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REPORT OF THE UNITED NATIONS JOINT STAFF PENSION BOARD

Report of the Fifth Committee (Part I)

Rapporteur: Mr. Ernesto C. GARRIDO (Philippines)

1. At its 1576th and 1595th to 1600th meetings, on 16 October and 8, 9 and 12 to 15 November 1973, the Fifth Committee considered the annual report of the United Nations Joint Staff Pension Board for 1973, 1/ including the report of the Board of Auditors on the accounts of the United Nations Joint Staff Pension Fund for the year ended 30 September 1972. The related report of the Advisory Committee on Administrative and Budgetary Questions (A/9274) and two notes by the Secretary-General (A/C.5/1524 and A/C.5/1535) were also before the Committee.

2. The Chairman of the Advisory Committee, in an oral statement introducing the report of the Committee, drew attention to the observations and recommendations made by the Committee on the Board's proposals, under five separate headings, and to an amended text, recommended by the Committee, for section I of the draft resolution proposed in the Board's report for adoption by the General Assembly. The first of the Advisory Committee's observations concerned the actuarial soundness of the Fund, which had been shown by a valuation as at 30 September 1972 to have an imbalance in the amount of \$37.5 million, a figure which would be increased to about \$51 million if the proposals of the Board to revise the system of adjustment to benefits in payment were adopted. After investigating the matter thoroughly, however, the Advisory Committee accepted the view of the Board's expert Committee of Actuaries that an imbalance of this nature need not be a source of concern in present circumstances provided the situation was kept under study to avoid a continuing state of imbalance - a view which it noted was shared by the Board.

3. Under the second heading, the Advisory Committee dealt with the main proposals

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1/ Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 9 (A/9009 and Corr.1 and 2).

made by the Board, which were in essence (a) to introduce a new index for pension adjustment purposes which would enable the movements of cost-of-living and currency values to be more quickly reflected in the adjustments than in the past, and (b) to provide some compensation for pensioners who had been adversely affected since May 1971 by the progressively reduced exchange rates for the United States dollar in other currencies. The Committee accepted the former proposal with the proviso that it be introduced on 1 January 1974, rather than 1 October 1973, in order to conform better with its recommendations in respect of those related to compensation. Regarding the latter, the Advisory Committee believed should, instead of taking the form of 15, 10 and 5 per cent special transitional adjustments applicable in 1973, 1974 and 1975 respectively, be consolidated into a single 30 per cent adjustment in 1973, with the new index being considered as providing adequate compensation from 1 January 1974 onwards. The Committee had, in connexion with both proposals, again examined - as the Board had done - the possibility of adjusting pensions selectively in accordance with cost-of-living movements and exchange rates in individual countries. While it could not, on the basis of current circumstances, support such an approach, the Committee noted that optional schemes containing this feature had recently been introduced by the International Monetary Fund and the International Bank for Reconstruction and Development, and suggested that the Board keep the experience of these agencies under review for possible consideration in the future.

4. The Advisory Committee, under the third heading, recommended approval of the Board's estimates of administrative expenses for 1974 and supplementary estimates for 1973. At the same time, however, it repeated its insistence that, considering the magnitude of the estimates for investment advisory services, the arrangements for these services be kept under constant review.

5. Under the fourth heading, the Advisory Committee dealt with some continuing differences of opinion, manifested in the Board's report, between that body and the Board of Auditors. It suggested that, given goodwill, a solution acceptable to both might be found on the basis of the minimum standards required for a satisfactory audit of an organization in the United Nations system, recently agreed upon by the Panel of External Auditors and approved by the Administrative Committee on Co-ordination. However, due regard would need to be paid to the special characteristics of the Fund and the statutory responsibilities of its Committee of Actuaries and Investments Committee. In line with that suggestion, and in recognition also of the now preponderant numerical participation of the specialized agencies in the Fund, the Advisory Committee recommended that consideration be given by the Secretary-General and the Board to the possibility of widening the audit arrangements, on the one hand, so as to permit rotation of the Fund's audit among the Panel of External Auditors, rather than within the United Nations Board of Auditors only, and, on the other, of increasing the size of the Committee of Actuaries from three to not more than six members.

6. Finally, the report of the Advisory Committee dealt with the results of the study of the Fund's contribution rates and ancillary questions, carried out by the Board's Committee of Actuaries in response to the request of the General Assembly in section III of resolution 2944 (XXVII) of 4 December 1972. The conclusions of

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the study, which had been endorsed by the Secretary-General, were broadly that it would be unwise at present to alter the arrangements for the financing of the Fund. While the Advisory Committee did not dispute that conclusion, it nevertheless believed that the matter should in future be kept under review by the Board in the light of periodic valuation results, and that consistent criteria should be applied to the possibilities - as they presented themselves - both of improving benefits and of reducing contribution rates.

7. The Chairman of the United Nations Joint Staff Pension Board, introducing the report of the Board, referred to two main questions which had engaged the Board's attention. The first had been how to counteract in the most effective way the further substantial decline since February 1973 in the purchasing power of pensions outside the United States due to currency realignments and inflation. The second had been the study by the Committee of Actuaries of the contribution rates and other financing provisions of the Fund. In regard to the first, the recommendations of the Board were not significantly different, either in substance or in cost, from those of the Advisory Committee, and the variations in the method of implementation proposed by the latter should not be considered an obstacle to their passage. On the question of selectivity, the Board had found itself unable to recommend at this time, for the reasons outlined in its report, the adoption of such a scheme, but had itself decided to pursue certain aspects of the matter further at its next session. As regards the study, the Board had agreed with the conclusions of the Committee of Actuaries that no permanent or temporary reduction in the contribution rates was presently feasible without endangering the financial stability of the Fund. There was no reason, however, why the Board should not follow the suggestion of keeping the contribution rates under review in the light of future actuarial valuation results. The Board would also pay close attention to the suggestion that the size of the Committee of Actuaries might be increased.

8. On the question of defining the operational relationship between the United Nations Joint Pension Board and the Board of Auditors, there was every reason to hope, in the light of discussions which had since taken place, that the suggestions of the Advisory Committee would provide a basis on which an accommodation could be reached. There was no intention on the part of the Pension Board to restrict in any way the freedom of action of the Board of Auditors, by agreement or otherwise, to carry out the most thorough audit possible of the Fund.

9. In the course of the discussion which followed, the various aspects mentioned by the previous speakers were commented upon in detail. On the proposal to replace the existing pension adjustment index by that of the weighted average of post adjustments, and on the proposal to accord some form of compensation to pensioners in respect of past losses due to currency fluctuations, most of the representatives who spoke were in favour of the recommendations of the Joint Staff Pension Board as modified by the Advisory Committee. They pointed, *inter alia*, to the need for the United Nations system to act as fair employers in order to attract and retain good staff, and to their responsibility to protect former staff members against the consequences of inflation and monetary instability. Many of these representatives, however, favoured at the same time, further study by the Board of a selective system of adjustment, which would recognize the variance in purchasing power of a

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dollar-based pension in the different countries in which pensioners lived after retirement. An amendment to this effect (A/C.5/L.1127/Rev.1) to add the following new section to the draft resolution proposed by the Board <sup>2/</sup> was submitted by Belgium, France, Germany (Federal Republic of), Norway, Sweden and Ireland:

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"Noting the decision of the Joint Staff Pension Board to continue the study of alternative methods of adjusting pensions, with particular reference to selectivity,

"Requests the United Nations Joint Staff Pension Board to carry out an in-depth study on various selective systems designed to compensate for currency changes and inflationary movements in the countries of residence of pensioners and to explain the administrative and financial implications thereof,

"Asks the Pension Board to report thereon to the General Assembly at its twenty-ninth session."

10. A number of delegations, while generally recognizing the need to maintain to an appropriate degree the purchasing power of pensions, were unable to support the Proposals of either the Board or the Advisory Committee. In their view, the principle of averaging on which these proposals were based, with equal percentage increases for all pensions regardless of conditions prevailing in the country of residence, was unsound. The proposals could not fully compensate for losses due to currency realignments and represented an unjustifiable expenditure of funds in over-compensating those not adversely affected. The matter should be studied further on the basis of the selective principle.

11. In connexion with the voluntary emergency fund established by the Board for the purposes outlined in paragraph 42 of its report, one delegation proposed that the definite study of its operation to be carried out by the Board should include an examination of the feasibility of utilizing the resources of the Pension Fund for these objectives instead of voluntary contributions and that proposals to this end should be submitted to the General Assembly at its twenty-ninth session.

12. Considerable discussion also took place on the conclusions of the study carried out by the Committee of Actuaries, <sup>3/</sup> on the possibility of reducing the contribution rates to the Fund. Most of the delegations participating in the discussion agreed that it would be unwise, in view of these conclusions, to alter the financing arrangements at the present time, but support was also expressed for the Advisory Committee's suggestion that the matter be kept under review by the Board, in the light of future actuarial valuation results. A number of delegations, however, considered the conclusions to be unconvincing, by reason of insufficient

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<sup>2/</sup> Ibid., vol. I, annex VI.

<sup>3/</sup> Ibid., vol. II.

supporting technical data - in particular with respect to the interest rates assumed - and considered that the matter should be referred to the International Civil Service Commission upon its establishment for further examination. These delegations also supported the suggestion by the Advisory Committee that the Committee of Actuaries be enlarged.

13. The differences between the United Nations Joint Staff Pension Board and the Board of Auditors were the subject of comment by many representatives, some of whom linked their observations with what they considered to be various unsatisfactory aspects of the Fund's investment policy and performance. The view was generally expressed that the work of the Board of Auditors should not be circumscribed by any agreement which might impede the full exercise of their responsibilities, due regard being had to the special characteristics of the Fund, its interagency membership and the technical advisory roles of the Committee of Actuaries and the Investments Committee. Some members considered it within the mandate of the Board of Auditors, nevertheless, to comment on the Fund's investment policy, particularly when this resulted in losses on the sale of securities, and criticism was also levelled at the high ratio of investment in the United States economy. The discussion of the audit question was concluded by statements by the Chairman of the Board of Auditors and of the United Nations Joint Staff Pension Board that, as a result of discussions which had recently been held, prospects of reaching a satisfactory arrangement between the two organs were favourable.

14. The Fifth Committee noted that the Advisory Committee had no objection to the estimates of administrative expenses submitted by the Board for 1974, and the supplementary expenses for 1973. In order to make it clear that these are a charge on the Fund and not on the member organizations, the representative of Denmark submitted an amendment (A/C.5/L.1126) to section II of the draft resolution proposed by the Board in its report, so that the beginning of that section should read:

"Approves expenses, chargeable directly to the Fund, totalling \$1,664,300 (net) for 1974 and supplementary".

15. At the conclusion of the debate, the representative of the Union of Soviet Socialist Republics formally proposed (A/C.5/L.1131) that the following paragraph be included in the report of the Fifth Committee:

"The Fifth Committee requests the United Nations Joint Staff Pension Board to include in its future reports information about the nationality of members and alternate members of the Board."

The representative of the USSR justified the request on the ground that the General Assembly should be fully informed on all matters concerning the Board, including the nationalities and regional groups represented on it. Another representative opposed inclusion of the paragraph on the ground that the information was unnecessary and might create an undesirable precedent. He stated that the group of General Assembly representatives on the Board represented all States Members of the United Nations and not exclusively their own countries; similarly, the other two groups represented the executive heads and the totality of participants, respectively, their individual

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nationalities therefore being irrelevant to the determination of their representative character. A statement was also read by the representative of the Secretary-General, on behalf of the United Nations Staff Union, opposing the inclusion of such information in reports of the Board. In reply, it was stated that the purpose of the request was to ensure that the membership of the Board reflected that of the United Nations, and that it could not be assumed that those who represented the General Assembly on the Board in fact represented all Member States. Some regions were over-represented and others under-represented on the Board.

16. Section I of the draft resolution proposed by the United Nations Joint Staff Pension Board, 4/ as amended by the draft resolution recommended by the Advisory Committee, 5/ was adopted by 72 votes to 9, with 3 abstentions.

17. The amendment submitted by Denmark (A/C.5/L.1126) to section II of the draft resolution and section II of the draft resolution as amended, were adopted without objection.

18. Section III of the draft resolution, as proposed by Belgium, France, Germany (Federal Republic of), Norway, Sweden and Ireland (A/C.5/L.1127/Rev.1), was adopted by 85 votes to none.

19. The draft resolution as a whole, as amended, was adopted by 79 votes to 9, with 3 abstentions (see paragraph 23 below).

20. The draft paragraph proposed by the Union of Soviet Socialist Republics (A/C.5/L.1131) for inclusion in the report of the Fifth Committee was adopted by a roll-call vote of 53 to 21, with 21 abstentions (see paragraph 22 below). The voting was as follows:

In favour: Cameroon, Central African Republic, Chad, Colombia, Congo, Cuba, Czechoslovakia, Democratic Yemen, German Democratic Republic, Ghana, Guatemala, Guinea, Hungary, India, Indonesia, Iran, Iraq, Jamaica, Kenya, Khmer Republic, Kuwait, Libyan Arab Republic, Malawi, Malaysia, Mexico, Mongolia, Morocco, Peru, Poland, Qatar, Romania, Saudi Arabia, Sierra Leone, Sri Lanka, Sudan, Trinidad and Tobago, Tunisia, Uganda, Ukrainian Soviet Socialist Republic, Union of Soviet Socialist Republics, United Republic of Tanzania, Yemen, Yugoslavia, Zambia, Algeria, Argentina, Bahrain, Barbados, Brazil, Bulgaria, Burma, Burundi, Byelorussian Soviet Socialist Republic.

Against: Australia, Austria, Belgium, Canada, Denmark, Finland, Germany (Federal Republic of), Greece, Iceland, Ireland,

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4/ Ibid., vol. I, annex VI.

5/ A/9274.

Israel, Italy, Ivory Coast, Japan, Netherlands, New Zealand, Norway, South Africa, Sweden, United Kingdom of Great Britain and Northern Ireland, United States of America.

Abstaining: Afghanistan, Bhutan, Chile, China, Cyprus, Dahomey, Ecuador, France, Liberia, Niger, Nigeria, Oman, Pakistan, Panama, Philippines, Portugal, Spain, Togo, Turkey, Uruguay, Venezuela.

21. The Fifth Committee also decided to recommend to the General Assembly that it should endorse the observations and conclusions contained in paragraphs 42, 43 and 47 of the report of the Advisory Committee (A/9274), referring to audit arrangements, to the composition of the Committee of Actuaries, and to the rate of contributions to the Fund and provisions for their refund (see paragraph 24 below).

#### DECISION OF THE FIFTH COMMITTEE

22. The Fifth Committee requests the United Nations Joint Staff Pension Board to include in its future reports information about the nationality of members and alternate members of the Board.

#### RECOMMENDATIONS OF THE FIFTH COMMITTEE

23. The Fifth Committee recommends to the General Assembly the adoption of the following draft resolution:

##### Report of the United Nations Joint Staff Pension Board

The General Assembly,

Having considered the report of the United Nations Joint Staff Pension Board to the General Assembly and to the member organizations of the United Nations Joint Staff Pension Fund for 1973, 6/ and the related report of the Advisory Committee on Administrative and Budgetary Questions, 7/

#### I

##### Adjustment of benefits in respect of cost-of-living changes

1. Decides that the system of additional adjustments in 1973, 1974 and 1975

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6/ Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 9 (A/9009 and Corr.1 and 2).

7/ A/9274.

contained in section I, paragraph (d), of General Assembly resolution 2944 (XXVII) of 4 December 1972, together with all the provisions relating to the payment thereof as set out in the said resolution, shall be replaced by the payment during 1973 of a transitional adjustment calculated as a percentage of the basic benefit, together with the adjustment accruing thereon as a result of the operation of the pension adjustment index in accordance with the provisions of Assembly resolution 2122 (XX) of 21 December 1965, as amended by resolution 2887 (XXVI) of 21 December 1971 and section I, paragraphs (a), (b) and (c), of resolution 2944 (XXVII), the aforesaid percentage being:

(a) 30 per cent of benefits and related adjustments not exceeding a total of \$4,000 a year, and of the first \$4,000 of any higher annual benefit, as adjusted, when the date of separation was prior to 1 January 1973;

(b) 22.5 per cent thereof when the date of separation was between 1 January and 31 March 1973;

(c) 15 per cent thereof when the date of separation was between 1 April and 30 June 1973;

(d) 7.5 per cent thereof when the date of separation was between 1 July and 30 September 1973.

2. Further decides that, during a period of three years from 1 January 1974, the pension adjustment index used for purposes of adjustment of benefits shall be replaced by a revised pension adjustment index, which shall be calculated for 1 January 1974 in the manner indicated in paragraph 16 of the relevant report of the Advisory Committee on Administrative and Budgetary Questions 8/ and shall thereafter be adjusted and operated in accordance with the recommendations in section B of annex V to the report of the United Nations Joint Staff Pension Board to the General Assembly at its twenty-eighth session, 9/ subject to such changes as may result from the introduction of the revised index on 1 January 1974;

## II

### Administrative expenses

Approves expenses, chargeable directly to the Fund, totalling \$1,664,300 (net) for 1974 and supplementary expenses totalling \$149,000 (net) for 1973 for the administration of the Fund, as estimated in annex III to the report of the United Nations Joint Staff Pension Board to the General Assembly for 1973;

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8/ A/9274.

9/ Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 9 (A/9009 and Corr.1), vol. I.



III

Study of alternative methods of adjusting pensions

1. Notes the decision of the United Nations Joint Staff Pension Board to continue the study of alternative methods of adjusting pensions, with particular reference to selectivity;

2. Requests the United Nations Joint Staff Pension Board to carry out an in-depth study on various selective systems designed to compensate for currency changes and inflationary movements in the countries of residence of pensioners and to explain the administrative and financial implications thereof;

3. Requests the United Nations Joint Staff Pension Board to report thereon to the General Assembly at its twenty-ninth session.

24. The Fifth Committee also recommends to the General Assembly that it should endorse the observations and conclusions contained in paragraphs 42, 43 and 47 of the report of the Advisory Committee, 10/ referring to audit arrangements, to the composition of the Committee of Actuaries, and to the rate of contributions to the Fund and provisions for their refund.

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10/ A/9274.