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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-fourth session. 1/ In this connexion, the Committee had before it the report of the International Civil Service Commission, chapter III of which deals with pensionable remuneration and pension entitlements as elements of total remuneration. 2/ In its consideration of the question the Committee also met with the Chairman and the Secretary of the United Nations Joint Staff Pension Board and the Acting Chairman and the Executive Secretary of the International Civil Service Commission.

2. In this report the Committee submits its observations and recommendations on:

(a) Pensionable remuneration and interim measures (paras. 4-39);

(b) Changes in the regulations (paras. 40-48);

(c) Admission of the International Centre for the Study of the Preservation and the Restoration of Cultural Property (paras. 49-52);

(d) Transfer of pension rights (para. 53);

(e) Administrative expenses (paras. 54-68);

(f) Emergency Fund (para. 69);

1/ Official Records of the General Assembly, Thirty-fourth Session, Supplement No. 9 (A/34/9) and A/34/9/Add.1.

2/ Ibid. Supplement No. 30 (A/34/30 and Corr.1).

(g) Actuarial valuation of the Fund as at 31 December 1978 (paras. 70-83);

(h) Financial statements of the Fund for the year ended 31 December 1978 and the report of the Board of Auditors (para. 84).

3. The Advisory Committee notes section IVD.1 of the Board's report which deals with investments of the Fund, and the report of the Secretary-General entitled "Investments of the United Nations Joint Staff Pension Fund" (A/C.5/34/30). In paragraph 19 of its report (A/32/319) to the General Assembly at its thirty-second session the Advisory Committee stated the following with regard to the investments of the Fund:

> "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 Committee notes the statement of the Board, in paragraph 41 of its report 3/ 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."

(a) Pensionable remuneration and interim measures

4. In section II, paragraph 3, of resolution 33/119, the General Assembly approved the intention of the International Civil Service Commission "to make, as a matter of priority, a comprehensive examination of the functioning, methods of establishment and adjustment and appropriate level of pensionable remuneration, in particular with a view to preparing, in co-operation with the United Nations Joint Staff Pension Board, proposals to be submitted to the General Assembly at its thirty-fourth session for correcting anomalies in the United Nations pension system brought about by the current economic and monetary circumstances".

5. The International Civil Service Commission considered the question at its ninth and tenth sessions in 1979. 4/ In paragraph 80 of its report to the General Assembly at its thirty-fourth session, the Commission expresses regret that it is unable to recommend at this stage the solution which will be in the broadest long-term interest of all the organizations of the common system, of the Governments and of the staff. The Commission therefore intends to continue work in 1980, in co-operation with the Pension Board, with a view to the elaboration of a long-term solution to enter into effect no later than 1981. 5/

3/ *Ibid.*, *Thirty-second Session, Supplement No. 9* (A/32/9).

4/ *Ibid.*, *Thirty-fourth Session, Supplement No. 30* (A/34/30), paras. 33-97.

5/ *Ibid.*, para. 84.

6. Pending the adoption of a long-term solution, the Commission recommends that the General Assembly should freeze the operation of the mechanism for adjustment of pensionable remuneration of staff in the Professional and higher categories instituted by resolution 1561 (XV) (see para. 14 below), thereby freezing pensionable remuneration "at its 1979 level"; and that it simultaneously enact "an appropriate interim measure" to prevent pensions "from falling below a predetermined minimum level". 6/

7. In paragraph 89 of its report, the Commission notes that in so far as the interim measure "would take the form of an adjustment of the initial pensions concerned and would not modify the way in which pensionable remuneration is established, it would fall within the competence of the Pension Board". Having been informed of proposals which were being prepared for submission to the Pension Board, the Commission found that those proposals "would in general satisfy the objectives which it considers essential" and expressed "its firm hope that the Board will recommend to the General Assembly an interim measure similar to - and not less satisfactory than - that now envisaged". 7/

8. The proposals in question were considered by the Pension Board at its special session in October 1979. In paragraph 7 of part two of its report, the Board agreed to recommend that the General Assembly adopt them for application in 1980 only. The details of the proposed interim measures are set out in part two, annex I of the Board's report.

9. The Board states in that annex that the interim measures are intended

> "to ensure that the local currency amount of a periodic benefit of which the first payment becomes due in 1980 shall, after application of the provisions of the present system of pension adjustment, not be less than the amount which would have been payable if, during the period used to calculate the participant's final average remuneration, there had been used instead the pay in local currency received in the country of retirement by a participant in active service with an identical salary classification".

10. The measures would apply only to participants who, at the time of separation, were in the Professional category or above.

11. The Board indicates that it was informed by its Consulting Actuary that the implementation of the proposed interim measures in 1980 would necessitate an estimated additional cash outlay from the Fund of some $600,000. 8/ Inasmuch as the proposed interim measures are intended to operate for one year only, their long-term actuarial cost is not indicated in the Board's report.

6/ Official Records of the General Assembly, Thirty-fourth Session, Supplement No. 30 (A/34/30), paras. 86-88.

7/ Ibid., paras. 94 and 96.

8/ Ibid., Supplement No. 9 (A/34/9), part two, para. 19.

12. But whereas ICSC regards the interim measures as a corollary to the freezing of the adjustment system based on the weighted average of post adjustments (WAPA) (see para. 6 above), the Pension Board favours the continuation of the latter on the grounds that a "freeze" would have detrimental actuarial implications for the Fund (estimated by the Consulting Actuary at about $13 million if it was applied for the one year 1980) and that it would prejudice the entitlements of all participants in the Professional and higher categories. 9/

13. In its report, ICSC also makes two suggestions related to the proposed interim measures. One of them would increase somewhat (by about 10 per cent, in the view of some members of the Commission) the amount of the pension awarded in accordance with the interim measures; and the other would provide that wherever the level of pensionable remuneration of a staff member fell below the level of total net remuneration, the contributions paid by the organization and by the staff member should be based on total net remuneration. 10/ In paragraphs 10 and 13 of part two of its report the Board states that it is unable to endorse the Commission's two suggestions. 11/

Observations by the Advisory Committee

14. The current United Nations pension system reflects the decisions taken by the General Assembly at its fifteenth session (resolution 1561 (XV)) on the basis of a report by a Pension Review Group. 12/ It provides for a retirement benefit, initially expressed in United States dollars, the standard annual rate of which is equal to a fraction (rate of accumulation x years of contributory service) of "final average remuneration". The latter term is defined in article 1 of the Regulations of the United Nations Joint Staff Pension Fund by reference to "pensionable remuneration".

15. There is no substantive definition of the term "pensionable remuneration" in the Regulations of the Fund. Over the years, the General Assembly adopted several resolutions on how pensionable remuneration should be calculated. Since 1965, the pensionable remuneration of staff in the Professional and higher categories has been the annual rate of the United Nations gross salary (i.e., salary before staff assessment), adjusted in multiples of 5 per cent to reflect movements of the weighted average of the post adjustment classifications of the headquarters and regional offices of the member organizations - the so-called WAPA adjustment index (sect. I, para. 1 (a) of General Assembly resolution 2007 (XIX)).

16. The Advisory Committee recalls that the system of adjusting pensionable remuneration in accordance with the WAPA index was originally recommended by the 1959 Pension Review Group and was approved by the General Assembly in resolution 1561 (XV). The system was designed to serve two objectives: (a) to "protect the

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9/ Ibid., part two, paras. 11 and 20.

10/ Ibid., Supplement No. 30 (A/34/30), paras. 94 and 95.

11/ Ibid., Supplement No. 9 (A/34/9).

12/ Ibid., Fifteenth Session, Annexes, Agenda item 63, document A/4427*.

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staff against the possibility that, for reasons of salary policy, the basic scales will tend to remain based on a relatively low cost-of-living area for long periods"; and (b) to "protect the pension system and the organizations against the possibility that a measure of consolidation or increase in basic scales will cause an actuarial deficit in the Func". 13/

17. At the same time, the 1959 Pension Review Group, like the 1958 Expert Group before it, concluded that pensionable remuneration should not include post adjustment 14/ or any of the allowances payable to staff in the Professional and higher categories. 15/

18. The pension system approved, in its essentials, in General Assembly resolution 1561 (XV) worked reasonably well during the next decade, when exchange rates remained relatively stable and the differences in cost-of-living between the base of the system and the other headquarter or regional-office countries were not extreme. In the 1970s, however, it has come under increasing strain because of accelerating inflation and, even more so, because of the changed relationship between the United States dollar, in which pensionable remuneration is expressed, and other major currencies.

19. These factors have made it necessary for the General Assembly to adopt in recent years a series of measures designed to minimize the adverse impact of the factors in question on the purchasing power of benefits after they have been awarded. The Assembly's most recent action in the matter (resolution 33/120 of 19 December 1978) led to the adoption of a new scheme the basic purpose of which, according to the Pension Board, was "to ensure that a periodic benefit payable by the Fund should never be allowed to fall below the 'real' value of its United States dollar amount, as determined under the Regulations, and to preserve its purchasing power as initially established in the currency of the recipient's country of residence". 16/

20. The various measures referred to in the preceding paragraph did not affect the method by which pensionable remuneration is determined. The interim measures now proposed by the Board for 1980, however, represent a departure from that method in that they introduce an alternative concept of pensionable remuneration for staff in the Professional category and above, namely, "the pay in local currency received in the country of retirement by a participant in active service with an identical salary classification". In its report the Board does not define what it means by "pay in local currency". The Advisory Committee understands, however, that the term means the local currency equivalent of net salary (i.e., gross base salary minus staff assessment) plus post adjustment at the dependency rate.

13/ Ibid., para. 108.

14/ Ibid., para. 100.

15/ Ibid., paras. 110-113.

16/ Ibid., Thirty-third Session, Supplement No. 9 (A/33/9 and Corr.1), para. 27.

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21. As was stated in paragraph 17 above, pensionable remuneration has hitherto excluded post adjustment. However, when the 1958 Expert Group and the 1959 Pension Review Group were studying the question, post adjustment represented a small proportion of the take-home pay of staff in the Professional and higher categories. 17/ Today there are several duty stations at which post adjustment accounts for about half the take-home pay of the staff in question. This is particularly true for the lower Professional grades for which the post-adjustment system provides fuller protection against cost-of-living increases than for the senior grades.

22. The Board's proposals are based on the premise that a pension which falls below a minimum level determined by reference to the pay in local currency received by a participant with an identical salary classification in the country of retirement, should be supplemented so as to bring it up to that minimum level. The Board proposes that for a participant retiring after 30 years of contributory service, the minimum level in question should be 60 per cent of final average net remuneration.

23. In its report, the Board makes it clear that the proposed interim measures are intended to apply only to the benefits payable in 1980 to staff in the Professional and higher categories who retire in 1980, and that they would not apply beyond 1980. 18/ In the opinion of the Advisory Committee, however, it would be unrealistic to imagine that, whatever the disclaimers, it would be possible to go back on any "interim" improvements in benefits once the latter have been approved. In the circumstances, the Committee inquired into the long-term implications for the Fund of the interim measures proposed by the Board.

24. The Committee was informed that the estimate of $600,000 in cash outlay in 1980 was based on the forecast that of the 1,000 participants in the Professional and higher categories expected to become entitled to periodic benefits in 1980, it was estimated that 360 would benefit from the interim measures, distributed by grade as follows:

P-1	5
P-2	40
P-3	90
P-4	105
P-5	75
D-1 and above	45
	360

17/ Of the 29 United Nations duty stations away from Headquarters the post classifications of which are listed in the Budget Estimates for the financial year 1959 only four were in class 4 or higher (Official Records of the General Assembly, Thirteenth Session, Supplement No. 5 (A/3825 and A/3825/Corr.1, p. 22).

18/ Official Records of the General Assembly, Thirty-fourth Session, Supplement No. 9 (A/34/9), part two, para. 7.

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25. In response to inquiries the Committee was informed that, if the interim measures were approved, the pension of a retiree in Switzerland with a date of separation on 31 December 1979 would be increased by 22.9 per cent compared to the current system if he or she retired at the top step of P-1; by 8.1 per cent if the level was P-4, top step; and 0.1 per cent if the level was D-1, top step. The progressively smaller impact of the proposed interim measures on the pensions of persons retiring at the higher grades is due to the fact that at those levels the post adjustment system provides only partial compensation for cost-of-living increases; hence, a system which establishes a percentage relationship between pension and take-home pay will yield a comparatively smaller benefit for higher-level staff than if they were more fully compensated under the post adjustment system. In this connexion, the Advisory Committee notes the information given in paragraph 92 of the report of ICSC as to the levels of post adjustment classes at which the proposed interim measures would begin to affect the pensions of persons retiring at different grades. 19/

26. The Committee was also informed that if the interim measures were continued beyond 1980, the cash outlay that would be required would be in the following amounts:

1981	approximately	\$2 million
1982	"	\$3.8 million
1983	"	\$6 million
1984	"	\$8.6 million

Should the interim measures become a permanent feature of the pension system, the over-all actuarial liability of the Fund would amount to some \$300 million. The Committee understands that, to offset such an actuarial liability, there would be need to increase the rate of contribution from 21 per cent to 21.9 or 22 per cent. In this connexion, the Committee recalls that in the second preambular paragraph of resolution 33/120 the General Assembly reaffirmed that

> "no change in the pension adjustment system should entail an increase in the present or future liabilities of Member States".

27. As was stated in paragraph 12 above, the Pension Board disagrees with the recommendation of ICSC that, pending the adoption of a long-term solution, the operation of the adjustment system based on the WAPA index be suspended, thereby freezing pensionable remuneration at its 1979 level. The reasons which led the 1959 Pension Review Group to recommend, and the General Assembly to accept, the introduction of that adjustment system are quoted in paragraph 16 above. Over the years the General Assembly has taken decisions whereby it consolidated several classes of post adjustment in the base salary thereby raising the amount of pensionable remuneration and reducing the number of classes of non-pensionable post adjustment. The decision to consolidate was normally taken when it was deemed that the post adjustment classification of the "base" city had become

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19/ Ibid., Supplement No. 30 (A/34/30 and Corr.1).

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undesirably high. New York is currently at class 8 which corresponds to an index of 148. The WAPA-based index which governs pensionable remuneration adjustments currently stands at 125 and is expected to rise to 135 on 1 January 1980. In the opinion of the Advisory Committee the retention or discontinuance of the WAPA system should be considered in the context of the over-all solution, and not on its own or in conjunction with interim measures designed to apply for one year only. Accordingly, and bearing in mind the Board's observations in paragraphs 11, 12 and 20 of part two of its report, 20/ the Advisory Committee recommends that the WAPA system should continue to be applied in 1980.

Alternative interim measures

28. Bearing in mind its observations in paragraphs 14 to 27 above, the Advisory Committee considered whether it would be possible to devise an alternative interim solution to the problem addressed by the Pension Board and by the International Civil Service Commission and provide a measure of relief to certain persons in the Professional and higher category who will be retiring in 1980, in a manner which would not involve conceptual changes in the pension system. In the Committee's opinion any conceptual changes should be considered and decided in the context of the over-all solution and not in the context of interim measures.

29. In this connexion, the Advisory Committee recalled that, under the adjustment system approved by the General Assembly in 1978 (sect. I of resolution 33/120), with effect from 1 January 1979, two base amounts are established for each pension:

(a) A dollar base amount established in accordance with the Regulations of the Fund.

(b) A local-currency base amount calculated by applying to the dollar base amount the greater of:

(i) the exchange rate, on the day of separation, between the United States dollar and the currency of the country of residence, or

(ii) the average of such exchange rates over the 36 consecutive calendar months up to and including the month of the separation.

30. As a further measure of protection, the adjustment system provides that the local-currency base amount may not be less than the amount which would have been applicable on 1 January 1978 had the entitlement begun on that date but had been based on contributory service up to the actual date of separation. 21/ This minimum pension is based on a "final average remuneration" which reflects the participant's grades and steps up to his actual date of separation, but which uses the scales of pensionable remuneration in effect during the 36-month period

20/ Ibid., Supplement No. 9 (A/34/9).

21/ Ibid., Thirty-third Session, Supplement No. 9 (A/33/9), annex V, paras. 29-30.

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ended on 31 December 1977. Therefore, a participant retiring in 1980 with a minimum initial pension established in this manner will not be benefiting from increases in pensionable remuneration brought about by the movement of the WAPA-based index since 1 January 1978.

31. The movement of WAPA is affected by two elements: exchange-rate fluctuations and inflation. Two increases in pensionable remuneration attributable to movements of the WAPA-based index have taken place since 1 January 1978 (on 1 July 1978 and 1 January 1979) as a consequence of which pensionable remuneration for staff in the Professional and higher category is now equal to 125 per cent of gross salary. A further increase (to 135 per cent) is expected on 1 January 1980.

32. An increase in pensionable remuneration as of a given date has only a gradual impact on final average remuneration (and, thus, on benefits), for final average remuneration is calculated over a three-year span. In this connexion, the Advisory Committee has been informed that, even though pensionable remuneration is now equal to 125 per cent of gross salary, the final average remuneration of a person retiring on 31 December 1979 will be 110.8 per cent of gross salary. The following table, provided to the Advisory Committee at its request, shows the effect of the WAPA-based index on the final average remuneration of staff retiring in 1980.

Effective date of pension	Effect of WAPA on final average remuneration
1. 1.80	10.8%
1. 2.80	11.8
1. 3.80	12.8
1. 4.80	13.8
1. 5.80	14.7
1. 6.80	15.7
1. 7.80	16.7
1. 8.80	17.6
1. 9.80	18.6
1. 10.80	19.6
1. 11.80	20.6
1. 12.80	21.5

33. The local-currency base amount calculated in the manner described in paragraph 29 above reflects the impact of the WAPA-based index on the level of the participant's final average remuneration. But this is not so in the case of the initial minimum pension calculated in the manner described in paragraph 30 above because this minimum pension is based on scales of pensionable remuneration in effect prior to 1 January 1978 and on the rate of exchange as of 1 January 1978. 22/ This method of calculation protects the minimum pension from exchange-rate fluctuations subsequent to 1 January 1978. However, it will also deprive participants retiring in 1980 from the benefit of the increases in pensionable remuneration subsequent to 1 January 1978 which can be ascribed to

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22/ The rate of exchange used is the average for the 12 months ended on 1 January 1978 and not the spot rate on that day.

the inflation element in the movement of WAPA. A good argument can therefore be made for reflecting the inflation element of WAPA in the determination of the initial minimum pension. In view of the intricate interrelationship between exchange-rate fluctuations and cost-of-living changes in any one country over a period of time, it would be impossible to measure accurately the inflation element of WAPA. One possible solution would be to assume that half the movement is due to inflation.

34. It should thus be possible to devise an interim adjustment scheme for Professional participants who will be retiring in 1980 under which the initial amount in local currency determined in accordance with the procedure referred to in paragraph 30 above would be adjusted by applying to it half the percentage in the table in paragraph 32 above corresponding to the month in which the pension first becomes payable. For example, a pension which will become payable as of 1 January 1980 would be increased by 5.4 per cent, one that becomes payable on 1 July 1980 would be increased by 8.3 per cent, and so on. The increased benefit would be payable for 12 months in the first case, for six months in the second case, and so on.

35. As the percentage increase would be uniform for all grades, the alternative interim measure discussed in the preceding paragraph would yield a smaller increase for retirees in the lower Professional grades, a broadly similar increase for retirees in the middle grades, and larger benefits for retirees in the senior grades, compared with the Board's proposal (see para. 25 above). This is a consequence of the fact that under the United Nations pension system benefits are proportional to final average remuneration, and thus to salary levels at various grades.

36. In response to inquiries the Committee has been informed that it is estimated that some 250 persons would benefit from such a scheme (as against an estimated total of about 360 under the Board's proposal - see para. 24 above). The reason for the difference is as follows. Under the Board's proposal <u>all</u> persons retiring in 1980 to countries having a given post adjustment classification (which varies depending on the grade of the retiree - see para. 25 above) would receive increased benefits. The increases under the alternative proposal would go to those who, irrespective of the post adjustment classification of the country of retirement, would receive a minimum pension calculated in the manner indicated in paragraph 30 above, but not to those whose benefits in local currency would be established under the alternative calculations of paragraph 29 above (in which WAPA-based adjustments are already reflected).

37. The breakdown, by grade, of the 250 persons expected to benefit from the scheme would be as follows:

P-1	4
P-2	20
P-3	65
P-4	70
P-5	50
D-1 and above	41
	250

About 100 of the above are expected to retire in Switzerland.

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38. The Advisory Committee has been informed by the Consulting Actuary that the cost, in 1980, of the alternative proposal would be about $300,000. The Advisory Committee trusts that in the meantime ICSC and the Pension Board will have completed their review of pensionable remuneration and that the General Assembly will have taken long-term decisions in the matter.

39. Should the alternative scheme discussed in paragraphs 34 to 38 above prove acceptable to the General Assembly, the resulting increase would be paid as an interim supplement on a monthly basis from the date in 1980 when the pension becomes payable until the end of that year. Payment of the supplement would be subject to the provisions of sections B, C and F of part two, annex I of the Board's report. 23/

(b) Changes in the regulations

Benefit system

40. In paragraphs 34 to 41 of part one of its report, the Pension Board proposes three changes in the benefit system at an actuarial cost estimated by the Consulting Actuary at about $76 million. The three changes, and the related actuarial costs, are as follows:

(a)	Extending the maximum period of reckonable contributory service from 32 to 35 years	$52.8 million
(b)	Applying a reduction of 1 per cent per year (instead of 2 per cent as at present) to the retirement benefit of a staff member who retires before the age of 60 after contributory service of 30 years or more	$17.5 million
(c)	Applying a lesser reduction than at present to the amount of a deferred retirement benefit which begins before the age of 60	$6.1 million

41. As the Pension Board recalls in paragraph 34 of part one of its report, the General Assembly, in 1976, approved the extension of reckonable service from 30 to 32 years (resolution 31/196, sect. II). In the report it had submitted to the General Assembly at the time, the Advisory Committee had recommended approval of the Board's recommendation which had been presented as an interim measure (A/31/409, paras. 30-32). Similarly, the Committee now recommends approval of the Board's proposal that the maximum period of reckonable contributory service be extended to 35 years.

42. In this connexion, the Advisory Committee notes that the Board, bearing in mind the actuarial position of the Fund, proposes that the rate of accumulation

23/ Official Records of the General Assembly, Thirty-fourth Session, Supplement No. 9 (A/34/9).

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during the thirty-third, thirty-fourth and thirty-fifth years should be 1/100th of final average remuneration. On that basis, the maximum standard retirement pension would be equal to 65 per cent of final average remuneration.

43. The other two proposals by the Board are contained in paragraphs 38 and 39 of part one of its report. The Advisory Committee recalls that similar proposals had been included by the Board in its report to the General Assembly at the thirty-third session. 24/ In its related report the Committee did not support the proposals in question (A/33/375, para. 31), and they were not approved by the General Assembly. In the circumstances, the Advisory Committee recommends that these two proposed changes not be approved.

Removal of age 60 as a bar to entry into the Fund

44. Article 21 of the Regulations of the Fund now bars a person who becomes a full-time member of the staff of a member organization after the age of 60 from becoming a participant in the Fund. However, if a staff member is already a participant on reaching 60 years of age, his contributory service continues beyond the age of 60 until such time as he retires. In paragraphs 42 to 46 of part one of its report the Board resubmits a proposal first made in 1976 that age should no longer be a bar to entry into the Fund.

45. When the Advisory Committee considered the Board's proposal in 1976 it was unable to recommend its acceptance on the grounds that the practice of recruiting persons in their sixties was inconsistent with the Staff Regulations of most of the member organizations which provided that 60 would be the normal age of retirement (A/31/409, para. 36).

46. In response to inquiries, the Advisory Committee was informed that in 1978 the member organizations of the Fund recruited a total of 82 staff over age 60. Of that total, 38 (i.e., nearly one-half) were recruited by the United Nations. The Committee was also informed that allowing staff members over 60 to enter the Fund would not entail any actuarial liability to the Fund.

47. While the Committee maintains the view that the practice of recruiting persons in their sixties is inconsistent with the requirement of regulation 9.5 of the Staff Regulations it recognizes that the Staff Regulations do not contain provisions prohibiting the recruitment of persons over the normal age of retirement. Considering that the question of recruitment of persons in that age group is one of personnel policy for each member organization, rather than a question of principle for the Pension Fund, the Advisory Committee concluded that it would not object to the Board's request.

24/ Ibid., Thirty-third Session, Supplement No. 9 (A/33/9 and Corr.1), paras. 51 and 52 and A/33/9/Add.1.

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48. In reaching that conclusion the Committee was also mindful of the view expressed by the Board in paragraph 45 of part one of its report that pension coverage in the Fund is likely to be less expensive for the organization concerned than a "golden handshake" on separation.

(c) Admission of the International Centre for the Study of the Preservation and the Restoration of Cultural Property (ICCROM)

49. In paragraph 48 of part one of its report the Pension Board recommends that the General Assembly should admit ICCROM to membership in the Fund with effect from 1 January 1980, in conformity with article 3, paragraph (c), of the Regulations of the Fund.

50. Article 3 (b) of the Regulations of the United Nations Joint Staff Pension Fund states 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 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."

51. As can be seen from paragraph 4 of part one of the Board's report, the current member organizations of the Fund are the United Nations, 10 of the 11 specialized agencies of the United Nations system (UPU is not a member of the Fund), and two organizations (ICITO and IAEA) which, though not specialized agencies in terms of Article 57, paragraph 2, of the Charter, have been assimilated to the status of a specialized agency for purposes of membership in the Fund. The Advisory Committee notes that various programmes, institutes and other organizations, some of which enjoy a considerable degree of autonomy (e.g., UNDP, UNFPA, UNITAR, WFP, the United Nations University, etc.) are not member organizations of the Fund, and that for purposes of pension coverage their staff are regarded as staff of the United Nations or the specialized agency which originally established the programme in question. The Advisory Committee understands that ICCROM was founded by UNESCO in 1959 as an autonomous scientific intergovernmental organization. Considering that ICCROM is the first organization which is seeking admission to the Fund pursuant to the second part of article 3 (b) of the Regulations of the Fund, the Advisory Committee believes that additional consideration should be given, in the first instance by the Pension Board, to whether ICCROM should be admitted as a member organization or whether its staff should be regarded, for purposes of pension coverage, as staff of the parent organization, namely, UNESCO. In the circumstances the Advisory Committee recommends that consideration of ICCROM's application be deferred until the thirty-fifth session of the General Assembly.

52. Furthermore, the Committee notes that the only qualifications laid down in article 3 (b) of the Regulations for membership in the Fund is that an international, intergovernmental organization should participate in the United Nations common system of salaries, allowances and other conditions of service.

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The Advisory Committee believes that consideration should be given to whether other criteria should also be taekn into account. In the circumstances the Committee recommends that the General Assembly should request the Pension Board to review article 3 (b) of the Regulations of the Fund and, if necessary, submit an appropriate proposed amendment to the General Assembly.

(d) Transfer of pension rights

53. In paragraphs 49 to 51 of part one of its report the Board invites the concurrence of the General Assembly in proposed agreements with the European Space Agency and the European Free Trade Association providing for the reciprocal transfer of pension rights, and in revisions to existing transfer agreements with IBRD and IMF. The texts of the four proposed agreements are annexed to the addendum to the Board's report (A/34/9/Add.1). The Advisory Committee has no objection to the above proposals.

(e) Administrative expenses

54. In paragraphs 52 to 65 of part one and paragraphs 22 and 23 of part two of its report the Pension Board submits supplementary estimates for 1979 totalling $42,500 and estimates for 1980 in the amount of $3,908,000. Both amounts are net and chargeable directly to the United Nations Joint Staff Pension Fund. The detailed estimates are given in annex III to part one and annex II to part two of the report.

Supplementary estimates for 1979

55. In section IV of resolution 33/120 of 19 December 1978, the General Assembly approved expenses, chargeable directly to the Pension Fund, totalling $3,726,500 (net) for 1979 for the administration of the Fund. The supplementary estimates totalling $42,500 now submitted by the Board comprise $32,500 for additional actuarial consulting services required for an analysis of the actuarial implications of the various proposals made by ICSC and by the Board's own Working Group relating to possible changes in the definition of pensionable remuneration and to the interim measures proposed for 1980; 25/ and $10,000 for additional travel and subsistence for the Investments Committee in connexion with the Board's meeting at Manila in 1979. 26/ The Advisory Committee has no objection to this request.

56. In paragraph 65 of part one of its report, the Board recommends the reclassification of three posts in 1979, namely, two from P-4 to P-5 and one from P-3 to P-4. The Board recalls that, initially, those reclassifications had been

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25/ *Official Records of the General Assembly, Thirty-fourth Session, Supplement No. 9* (A/34/9), part one, para. 64 and part two, para. 23.

26/ *Ibid.*, part one, para. 64.

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requested at the thirty-third session of the General Assembly, but that the Advisory Committee, after noting that the Classification Section of the United Nations Office of Personnel Services had not evaluated the proper grade levels of the posts, did not recommend acceptance of the proposed reclassifications (A/33/375). The Board states that the Classification Section has in the meantime approved the proposed reclassification of the two P-4 posts to P-5. The posts in question are those of Assistant for Special Projects and of the Chief of the Data Processing Section. In the circumstances, the Advisory Committee has no objection to the proposed reclassification of these two posts to P-5.

57. Inasmuch as the Classification Section has not yet pronounced itself on the proposed reclassification from P-3 to P-4 of the post of the Chief of the Registry Section, the Advisory Committee is unable to recommend approval of the Board's request. This will entail no reduction in the supplementary estimates for 1979 since the Board, in paragraph 65 of part one of its report, states that the cost of the reclassifications can be absorbed within the approved budget.

Estimates for 1980

58. The estimate of $3,908,000 for 1980 comprises $1,627,800 for administrative costs and $2,280,200 for investment costs. The estimate exceeds the 1979 appropriations (including the supplementary estimates) by $139,000 (3.7 per cent) of which $67,800 relates to administrative costs and $71,200 to investment costs. In the following table the estimates for 1980 are compared with the 1979 appropriations (including the supplementary estimates) and with expenses in 1978.

Object of expenditure	1978 expenses	1979 appropriations a/	1980 estimates	Increase (decrease) 1980 over 1979
	$	$	$	$
A. ADMINISTRATIVE COSTS				
Established posts	558,756	736,000	887,000	151,000
Common staff costs . .	243,057	300,000	280,000	(20,000)
Temporary assistance . .	244,358	136,000	174,000	38,000
Common staff costs . .	99,409	55,000	50,000	(5,000)
Overtime	17,778	26,000	27,000	1,000
Travel of staff				
To meetings	16,622	25,000	23,500	(1,500)
On official business. .	4,118	6,000	7,000	1,000
Actuarial consulting services	65,274	132,500	45,000	(87,500)
Committee of Actuaries. .	13,817	19,000	21,500	2,500
Data processing costs				
Services rendered by United Nations	20,000	20,000	20,000	-
Acquisition and maintenance of equipment	49,103	35,000	35,000	-
Contractual services. .	-	30,000	30,000	-
Supplies and materials	5,702	10,000	10,000	-
External audit	6,000	6,000	6,000	-
Communications services	5,000	5,000	5,000	-
Modular records system. .	-	12,000	-	(12,000)
Hospitality	1,731	1,500	1,800	300
Miscellaneous supplies and services	2,840	5,000	5,000	-
Total administrative costs	1,353,565	1,560,000	1,627,800	67,800
B. INVESTMENT COSTS				
Established posts	133,381	203,000	217,000	14,000
Common staff costs . .	69,281	86,000	65,000	(21,000)
Overtime	2,335	2,000	2,000	-
Travel of staff	1,381	3,000	6,000	3,000
Advisory and custodial fees.	1,667,108	1,825,000	1,900,000	75,000
Investment consultants. .	9,677	16,000	16,000	-

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Object of expenditure	1978 expenses	1979 appropriations a/	1980 estimates	Increase (decrease) 1980 over 1979
	$	$	$	$
B. INVESTMENT COSTS (continued)				
Investments Committee. . .	54 610	68 000	68 000	-
Investment reference services	1 729	2 000	2 200	200
Communications services. .	67	2 000	2 000	-
Hospitality	1 754	2 000	2 000	-
Total investment costs	1 941 323	2 209 000	2 280 200	71 200
GRAND TOTAL	3 294 888	3 769 000	3 908 000	139 000

a/ Including supplementary estimates.

Administrative costs

59. The increase of $151,000 under established posts comprises both cost increases and resource growth. The latter is reflected in the request for five new posts and one reclassification. The requests are made in paragraphs 54 to 56 of part one of the Board's report, as follows:

1 P-4: Executive Officer (para. 54);

1 G-5: Administrative assistant for the Registry Section (para. 55 (a));

1 G-3/4: clerk typist in the Executive Office (para. 54);

1 G-3/4: file clerk in the Registry Section (para. 55 (b));

1 G-3/4: accounting clerk for the Accounts Section (para. 55 (c));

Reclassification from G-4 to G-5: programmer assistant in the Data Processing Section (para. 56).

60. In paragraph 57 of part one of its report the Board states that the grading of the proposed P-4 post has been approved by the Classification Section of the United Nations Office of Personnel Services. The Advisory Committee understands that the Classification Section is not involved at this stage in determining the classification (or reclassification) of General Service posts.

61. The Committee was provided, at its request, with additional information on the organizational structure and workload of the secretariat of the Fund. In the light of that information the Advisory Committee recommends that the General Assembly should approve three of the five posts requested, namely, one P-4, one G-5 and one G-3/4 accounting clerk. The Committee has no objection to the proposed reclassification of one programmer assistant post from G-4 to G-5. The staffing resources of the secretariat of the Fund, as recommended by the Advisory Committee, are shown in annex I to the present report.

62. In paragraph 57 above, the Advisory Committee recommends that the proposed reclassification of one P-3 post to P-4 not be approved. Should the General Assembly agree with that recommendation and also with the recommendation in paragraph 61, requirements under established posts in 1980 would be reduced by $20,000.

63. The increase of $38,000 under temporary assistance consists of $14,000 for cost increases (para. 58 of part one of the Board's report) and $24,000 for two additional accounting clerks on a temporary assistance basis for work related to the proposed interim measures, which will necessitate additional calculations (part two, para. 22 of the Board's report). The Advisory Committee has no objection to the Board's request for the two additional accounting clerks; the Committee understands that they will be at the G-3/4 level.

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64. The decrease of $25,000 under common staff costs related to established posts and temporary assistance is a net figure. The estimate would have shown an increase over 1979 were it not for the fact that, with effect from 1 January 1980, the Pension Fund will be relieved of the charge of reimbursing national income taxes, pursuant to arrangements to which the Board refers in paragraph 63 of part one of its report. The reductions in established posts recommended by the Advisory Committee in paragraph 62 above, if approved by the General Assembly, will entail a reduction of $6,500 in the estimate of common staff costs related to established posts.

65. The Committee notes the explanations given by the Board in paragraphs 58 and 59 of part one and in paragraph 22 of part two of its report concerning increases and decreases in requirements under other objects of expenditure. In this connexion, the Committee inquired into the meaning of the statement in paragraph 22 of part two that the Board "agrees that the funds included in the original budget estimates for 1980, for data processing, should be utilized for this purpose". The Committee was informed that the words "for this purpose" did not refer to the addition of two accounting clerks and should not be interpreted to mean that the Board proposed to absorb the related costs. Rather, the sentence was intended to indicate that the $30,000 for data processing services included in the estimates for 1980 would be used for work on the proposed interim measures rather than for the tasks originally envisaged.

Investment costs

66. The increase in investment costs is attributable in its entirety to the fees payable to the two financial institutions engaged under contract by the Secretary-General to provide advisory and custodial services in the management of the Fund's investments. In paragraph 61 of part one of its report the Board states that these fees are separate and distinct from the commissions charged by brokerage houses when securities are sold or purchased, and that they are linked contractually to the market value of the investments themselves. In this connexion, the Advisory Committee recalls that in paragraph 52 of its report to the General Assembly at its thirty-third session it recommended that "these fees be kept under constant review and that comparative information on the fees charged by financial institutions to other pension funds of comparable size for similar services be included in the Board's next report to the General Assembly" (A/33/375).

67. The Committee notes the statement in paragraph 17 of the report by the Secretary-General on the investments of the Fund that a new fee scale has recently been negotiated with the company which advises in relation to the largest part of the portfolio, and that, as a result, the fee for each additional $1 million in assets of the Fund will be $750 a year. In the opinion of the Secretary-General, the new scale compares most favourably with those paid by the sponsors of other large funds (A/C.5/34/30).

Recapitulation

68. In paragraphs 62 and 64 above the Committee has recommended reductions totalling $26,500 in the estimates of administrative expenses for 1980 chargeable directly to the Fund, from $3,908,000 net to $3,881,500.

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(f) Emergency Fund

69. The Advisory Committee recommends that the General Assembly should approve the recommendation of the Board in paragraph 68 of part one of its report that its authority to supplement voluntary contributions to the Emergency Fund up to an annual amount of $100,000 should be continued. In paragraph 67 the Board states that total disbursements since 1975 have amounted to about $60,000. More up to date information provided to the Advisory Committee indicates that the total now stands at $71,400.

(g) Actuarial valuation of the Fund as at 31 December 1978

70. The results of the actuarial valuation of the Fund as at 31 December 1978 are discussed by the Board in paragraphs 82 to 96 of part one of its report. In paragraph 93 the Board states that it decided to recommend to the General Assembly that there was no need currently to consider invoking the provisions of article 27 (a) of the Regulations of the Fund, which would necessitate additional payments into the Fund by the member organizations.

71. An actuarial valuation does not have the accuracy of a financial statement. When preparing his valuation an actuary must use assumptions as to how the situation will develop in the future, sometimes for many years ahead. In the case of the valuation of the United Nations Pension Fund these assumptions will cover, inter alia, the growth of pensionable remuneration, the rate of return on the Fund's investments, the rate of adjustment of benefits to counter the effects of inflation, whether the number of active participants will increase and, if so, at what rate, the proportion of men and women, the average age of entry, changes in the actual average age at retirement, and the like. Even slight variations in these various factors will affect the results of the valuation.

72. In the circumstances, the Consulting Actuary has drawn to the attention of the Pension Board that an actuarial surplus or deficiency in the valuation balance sheet does not have the same significance as a surplus or deficit in a financial balance sheet (as prepared by accountants). Because the actuarial cost method involves the projection of expected future contributions and benefit payments, the valuation balance sheet measures the excess (or the deficiency) of the total assets, including future contributions, over the total liabilities, including those for benefits which have not yet accrued (or been "earned" by the participants, present or future). The actuarial surplus or deficiency therefore only indicates whether or not the present rate of contricutions, continued in all future years, will be sufficient to meet the future obligations of the Fund, as they become due.

73. The Advisory Committee understands that the valuation of the Fund, as at 31 December 1976, which showed an actuarial imbalance of $211 million, had assumed that over a period of 10 years salaries would increase by 4 per cent (to account for inflation) over the static rates at each age, 27/ that the Fund would earn a

27/ The static rates for professional staff are assumed to be 7.3 per cent a year at age 20, declining to 1.0 per cent at age 60; for general service staff they vary between 3.9 per cent a year at age 20 and 1.0 per cent at age 60.

/...

return of 8 per cent on its investments, and that pensions would increase by 3 per cent a year. After the first 10 years, it was assumed that salaries would increase by the static rates only, that the interest rate would be 4.5 per cent, and that there would be no pension increases; in other words, that no allowance for inflation need be made after the first 10 years.

74. Experience during the two-year period between the valuations as at 31 December 1976 and 31 December 1978 showed that pensionable remuneration had increased by much more than the 4 per cent a year assumed, 28/ that benefits in payment had risen by more than 3 per cent a year, and that the annual yield on investments (after applying the necessary actuarial adjustments) had been 7.3 per cent a year, as against 8 per cent. The three factors combined had produced an actuarial loss of $395.5 million. Because of more favourable experience with recent new participants, however, the net actuarial loss was reduced to $342.2 million. Thus, a valuation at 31 December 1978 prepared on the same basis as the valuation at 31 December 1976 would have shown an actuarial deficiency of $553.2 million.

75. As is stated in paragraph 83 of part one of the report of the Pension Board, the valuations as at 31 December 1978 were prepared on the assumption that inflation would continue indefinitely in the future. It was further assumed that the number of participants would increase at the rate of 1 per cent a year for the next 20 years.

76. In paragraph 86 the Board reports that the valuation which has been recommended by the Committee of Actuaries as the regular valuation as at 31 December 1978 assumes that salaries will increase at the static rates plus 3.5 per cent a year for inflation, that the interest rate would be 7.5 per cent a year, and that the rate of increase in pensions would be 3 per cent a year. Such a valuation (the 3.5/7.5/3 basis) shows an actuarial imbalance of $121.7 million.

77. Two other valuations at at 31 December 1978 had also been prepared. As is stated in paragraph 85 of part one of the Board's report, one of them assumed salary increases equal to the static rates plus an inflation allowance of 3 per cent at each age, an interest rate of 7 per cent and a 3 per cent a year rate of increase in pensions after award (the 3/7/3 basis). The other assumed a 4 per cent inflation addition to the static rates of salary increases, an interest rate of 8 per cent a year and a 3 per cent a year rate of increase in pensions after award (the 4/8/3 basis). The results of the three valuations are summarized in the following table:

	3.5/7.5/3 basis $'000,000	3/7/3 basis $'000,000	4/8/3 basis $'000,000
Assets	8,665.7	8,640.3	8,684.2
Liabilities	8,787.4	9,299.0	8,377.4
Surplus (Deficit)	(121.7)	(658.7)	306.8

28/ A major contributing factor was the rapid increase in general service salaries (expressed in United States dollars) due to the devaluation of the dollar.

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In the foregoing table, "Assets" include the existing assets as of the valuation date plus the present value of future contributions; similarly, the liabilities include the value of benefits already payable, plus the present value of benefits expected to be paid in the future on behalf of present and future participants. The Advisory Committee understands that both contributions and benefit payments have been projected on the assumption that the Fund will remain in existence indefinitely.

78. The reason for the large difference between the results of the valuations on the 3/7/3 basis and on the 4/8/3 basis lies in the spread between the assumed rate of interest and the assumption as to the rate of the cost-of-living increases for pensions. In the case of the 3/7/3 basis this spread - which represents the assumed "real" rate of return on investments net of inflation - is 4 per cent a year; in the case of the 4/8/3 basis the spread is 5 per cent. The basis selected by the Committee of Actuaries assumes a 4.5 per cent "real" rate of return.

79. The meaning of the actuarial imbalance shown by the valuation is that if the future develops exactly in the manner assumed in the valuation, the Fund will eventually be unable to meet its commitments. As to when that is likely to happen, calculations made by the Consulting Actuary indicate that the Fund will still be growing 30 years from now. That was one of the reasons why the Committee of Actuaries concluded that article 27 (a) of the Regulations of the Fund need not be invoked at this time.

80. If it was desired to achieve a complete actuarial balance on the 3.5/7.5/3 valuation basis, the contribution rate would have to be increased from 21 per cent to 21.37 per cent.

81. The extension of the maximum period of reckonable contributory service from 32 to 35 years (see paras. 44-48 above), if approved by the General Assembly, will add $52.8 million to the actuarial imbalance of the Fund.

82. There are also other potential developments which may exacerbate the actuarial imbalance. In paragraph 96 of part one of its report, the Board states that it was informed by the Consulting Actuary that if all member organizations of the Fund were to apply personnel policies which would prevent staff members from remaining in service beyond the age of 60 years and six months, the actuarial imbalance would increase by more than $350 million. Secondly, preliminary calculations by the Consulting Actuary indicate that the actuarial cost of the four alternative solutions summarized by the International Civil Service Commission in paragraphs 75 to 77 of its report, and described in greater detail in annex V thereto, 29/ may be of the order of $124 million to $309 million depending on the alternative to be chosen. In connexion with the latter factor, the Committee of Actuaries has urged that no final proposal for change in the definition of pensionable remuneration be made without an actuarial study of its cost implications.

29/ *Official Records of the General Assembly, Thirty-fourth Session, Supplement No. 30* (A/34/30 and Corr.1).

/...

83. As the Pension Board states in paragraph 95 of part one of its report, the Committee of Actuaries will review the question of the contribution rate at the time of the next valuation, in the light of developments which will have taken place by then.

(h) Financial statements of the Fund for the year ended 31 December 1978 and the report of the Board of Auditors

84. The Advisory Committee notes the financial statements of the Fund for the year ended 31 December 1978 and the report of the Board of Auditors which are contained in annexes I and IV, respectively, to part one of the report of the Pension Board. In paragraphs 4 to 6 of its report the Board of Auditors urges that steps be taken to develop and implement effective control structures which will protect computer systems from unauthorized access, alteration and use. The Committee notes that in paragraph 97 of part one of its report the Pension Board expresses satisfaction that steps are being taken by the United Nations and the secretariat of the United Nations Joint Staff Pension Fund to implement the measures suggested by the Board of Auditors regarding the strict observance of confidentiality with respect to the data relating to individuals which are utilized in the electronic data processing operations of the secretariat. In this connexion, the Advisory Committee recalls that, in paragraph 6 of its report on financial reports and accounts, and reports of the Board of Auditors, it recommends that the Secretary-General keep the question of security of computerized files under constant review, while bearing in mind the costs and benefits of possible improvements (A/34/486).

Recapitulation

85. In the present report the Advisory Committee has made several recommendations which, if approved by the General Assembly, would call for changes in the draft resolution, and the revisions thereto, proposed by the Pension Board. 30/ These changes are incorporated in the text in annex II below.

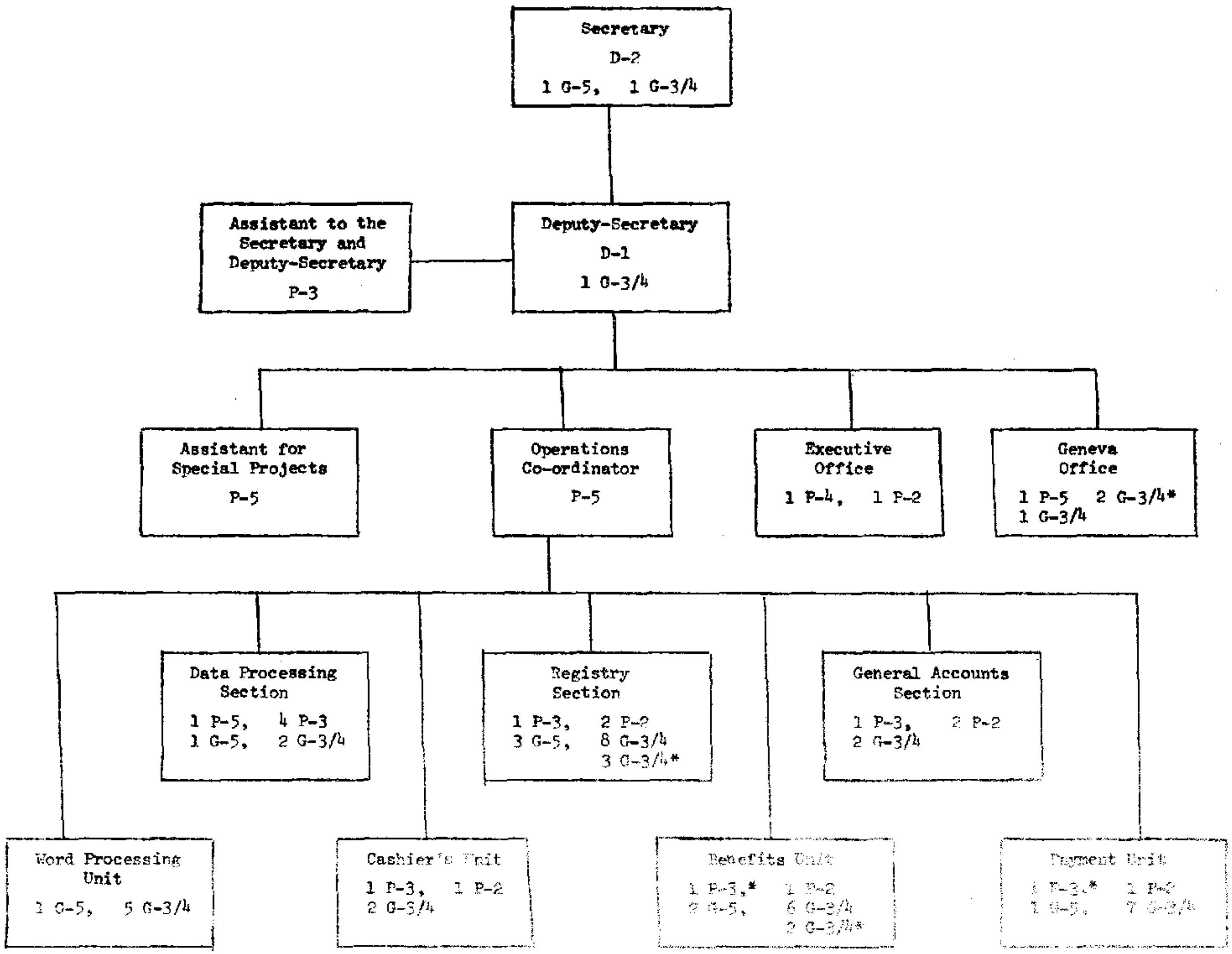
30/ Ibid., Supplement No. 9 (A/34/9), part one, annex V, and part two, annex III.

ANNEX I

Secretariat of the United Nations Joint Staff Pension Fund

(as recommended by the Advisory Committee for 1980)

Organization Chart



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* Temporary Assistance Posts.

Annex II

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 1979, and the related report of the Advisory Committee on Administrative and Budgetary Questions,

I

Amendments to the Regulations of the United Nations Joint Staff Pension Fund

Decides that articles 21 and 29 of the Regulations of the United Nations Joint Staff Pension Fund shall be amended, without retroactive effect, from 1 January 1980, as set forth in annex VI to part one of the report of the United Nations Joint Staff Pension Board,

II

Transfer of pension rights

Concurs in the agreements approved by the United Nations Joint Staff Pension Board with the European Space Agency and the European Free Trade Association, and in the revised texts of the transfer agreements with the International Bank for Reconstruction and Development and the International Monetary Fund, concluded in 1960 under article 13 of the Regulations of the United Nations Joint Staff Pension Fund, with respect to continuity of pension rights between those agencies and the Fund,

III

Emergency Fund

Authorizes the United Nations Joint Staff Pension Board to supplement the voluntary contributions to the Emergency Fund, for a further period of one year, by an amount not exceeding $100,000, IV

Administrative expenses

Approves expenses, chargeable directly to the United Nations Joint Staff Pension Fund, totalling $3,881,500 (net) for 1980 and supplementary expenses of $42,500 (net) for 1979 for the administration of the Fund,

V

Interim measures

Authorizes the United Nations Joint Staff Pension Fund to implement in 1980 the interim measures recommended in paragraphs 34 and 39 of the report of the Advisory Committee on Administrative and Budgetary Questions.
