fund" and, in the event of future surpluses or deficits, "it would examine, in the same spirit of co-operation among the parties concerned, appropriate measures".

10. The Advisory Committee notes the Board's view as stated in paragraph 67 that "the effective date of implementation of the measures in the package should be as early as possible, preferably 1 January 1990, but not later than 1 January 1991",

as delays in taking remedial action would result in further increases in the imbalance.

11. The financial implications for all the organizations of the increase in contributions by 1.2 per cent (from 22.5 to 23.7 per cent) are estimated at \$17.2 million per year; the additional cost to all participants would be \$8.6 million. As indicated in paragraph 68 of the Board's report, "those estimates are based on the total annual pensionable remuneration of \$2,151 million for the 54,006 participants in the Fund as of 31 December 1988". In response to inquiries, the Committee was informed that the financial implications for the United Nations regular budget of implementing the package totalled approximately \$8 million for the biennium.

12. On the basis of the information before it, and in view of what is stated in paragraphs 8 and 10 above, the Advisory Committee recommends approval of the package with an effective implementation date of 1 January 1990.

II. INVESTMENTS OF THE FUND

13. The management of the Fund's investments is discussed in paragraphs 69 to 78 of the Board's report; the annual report of the Secretary-General on the subject is contained in document A/C.5/44/6. As indicated in both reports, the market value of the Fund's assets, as at 31 March 1989, totalled \$7,632 million, an increase of \$403 million over the total as at 31 March 1988. The investment return for the year was 5.9 per cent, which, when adjusted for inflation, represents a "real" rate of return of 0.9 per cent. According to the Secretary-General, in view of "the volatility of the financial markets and exchange rates which prevailed throughout the year under review, the return achieved by the Fund can be considered as satisfactory and compares favourably with other pension funds" (A/C.5/44/6, para. 6).

14. In paragraph 77 of its report, the Board recalls that efforts had been initiated two years ago "to expand the institutional advisory framework in order to provide the Fund with both global advisory and custodial services and a network of local advisory and custodial services". As a result, new arrangements for global advisory and custodial services are being implemented. In this connection, the Advisory Committee notes that separate contracts for global advisory services and for global custodial services have been signed by the Secretary-General and Fiduciary Trust Company International, effective 1 July 1989. The Committee also notes from paragraph 77 of the Board's report that "a world-wide network of local and regional sub-custodians was in the process of being established".

15. The Advisory Committee sought additional information concerning the new arrangements, which, as discussed below, have financial and administrative implications. According to representatives of the Secretary-General, the decision to modify the former arrangements was made following legal advice that the custodial arrangements should be diversified and that there should no longer be a sole global custodian. Furthermore, additional measures will be implemented to reduce risks from loss or default by the custodian or sub-custodian. Under the new

arrangements, Fiduciary Trust Company International (FTCI) gives global advice to the Secretary-General regarding investments of the Fund. Under the terms of its contract for global custodial services, FTCI acts as global custodian. However, as the regional and national custodians are engaged, the regional custodial role of FTCI will be reduced. The Advisory Committee was further informed that the establishment of the network of sub-custodians involved two stages; however, as discussed in paragraphs 29 to 31 below, the process can only be completed after the Investment Management Service has been adequately staffed and equipped to support and control a network of sub-custodians.

III. ADMINISTRATIVE EXPENSES

A. Revised estimates for the biennium 1988-1989

16. The revised estimates of \$22,582,400 for the biennium 1988-1989 are \$295,000 lower than the initially approved estimates of \$22,877,400. As shown in annex VI, table 1, of the report of the Board, the net reduction of \$295,000 comprises an increase of \$476,000 in administrative costs, offset by a decrease of \$771,000 in investment costs.

17. A breakdown of the decreased requirements for investments costs is provided in paragraph 134 of the Board's report. As noted therein, the bulk of the decrease relates to lower than anticipated advisory fees due to the October 1987 decline in the market value of the Fund's assets. The net increase of \$476,000 in administrative expenses includes an increase of \$496,000 for established posts. As stated in paragraph 133, actual expenditures in 1988 under this object exceeded the initial estimates in 1988 by \$200,000, and it is estimated that 1989 actual expenditures will exceed the estimates by an additional \$296,000. In this connection, the Advisory Committee notes from paragraph 133 of the report that "the average cost of remuneration for a General Service staff member in the Fund secretariat exceeds the standard costs for such staff used in the United Nations programme budget"; consequently, the amount budgeted for the biennium 1988-1989 is insufficient.

18. The Advisory Committee recommends approval of the revised estimates.

B. Estimates for the biennium 1990-1991

19. The estimates of expenses for the biennium 1990-1991 total \$30,573,400 net, comprising \$10,259,400 for administrative costs and \$20,314,000 for investment costs. Annex VI, table 2, of the Board's report provides a detailed comparison of these estimates with the initial appropriations for 1988-1989, while the proposed staffing table for 1990-1991 is given in table 3 of the same annex.

20. The estimate of \$10,259,400 for administrative expenses includes resource growth totalling \$2,654,200 (at 1989 rates). As shown in table 2 of annex VI, that amount includes a non-recurrent increase of \$2,375,000 (\$1,375,000 for data-processing costs and \$1,000,000 for office furniture and fixtures), and an

increase of \$493,900 under established posts and common staff costs, which would be partially offset by a reduction of \$265,800 in temporary assistance and related staff costs.

21. The Advisory Committee notes that most of the growth in administrative costs relates to the cost of enhancing the administrative and operational capacity of the Fund's secretariat. As discussed in the Board's report, a study by consultants recommended improvement in many areas. The Committee notes from paragraph 141 of the Board's report that the consultants "singled out the need to improve data-processing support, stating that this would have the largest impact on the effectiveness and efficiency of current operations and would ensure that the Fund's secretariat had the capacity to handle future changes and growth".

22. The resource growth of \$493,900 (at 1989 rates) under established posts and common staff costs relates to the addition of two posts (one P-5 and one P-4), the reclassification of two P-2 posts to the P-3 level and one General Service post (Principal level) to Other level, and the conversion of three temporary assistance posts (one P-2 and two General Service) to three established General Service posts. The Advisory Committee notes from paragraph 147 that the incumbents of the two new posts would "provide the staffing resources and expertise needed for extensive in-house work on the design and implementation of a new integrated computer system, and for maintaining and updating the existing systems concurrently for some time". As a consequence of these requests, to which the Advisory Committee has no objection, the number of established posts in 1990-1991 would total 92 (30 Professional and 62 General Service), an increase of five established posts (two Professional and three General Service) over the total of 87 for 1988-1989.

23. As shown in table 2 of annex VI of the Board's report, the resource growth of \$1,375,000 (at 1989 rates) for data processing comprises \$250,000 for the acquisition of equipment and \$1,125,000 for contractual services. As explained in paragraphs 148 and 149, this growth relates in part to the cost of initiating the project to replace the existing computer system (\$975,000). The Advisory Committee trusts that all efforts will be made to ensure the timely and co-ordinated implementation of the new system and, in this connection, it requests that a progress report on the implementation be included in the next report of the Board.

24. The net resource growth of \$1,375,000 for data processing also relates to the project to convert hard-copy retirement records to the optical-disc medium (\$400,000). The Advisory Committee notes from paragraph 149 that this amount would cover the cost of an outside contractor who would complete the project during the biennium 1990-1991.

25. As discussed in paragraph 152, the United Nations has suggested that the Fund secretariat introduce modular work stations in order to improve the work environment and to utilize more effectively the limited space available; the cost of the construction and furniture required for modular work stations in the Fund's secretariat has been estimated by the United Nations at \$1,000,000 (at 1989 rates).

26. The Advisory Committee shares the Board's concern, expressed in paragraph 145 of its report, over the inadequate accommodation for the Fund's secretariat. However, the Advisory Committee is dubious whether the proposals advanced in paragraph 152, that is, the use of modular work stations will adequately address the problem and meet the long-term accommodation needs of the secretariat. In the opinion of the Committee, an analysis of the Fund's actual space requirements should be undertaken and alternative solutions proposed before any one solution is adopted. In making this recommendation, the Committee emphasizes that it does not object to the expenditure of \$1,000,000 per se but believes that the funds would be more wisely used as part of a long-term, well defined project.

27. The estimate of \$20,314,000 for investment costs in the biennium 1990-1991 includes resource growth (at 1989 rates) of \$3,432,400 comprising \$2,300,000 for advisory and custodial fees, \$552,600 for data-processing costs and \$442,000 for established posts and common staff costs (annex VI, table 2).

28. The estimate for 1990-1991 for both custodial and advisory fees is estimated at \$16,300,000 and includes resource growth (at 1989 rates) of \$2,300,000. The Advisory Committee was informed that \$300,000 of this amount represents the provision for market growth. The remaining \$2 million relates to the new system for sub-custodians introduced for the reasons discussed in paragraphs 14 and 15 above. The Advisory Committee notes that this \$2 million, which is now shown as a charge to the Fund because it relates to custodial services, was formerly covered by transaction costs paid by the Fund to an intermediary party that cleared transactions handled by its network of regional and local sub-custody banks. It should be noted that the transaction fees were not included in the budget, but rather affected the rate of return of the Fund. Because the Fund will now have direct access to its own network of custodians, the transaction costs previously paid to the intermediary will be eliminated. The \$2 million estimate for sub-custodian fees does not necessarily represent an additional cost to the Fund because the rate of return should now be higher with the elimination of transaction fees.

29. The resource growth of \$552,600 (at 1989 rates) for data processing includes a non-recurrent amount of \$500,000 for new computer hardware and software to support the cash management and transaction operations of the Fund. To enable effective monitoring, evaluating and controlling of the activities of the network of custodians and sub-custodians, it is further proposed to strengthen the cash management and transactions operations by establishing six additional posts (two P-3 and four General Service). With the addition of the above-mentioned posts, the transactions operations unit will consist of two Professional and six General Service posts; the cash management operations unit will consist of two Professional and two General Service posts.

30. The Advisory Committee notes the expectation expressed in paragraph 159 of the Board's report that "the additional costs for the six posts would be more than offset by estimated savings of \$1,000,000 per year in transaction costs, beginning in 1991." As explained above, this relates to the elimination of transaction fees paid to an intermediary bank and the lower estimate of sub-custodian fees. At its request the Advisory Committee was provided with an analysis of the estimated

savings; in this connection it notes that, after taking into account all factors, including the additional posts, the computer system and the sub-custodian fees (see para. 28 above), total savings for the biennium 1990-1991 would amount to approximately \$1 million and annual savings thereafter would approximate \$750,000.

31. The Advisory Committee recommends approval of the new posts as well as the resources for data processing. Given the size of the Fund and the scope of its operations, it is essential that the above-mentioned units be adequately staffed and that they are able to benefit from technological developments in the area of data processing. In the opinion of the Committee, the introduction of appropriate technology is crucial, particularly in view of the new arrangements that are being effected vis à vis the establishment of a world-wide network of local and regional sub-custodians, and the consequential increase in information that will need to be processed. The Committee therefore urges that every effort be made to implement the new computer system in a timely and co-ordinated manner. The Committee also believes that the staffing situation should be continually and carefully monitored, both in terms of number and level of staff.

32. As noted in paragraph 160 of the Board's report, the resource growth under established posts and common staff costs also relates to the proposed reclassification of one General Service post (Other level) to the the Principal level. The Advisory Committee has no objection to this request.

33. Subject to its observations in paragraphs 23, 26, and 31 above, the Advisory Committee recommends approval of an amount of \$30,573,400 for the expenses chargeable to the Fund for the biennium 1990-1991.

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

34. The Advisory Committee notes from paragraphs 126 and 127 of the Board's report that the Board had examined and approved the financial statements and related data on the operations of the Fund for the year ended 1988 (annex II) and had taken note of the Board of Auditor's report (annex III). In this connection, the Advisory Committee notes that a number of observations, particularly those concerning the contractual arrangements with Fiduciary Trust Company International (see annex III, paras. 39-41) have been superseded by new arrangements as discussed above. The Advisory Committee also notes that despite efforts to collect refunds of taxes withheld, the outstanding tax refunds had decreased by only 4.7 per cent, and that the amount outstanding as at 31 December 1988 totalled \$5.91 million.

V. OTHER MATTERS

35. The Advisory Committee took note of a number of other matters discussed by the Board, including the questions of pensionable remuneration and consequent pensions of staff in the Professional and higher categories (paras. 80-95), as well as in the General Service and other locally recruited categories (paras. 96-105).

36. The Advisory Committee agrees with the recommendation contained in paragraph 164 of the Board's report that the Board be authorized to contribute up to \$200,000 to the Emergency Fund in the biennium 1990-1991. The Committee also agrees with the Board's proposal in paragraph 169 to amend article 36 (c) of the Fund's regulations in order to provide for commencement of payment of a disabled child's benefit at the same time as the early retirement benefit. In this connection, the Committee notes from the same paragraph that "actuarial costs involved would be negligible because of the limited number of cases involved". The text of the proposed amendment is contained in annex XI of the Board's report.

Notes

1/ Official Records of the General Assembly, Forty-fourth Session, Supplement No. 9 (A/44/9).

2/ Ibid., Forty-third Session, Supplement No. 9 (A/43/9), paras. 10-55.
