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United Nations pension system

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Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board.[1] The Committee also had before it the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund (A/C.5/57/11) and the report of the Board of Auditors on the accounts of the Fund for the biennium ended 31 December 2001.[2] During its consideration of these matters, the Committee met with the Chairman of the Pension Board, representatives of the Secretary-General and the Chief Executive Officer of the Pension Fund.

II. Actuarial matters

2. Paragraphs 16 to 48 of the report of the Pension Board deal with actuarial matters, including the results of the twenty-sixth actuarial valuation of the Fund carried out as at 31 December 2001. The previous valuation had been prepared as at 31 December 1999 and its results were reported to the General Assembly at its fifty-fifth session in 2000.[3] The actuarial valuation determines whether the present and estimated future assets of the Fund will be sufficient to meet its liabilities.

3. For the twenty-sixth regular valuation, the Committee of Actuaries proposed and the Pension Board approved the 5.5/8.5/5 set of assumptions.[4] The results of the valuation showed an actuarial surplus of 2.92 per cent of pensionable remuneration or $4,284.4 million in dollar terms. The Committee was provided with a table showing the evolution of actuarial valuation of the fund since 1976 both in absolute terms and as a percentage of projected liabilities (see the annex to present report).

4. In paragraph 48 of its report, the Pension Board noted the conclusion of the Committee of Actuaries in paragraph 37 “that it would be prudent to set aside, for

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adverse contingencies, a portion of the surplus equivalent to at least 1.0 per cent but not more than 2.0 per cent of pensionable remuneration, subject to future review". The Board also agreed with the conclusion of the Committee of Actuaries, as indicated in paragraph 39, "that the present contribution rate of 23.7 per cent of pensionable remuneration was sufficient to meet the benefits requirements under the Plan". **The Advisory Committee agrees with this view and recommends that the present contribution rate of 23.7 per cent be retained. In this connection, the Committee recalls the provisions of General Assembly resolution 53/210 of 18 December 1998 "that the Pension Board should continue to monitor closely the evolution of the actuarial valuation of the Fund and that no attempt should be made to reduce the present rate of contributions to the Fund or change any other features unless and until a pattern of surpluses emerges in future valuations."**

5. Transfer agreements between the Fund and the European Organization for the Safety of Air Navigation and the Organization for Security and Cooperation in Europe are discussed in paragraphs 52 to 55 of the report of the Pension Board. The Advisory Committee notes from paragraph 54 of the report that the Pension Board decided to approve the proposed transfer agreements with both Eurocontrol and the Organization for Security and Cooperation in Europe, subject to the concurrence of the General Assembly, as required under article 13 of the Pension Fund Regulations. **The Advisory Committee agrees with the position of the Pension Board on these issues.**

III. Investments of the Pension Fund

6. For the reporting period, the market value of the Fund's assets decreased by $4,267 million, from $26,056 million on 31 March 2000 to $21,789 million on 31 March 2002, or 16.4 per cent. The Advisory Committee was provided with updated information on developments in the financial markets and related changes in the Fund's portfolio of assets since the end of the reporting period. The market value of the Fund had continued to decline. The Committee was informed that, during September 2002, financial markets remained volatile, as did the Fund, whose market value fluctuated between $20,771 million and $19,865 million.

7. Investment matters are dealt with in paragraphs 56 to 85 of the report of the Board. The Committee notes that the Board, in paragraph 82, expressed deep concern over the significant reduction of the market value of the Fund's investments, reaffirmed that the respective roles of the Board, the Secretary-General, the Investments Committee and management should be maintained and not confused and invited all concerned parties to continue communicating with each other.

8. The Advisory Committee exchanged views with the representatives of the Secretary-General, the Chairman of the Pension Board and the Chief Executive Officer on the issues raised in paragraphs 81 to 83 of the report of the Board. The Committee recalls that, under article 19 of the regulations of the Fund, "the investments of the assets of the Fund shall be decided upon by the Secretary-General after consultation with an investment committee in the light of the observations and suggestions made from time to time by the Board on the investment policy." **The Committee fully endorses the statement of the Board referred to in paragraph 7**

above, especially on the need to avoid confusion of roles vis-à-vis investments. To this end, the Committee stresses the importance of ensuring that the fiduciary responsibility of the Secretary-General, under the regulations of the Fund, to take decisions on the investments of the assets of the Fund should under no circumstances be compromised.

9. The Pension Board, in paragraph 83 of its report, invited the Secretary-General to undertake a review of the procedures and operating methods of the Investment Management Service, including an evaluation of internal procedures for risk management and security. The Board also requested the Secretary-General to submit to the Standing Committee, at its next meeting, the terms of reference for an independent external performance review of the investment of the Fund, together with the cost implications of such a review.

10. **The Committee exchanged views with the representatives of the Secretary-General and sought additional clarification on those subjects. The Committee has concluded from the testimony before it and from additional information that has been provided that the Investment Management Service has not received sufficiently clear and precise guidance in order for it to proceed in the manner contemplated by the Board. This matter should be clarified before the Investment Management Service is expected to proceed any further. Moreover, despite the reaffirmation by the Board referred to in paragraph 7 above, the Advisory Committee remains concerned with the lack of precision as to the basis for the request to review the Investment Management Service. In the opinion of the Advisory Committee, it should be understood by all that use of the results of the study and any subsequent executive action taken further to it, remain the responsibility of the Secretary-General as the one with fiduciary responsibility for the investments of the Fund, under article 19 of its regulations. To avoid confusion, the Advisory Committee suggests that, in future, in order to ensure cost-effective use of the administrative resources of the Fund, requests for reviews and studies of the type indicated above be clearer regarding the basis for the request, and that they be specific as to the objective of the study or review and the results expected.**

IV. Investments Committee

11. Article 20 of the regulations of the Fund provides that members of the Investments Committee shall be appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee on Administrative and Budgetary Questions, subject to confirmation by the General Assembly. The Secretary-General conveyed to the Board the names of three members of the Investments Committee whom he intended to propose to the Assembly for confirmation at its fifty-sixth session, after consultation with the Advisory Committee. They would all be reappointed as members for further terms of three years, commencing on 1 January 2003.[5] The Committee has written in this regard to the Secretary-General to convey its concurrence.

12. The Advisory Committee notes that the Pension Board also invited the Secretary-General to consider greater diversification of the Investments Committee in order to provide the requisite expertise in all major areas on investment.[6]

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

13. The Advisory Committee notes from paragraph 5 of the report of the Pension Board that the Board examined and approved the financial statements and related data on the operations of the Fund for the biennium ended 31 December 2001 and considered the report of the Board of Auditors on the accounts and operations of the Fund. The Board also considered a report on the internal audits of the Fund (see para. 24 below). The examination of the report of the Board of Auditors by the Pension Board is reported on in paragraphs 86 to 95 of the report of the Pension Board.

14. As indicated in paragraphs 34 and 35 of the report of the Board of Auditors, the Fund relies on two sources of income: contributions from employing organizations and employees and investment income. Since 1994, contributions have not covered all benefits paid in the year. The Board has found that investment income has become an increasingly necessary source of additional income to cover benefits and all administrative and investment expenditures. As shown in table XII.1 of the report of the Board of Auditors, total contributions represented 87.2 per cent of benefits in 2001, as compared with 97.5 per cent in 1994. The Board of Auditors has consequently noted that, while presenting no short-term risk, the actuarial valuations in 2001 indicate that the Fund should exercise caution before changing the level of contributions or benefits (see para. 46 of the report of the Board of Auditors). **The Advisory Committee agrees with the opinion of the Board of Auditors.**

15. Investment management issues were reviewed by the Board of Auditors in paragraphs 53-75 of its report. In paragraph 67, the Board of Auditors recommended that the Pension Fund supplement the United Nations Staff Rules with guidelines related to specific Fund activities and that a compliance officer function be introduced to ensure compliance at all levels with both existing Staff Rules and supplementary guidelines. The Advisory Committee notes that, in paragraph 95 of its report, the Pension Board indicated that the United Nations standards of conduct were applicable to the staff of the Investment Management Service, as were the Financial Rules and Regulations. Upon request, the representatives of the Secretary-General clarified further the basis for the Pension Board’s position as stated in paragraph 95 of its report (see para. 17 below).

16. The findings and recommendations of the Board of Auditors on cash management matters are included under subparagraph (f) of main findings in the summary of the report of the Board and in paragraphs 59 to 65 of the report. The Advisory Committee was informed that the Fund is currently involved in the negotiation of contracts for new, worldwide banking arrangements, a process that had started in the fall of 2001. When the new banking arrangements are in place, the management of the Pension Fund expects to implement, as rapidly as possible, the recommendations of the Board of Auditors with respect to cash management.

17. **The Committee requests that, in the future, the reasons for not implementing a recommendation of the Board of Auditors be clearly stated both in the report of the Pension Board and in the communication from the administrations concerned. The Committee notes, for example, that the Board of Auditors has strongly recommended that a compliance function be**

introduced in the Investment Management Service to ensure compliance at all levels with both existing staff rules and supplementary guidelines. Despite the additional clarification provided, the Committee recommends that the Investment Management Service discuss the status of this recommendation with the Board of Auditors. The results of this should be reported to the Standing Committee, in the context of the report requested by the Pension Board in paragraph 83 of its report, with an indication of the action taken to implement the recommendation of the Board of Auditors, or, in the event of non-implementation, a clear indication of the reasons therefor. The Advisory Committee intends to revert to this matter in the context of its consideration of the administrative budget of the Fund for the biennium 2004-2005.

18. **Furthermore, the Committee requests that, in the future, information in the report of the Board of Auditors, some of which might be based on previous findings by the Internal Audit Service, be updated to avoid confusion. For example, the Committee was informed that some of the comments in paragraph 85 of the report of the Board of Auditors about systems that were year-2000 non-compliant was already out of date as action had already taken place to effect compliance.**

VI. Benefit provisions of the Fund

19. Benefit provisions of the Fund are discussed in paragraphs 141 to 166 of the report of the Pension Board. As indicated in paragraphs 11 and 157 of the report, the Pension Board recommended that the General Assembly approve the following benefit provisions of the Fund: (a) to apply cost-of-living adjustments to deferred retirement benefits as from age 50, rather than from age 55 as is currently the case; (b) to apply cost-of-living differential factors, also for deferred retirement benefits, as from the day of separation; and (c) to eliminate the limitation on the right to restoration of prior service. The Advisory Committee notes that, in making its recommendations, the Board focused on the measures that further promoted the new human resources framework, which had been adopted by the International Civil Service Commission and the General Assembly. **The Advisory Committee agrees with the recommendation of the Board, subject to the provisions of General Assembly resolution 53/210 as quoted in paragraph 4 above.**

20. The Advisory Committee notes from paragraph 158 of the report that the Pension Board also approved a measure to eliminate the 1.5 percentage point reduction in the first adjustment based on the consumer price index due to existing and future beneficiaries, with the understanding that the implementation of this modification would be subject to a surplus being shown in the next actuarial valuation, to be performed as at 31 December 2003. The Committee was informed that the Pension Board and the General Assembly would decide on the actual implementation date in 2004 (that is, after the results of the Fund's actuarial valuation as at 31 December 2003 were known); that date could be set at 1 April 2004 (the date of the first adjustment after 31 December 2003) or at 1 April 2005 (the date of the first adjustment due after the General Assembly action in the fall of 2004). The Pension Board did not specifically address in its meeting of July 2002 the question of the effective date for the implementation of this change in the Fund's pension adjustment system.

VII. Administrative matters of the Fund

21. The Advisory Committee notes that the Pension Board considered revised budget estimates for the biennium 2002-2003, reflecting an increase of $179,200 over the initially approved budget of $29,943,800 for the biennium 2002-2003 for the purposes indicated in paragraph 96 of the report of the Pension Board. **The Advisory Committee agrees with the recommendation of the Pension Board that the General Assembly approve an increase in the resources under administrative costs from $29,943,800 to $30,123,000 for the biennium 2002-2003.**[7]

22. In paragraphs 100 to 104 of its report, the Pension Board discusses the whole-office review of the staffing structure and levels of both the Fund's secretariat and the Investment Management Service, requested by the Standing Committee of the Pension Board at its July 2001 meeting. The Advisory Committee notes that the Pension Board decided to take no action on the requests for reclassification and for new posts and that the Fund's proposals would be presented to the Standing Committee in 2003, as part of the Fund's budget proposal for the biennium 2004-2005.

23. The Advisory Committee notes the information provided in paragraphs 105 to 107 of the report of the Pension Board on the issues concerning the office space for the Fund. The Committee recalls that the Standing Committee had suggested that the Fund look into the possibility of acquiring premises outside the United Nations for the Fund's secretariat, including relocation options for back-office processing (see A/56/7/Add.1, para. 27). **The Committee reiterates its view that a long-term solution for the office space problem of the Fund should be found, including the possibility of the acquisition of its own premises. In this connection, the Committee requests that the procedure outlined in General Assembly resolution 53/210 of 18 December 1998 on the United Nations pension system be followed and that it be apprised in the first instance when a firm determination is made in this respect.**

24. The internal audit coverage of the Fund's activities is discussed in paragraphs 115 to 120 of the report of the Pension Board. The Advisory Committee was informed that the Board considered a report of the Office of Internal Oversight Services on the internal auditing of the Pension Fund during the period from 1 May 2000 to 30 April 2002. The Committee exchanged views with representatives of the Secretary-General and the Chief Executive Officer and obtained additional information from the Under-Secretary-General for Internal Oversight Services. In the following paragraphs, the Committee has taken into account the additional information it received orally and in writing regarding internal audit services for the Fund.

25. The Advisory Committee notes from paragraphs 117 to 119 of the report that additional resources, consisting of two new P-4 posts and the amount of $425,000 to cover expenses such as consultancy fees, travel and training, were requested by the Office of Internal Oversight Services for the biennium 2002-2003; however, the Pension Board decided not to recommend for approval by the General Assembly the additional resources requested by the Office of Internal Oversight Services. The Committee recalls that the resources approved for the biennium 2002-2003 for internal audit purposes took into account the wide scope and complexity of the

proposed internal audits planned for 2002-2003 so that the work programme would be carried out effectively and in conformity with accepted professional auditing standards (see A/56/7/Add.1, para. 30). **Under the circumstances, the Committee endorses the views of the Pension Board. The Committee further recommends that additional requests identified by the Office of Internal Oversight Services be discussed with the Chief Executive Officer in time for him to submit his proposals to the Pension Board in the context of the proposed budget of the Fund for 2004-2005.**

26. The Advisory Committee further notes that the Pension Board also decided to request that the Fund secretariat prepare a study, for the 2003 meeting of the Standing Committee, on alternative arrangements that could be considered for the performance of the internal audit function for the Pension Fund, including the possible establishment of a unit within the Fund secretariat or outsourcing of the function to an entity other than the Office of Internal Oversight Services. The Committee further notes that the Board of Auditors has reviewed the work performed by the Office of Internal Oversight Services in 1999, 2000 and 2001 and was "pleased to acknowledge the valuable work done by the Office of Internal Oversight Services in providing sound internal audit services to the Fund and to the Investment Management Service" (para. 104 of the report of the Board of Auditors). **The Committee points out that, during its review of the matter, it was not provided with any compelling argument in support of a decision to discontinue the internal audit services of the Office of Internal Oversight Services. The Committee cautions against a hasty decision on this matter. Before the current arrangement is modified, the cost-effectiveness of such a change needs to be analysed thoroughly. The Advisory Committee recommends that the Board of Auditors carry out an assessment of the capacity and professional expertise required by the Office of Internal Oversight Services to provide internal audit services to the administrative and investment activities of the Pension Fund, in accordance with commonly accepted industry standards for the audit of pension funds, and report in the context of its next audit for the biennium 2002-2003. The Board of Auditors may wish to have recourse to outside expertise for this assessment. In this connection, the Committee recalls its comments and recommendations in paragraph 13 of its report A/57/439.**

VIII. Other matters

27. Among the other matters considered by the Pension Board that require action by the General Assembly was the review of the size and composition of the Pension Board. The Board discusses the matter in paragraphs 205 to 220 of its report. As indicated in paragraphs 11 (d) and 217 of its report, the Board recommends that the General Assembly approve the increase in the size of the Board from 33 members to 36. The three additional seats would be allocated to the United Nations Staff Pension Committee (that is, in accordance with article 6 of the regulations of the Fund, one additional member to be elected by the General Assembly, one additional member to be appointed by the Secretary-General and one additional member from the participants in the Fund) owing to the significant growth in the number of participants from the United Nations.[8] The increase in the size of the Board would require that the General Assembly approve the amendments to articles 5 and 6 of the

Pension Fund regulations, as well as of appendix 1 to the rules of procedure of the Fund.[9] **The Advisory Committee agrees with the proposal of the Board.**

28. The Advisory Committee points out that, should the General Assembly approve the recommendation of the Pension Board, it will need to elect one additional representative of the General Assembly to the United Nations Staff Pension Committee, resulting in a representation of five members and four alternate members from the General Assembly to the Pension Board. The Committee recalls that, in the past, members and alternate members were designated at the time of election by the General Assembly. The Committee understands that this practice is currently not followed, which has given rise to difficulties in determining the representation of the General Assembly at both the Pension Board and the Standing Committee sessions. **In this regard, the Committee recommends that the General Assembly review the manner in which members and alternate members representing the General Assembly are elected to the United Nations Staff Pension Committee under article 6 of the regulations of the Fund.**

Notes

[1] *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 9* (A/57/9).

[2] Ibid., annex XII.

[3] See *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 9* (A/55/9).

[4] That is, a 5.5 per cent annual increase in pensionable remuneration, an 8.5 nominal interest rate and a 5 per cent annual rate of inflation as well as zero participant growth, as elaborated in paragraph 21 of the report of the Pension Board.

[5] See *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 9* (A/57/9), para. 84.

[6] See ibid., para. 85.

[7] See ibid., para. 11 (c).

[8] See ibid., annex VI.

[9] See ibid., para. 220 and annex XIV.

Annex

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

			Deficit (surplus)		
Valuation date	*Regular valuation economic assumptions*[a]	*Required rate of contribution*	*As a percentage of pensionable remuneration*	*In dollar terms (millions)*	*As percentage of projected liabilities*
31 December 1976[b]	3.5/7.5/3	19.95	(1.05)	(225.0)	3.0
31 December 1978	3.5/7.5/3	21.37	0.37	121.7	1.4
31 December 1980	6.5/9/6	27.82	6.82[c]	5 315.7	22.01
31 December 1982	6.5/9/6				
(a) Before changes on 1 January 1983		29.71	8.41[c]	7 057.6	25.6
(b) After changes on 1 January 1983		25.72	4.79[c]	4 018.4	16.4
31 December 1984	6.5/9/6				
(a) Before changes on 1 January 1984 and 1 January 1985		25.94	4.94[c]	4 490.6	16.5
(b) After changes on 1 January 1984 and 1 January 1985		24.76	3.01[d]	2 734.3	10.4
31 December 1986	6.5/9/6	26.15	4.40[d]	3 187.2	13.2
31 December 1988	6.5/9/6	26.21	3.71[e]	3 133.4	10.9
31 December 1990	6.5/9/6	24.27	0.57[f]	641.0	1.8
31 December 1993	6.5/9/6	25.19[c]	1.49[f]	1 857.1	4.3
31 December 1995	5.5/8.5/5, with 1.9 per cent cost of two-track system	25.16[f]	1.46[f]	1 688.7	4.0
31 December 1997	(same as 1995)	23.34	(0.36)[f]	(417.3)	1.0
31 December 1999	(same as 1995)	19.45	(4.25)[f]	(5 278.6)	11.5
31 December 2001	(same as 1995)	20.78	(2.92)[f]	(4 284.4)	8.0

(Footnotes on following page)

(Footnotes to table)

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