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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 to the General Assembly at its fifty-third session.[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.5/53/18) and the report of the Board of Auditors to the General Assembly on the accounts of the Fund for the biennium ended 31 December 1997.[2] In addition, the Committee was provided with a copy of a concept paper on administrative arrangements between the Fund and other member organizations prepared by the secretariat of the Pension Fund[3] and an advance copy of the Secretary-General's report (A/C.5/53/3) on the administrative and financial implications that would arise to the regular budget of the United Nations should the General Assembly adopt the recommendations submitted to it in the report of the Pension Board. During its consideration of these matters, the Committee met with the Chairman of the Pension Board, representatives of the Secretary-General and the secretariat of the Pension Fund.

II. Actuarial matters

2. Paragraphs 14 to 47 of the report of the Pension Board deal with actuarial matters, including the results of the twenty-fourth actuarial valuation of the Fund as at 31 December 1997; the previous valuation was prepared as at 31 December 1995 and its results were reported to the General Assembly at its fifty-first session in 1996.[4] The actuarial valuation determines whether the present and estimated future assets of the Fund will be sufficient to meet its liabilities.

3. The Advisory Committee notes from paragraph 18 of the current report that the Pension Board approved the actuarial assumptions recommended by the Committee of Actuaries to serve as the basis for the twenty-fourth actuarial valuation, prepared as at 31 December 1997. Paragraph 20 of the report gives the results of the twenty-fourth regular valuation as compared to the results of the previous valuation as at 31 December 1995. The economic assumptions for the regular valuation as at 31 December 1997 were the same as those used in the previous valuation; however, with respect to the growth of participants, a "zero participant growth assumption" served as the basis for the regular valuation as at 31 December 1997.

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4. As indicated in paragraphs 21 to 24 of the Pension Board's report, the twenty-fourth regular valuation showed, as at 31 December 1997, a decrease of 1.82 per cent in the required contribution rate (from 25.16 to 23.34 per cent), resulting in an actuarial surplus of 0.36 per cent of the pensionable remuneration. The elements contributing to the decrease in the required rate of contribution are described in paragraph 22. That result was mainly owing to the strengthening of the United States dollar and the investment returns since the last valuation.

5. In paragraphs 26 to 28 of the report of the Pension Board, the results of the actuarial valuation of the Fund are also presented in dollar terms and compared to the magnitude of projected liabilities of the Fund as at 31 December 1997. The surplus of $417.3 million under the regular valuation as at 31 December 1997 represented only 1.0 per cent of the projected liabilities of the Fund. The projected deficit under the regular valuation as at 31 December 1995 had been $1,688.7 million, which had represented 4 per cent of the projected liabilities of the Fund. Upon request, the Committee was furnished 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 annex I to the present report). The Advisory Committee notes that, for the first time, since the valuation as at 31 December 1976, the regular valuation as at 31 December 1997 disclosed a small surplus when measured against the present contribution rate of 23.7 per cent of pensionable remuneration.

6. In paragraph 37 of its report, the Pension Board noted the conclusion of the Committee of Actuaries that "the present contribution rate of 23.7 per cent of pensionable remuneration remained appropriate and should be retained, pending review on the occasion of the next valuation". The Advisory Committee agrees with that view and recommends that the present contribution rate of 23.7 per cent be retained. In the view of the Committee, the Board should continue to monitor closely the evolution of the actuarial valuation of the Fund and 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.

7. A review of the subject of interest rates applicable to lump-sum commutations of periodic benefits under article 28 (g) of the regulations of the Fund is discussed in paragraphs 38 to 47 of the Pension Board's report. The Advisory Committee notes from paragraphs 44 to 47 of the report that the Board decided on a conservative basis "to change the rate applicable to lump-sum commutations to 6 per cent, with respect to contributory service performed as from 1 January 2001, subject to a favourable actuarial valuation as at 31 December 1999" (para. 46). However, on a strictly technical basis, the Consulting Actuary indicated that the interest rate for lump-sum commutation ought to be set at a uniform rate of about 4 per cent and that the rate has been set, at least since 1984, by the Board at higher levels in order to help the Fund's actuarial valuation. The Advisory Committee recommends that the matter be maintained under review in the light of the results of future actuarial valuations of the Fund.

8. A proposal to change the method for determining cost-of-living adjustments of pensions in award is discussed in paragraphs 330 to 339 of the Board's report. The Board decided to recommend to the General Assembly that the threshold for effecting cost-of-living adjustments of pensions in award be reduced from 3 to 2 per cent, with effect from the adjustment due on 1 April 2001, subject to a favourable actuarial valuation as at 31 December 1999.

9. The Advisory Committee was informed that, as requested by the Pension Board, the Secretary of the Board, with the assistance of the Consulting Actuary, would review all changes made in the pension system since 1983, when measures were approved by the General Assembly to redress the past actuarial deficit of the Fund. The results of the review would be submitted to the Standing Committee of the Board in 1999, together with the views of the Committee of Actuaries. The Board would consider in 2000 the views and recommendations of the Standing Committee, in the light of the results of the actuarial valuation as at 31 December 1999.

III. Investments of the Pension Fund

10. As stated by the Secretary-General in his report (A/C.5/53/18, paras. 19 and 27), the market value of the Fund's assets increased by $4,631 million, from $15,539 million on 31 March 1996 to $20,170 million on 31 March 1998, or 29.8 per cent. The total investment returns for the year ended 31 March 1997 and 31 March 1998 were 8.9 per cent and 20.4 per cent, respectively. After adjustment by the United States consumer price index, the "real" rates of return for the years ended 31 March 1997 and 31 March 1998 were 5.9 per cent and 18.9 per cent, respectively. The cumulative annualized total rate of return over the 38-year period for which data are available was 9 per cent, or a "real" rate of return of 3.8 per cent, after adjustment by the United States consumer price index. The Committee is aware that the market value of the Fund is subject to fluctuation.

11. The Advisory Committee notes that, pursuant to General Assembly resolution 49/224 of 23 December 1994, the Secretary-General has begun to develop a benchmark to compare the Fund's performance with major international

equity and bond indexes. The benchmark was implemented in January 1997 (A/C.5/53/18, para. 33).

IV. Investments Committee

12. 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.[5] The Secretary-General conveyed to the Board the names of three members of the Investments Committee, whom he intended to propose to the General Assembly for confirmation at its fifty-third session, after consultation with the Advisory Committee.[6] The Committee has written in this regard to the Secretary-General to convey its concurrence.

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

13. The Pension Board examined and approved the financial statements and related data on the operations of the Fund for the biennium ended 31 December 1997 and considered the findings and recommendations of the Board of Auditors.[7]

14. On the issue of insurance coverage for the Fund's investments in equities,[8] the Pension Board noted that the Board of Auditors had considered that the assets of the Fund had not been adequately protected and had recommended that the contracts with the Fund's custodians should be reviewed, with a view to providing adequate insurance coverage. The amounts fixed in the agreements between the Fund and the custodians had showed inconsistencies in the amounts fixed in the agreements in relation to the assets in the custody or control of the custodians, which ranged between 0.2 and 8.2 per cent of the market value of the assets held by the Fund's custodians. The Pension Board therefore recommended that the matter be reviewed, with a view to providing adequate insurance coverage.[9]

15. In his reply,[10] the Secretary-General indicated that it was not an industry practice for the custodians to maintain insurance against the entire value of the assets they hold. "The custody agreement between the Fund and its custodians requires the custodians to maintain insurance coverage at all times on assets in their custody or under their control against losses arising out of employee dishonesty, on-premises and in-transit loss of assets, and forgery or alteration, including forgery of securities and counterfeit currency".[11] Accordingly, the amounts fixed in the agreement between the Fund and its custodians are not the same for each custodian. Furthermore, once the securities were segregated, in accounts established in the name of the United Nations for the Fund, they were protected from all third-party claims, including those arising from bankruptcy of the custodians. The Advisory Committee notes that the Secretary-General is reviewing the matter and will provide information to the Pension Board on any action that may be necessary in due course, taking into account the desire both to ensure security and avoid unnecessary cost increases.[12] In the light of the views stated by the Secretary-General, the Committee believes that there is no need to maintain insurance against the entire value of the assets held by the custodians.

16. On the issue of the verification of thumbprints and signatures in respect of certificates of entitlement returned by Fund beneficiaries,[13] the Advisory Committee is of the view that, regardless of the system finally implemented, it must remain cost-effective.

17. On the subject of arrangements for internal audit of the Fund's operations,[14] the Board agreed to continue with the Office of Internal Oversight Services as the Fund's internal auditors at least until the end of the biennium 2000–2001. The Board also recognized that, since the Fund was an inter-agency entity, it may be more appropriate in the long term for the internal auditing of the Fund to be carried out by an office within the secretariat of the Fund, reporting directly to the Chief Executive Officer of the Fund. In the meantime, the Board agreed to keep under review the effectiveness of the internal audit work performed by Office of Internal Oversight Services and to revert to the matter in 2000, based on a detailed report to be submitted to the Board. It also agreed that the arrangements for internal audit of the Fund should form part of the comprehensive study on the Fund's long-term administrative requirements.

VI. Administrative arrangements between the Fund and the United Nations and with other member organizations

18. The Advisory Committee welcomes the concept paper[3] which provides a review of the current cost-sharing arrangements between the Fund and the United Nations and with other member organizations. The paper includes proposals for changes in those arrangements, in respect of the pension services provided by the Fund secretariat for the active participants employed by the United Nations and its

affiliate programmes (i.e., the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA). It also discusses the relationship of the secretariat of the Fund with the other member organizations and the costs related thereto and provides a perspective for possible future developments and long-term needs of the Fund in respect of, *inter alia*, its computer systems and operations, the role of the Geneva office of the secretariat of the Fund and the issue of office space occupied by the secretariat of the Fund in New York and Geneva. Background information on these matters is provided in paragraphs 109 to 129 of the report of the Pension Board.

19. As indicated in paragraph 202 of its report, the Board decided, *inter alia,* to recommend to the General Assembly acceptance of the cost-sharing proposals between the Fund and the United Nations, as presented in the concept paper. Accordingly, the United Nations regular budget would continue to provide for one third of the total cost of established posts of the secretariat of the Fund, related common staff costs and overtime, as well as a contribution to the identifiable costs of communications. This one-third/two-third cost-sharing formula between the United Nations and the Fund would also be used for costs related to temporary assistance, computer services, office space and audit of the Fund's operations. The United Nations would continue to fully absorb the costs related to the other services and facilities provided to the Fund, such as staff payroll processing, personnel and procurement services and miscellaneous supplies. The cost-sharing formula would take effect on 1 January 1999 and would be reviewed every six years.[15]

20. As shown in paragraph 166 of the Board's report, the increase in the administrative cost of the Fund under the revised cost-sharing formula between the United Nations and the Fund would amount to $730,800, as from 1 January 1999. Based on the expected additional costs to be borne by the Fund and the drop in the level of total pensionable remuneration due to exchange-rate fluctuation,[16] the Committee of Actuaries estimated that the administrative costs of the Fund were likely to rise to the order of 0.25 per cent of pensionable remuneration.[17]

21. The implications for the regular budget of the United Nations of the revised cost-sharing formula between the United Nations (inclusive of UNICEF, UNDP and UNFPA) and the Fund are shown in the report of the Secretary-General (A/C.5/53/3). For the reasons explained in paragraphs 9 to 12, and as shown in table 1, of that report, the Secretary-General estimates that, should the General Assembly agree to the revised cost-sharing formula approved by the Pension Board, there will be a decrease of $625,400 in the net regular budget of the United Nations. The reduction is the net effect of lessened requirements of $94,800 spread across a range of objects of expenditures in the Fund's administrative budget, combined with a credit of $530,600 due in respect of premises otherwise billable. The Advisory Committee notes that for the current biennium no additional cost will be recovered from UNICEF, UNDP and UNFPA. Consultations will be held with those organizations and their outcome will be addressed in the following biennium (see A/C.5/53/3, para. 13).

22. In its report to the Board, the Committee of Actuaries took the view that the administrative expenses to be included in the valuations should be based on the level of resources required to administer the Fund, as contained in its approved budgets, rather than by establishing a predetermined ratio between the administrative expenses and the total pensionable remuneration.[18] The Advisory Committee agrees with that view on the understanding that the policy of administrative cost restraint would continue. Further, the Committee believes that the actuarial implications of the total administrative cost of the Fund should continue to be monitored.

23. With regard to addressing future requirements of the Fund,[19] the Advisory Committee welcomes the ongoing studies on computer arrangements, the role of the Fund's Geneva office, the overall staffing structure of the Fund secretariat and the need for additional office space. The Committee notes that the Secretary of the Pension Board will submit a report on these matters in conjunction with the Fund's budget proposals for the biennium 2000–2001.[20] The Committee recommends caution on moving to establish some small regional offices for servicing a worldwide pension operation.[21] In the Committee's opinion, there is at present no compelling reason for establishing such offices.

24. Revised administrative expenses for the biennium 1998–1999 are discussed in paragraphs 203 to 244 of the Board's report. The Board recommended to the General Assembly approval of additional expenses amounting to $4,161,700 net over the initial appropriation of $50,069,500 for the biennium 1998–1999.[22] Table 2 of annex VIII of the Board's report shows a summary of the changes by object of expenditure. The Advisory Committee does not have any objection to that proposal. The Committee believes that the presentation of that section of the report could be improved by providing most of the information in tabular form, thereby avoiding lengthy and repetitive descriptions in the narratives.

25. The Advisory Committee notes from paragraph 238 of the report that the Board also agreed with the need to provide

an improved operational management structure for the Investment Management Service of the Fund and, consequently, endorsed the reclassification of the post of the Chief of the Service, from the D-1 to the D-2 level. The Committee agrees with that proposal.

26. In paragraphs 236 to 237 of its report, the Pension Board makes recommendations with regard to the level and the title of the post of the Secretary of the Board. It proposes the reclassification of the post to a level above the present D-2 grade and favoured making the post an "ungraded" post, with a base salary and related allowances set at the mid-point between the top step of the D-2 level and the Assistant Secretary-General level. The Board also recommends a change in the present title of the post to "Chief Executive Officer of the Fund and Executive Secretary of the Board" and, accordingly, changes in the relevant Regulations of the Fund to reflect that proposal.[23]

27. The proposal of the Board reminds the Advisory Committee of a similar proposal made by the Secretary-General in 1993 to create a D-3 level for a very limited number of posts (see A/C.5/47/88). In its related report, the Advisory Committee put forward a number of considerations which led it to recommend against the expansion of the Director category, including the eventual pressure to create more posts at that level, the potential for administrative confusion and the difficulties in the exercise of authority by what would be "a second-class Assistant Secretary-General".[24] The proposal to create a D-3 level was eventually withdrawn by the Secretary-General. For similar reasons, the Advisory Committee is against the establishment of an "ungraded" level for the Chief Executive Officer of the Pension Fund. It believes that the responsibilities of the post, which have greatly expanded in recent years (see para. 235 of the report of the Board), justify its upgrading to the Assistant Secretary-General level.

28. With respect to the changes in the title of the post of the Secretary of the Board and the corresponding changes in the Regulations of the Fund, the Advisory Committee agrees with the proposal of changing the title of the post to "Chief Executive Officer" of the United Nations Joint Staff Pension Fund, which would reflect the actual responsibilities carried out by the incumbent as the head of a large and complex pension operation. However, the Committee is of the view that, since one of the functions of the Chief Executive Officer is to serve as Secretary of the Board, there is no reason to change that functional title to "Executive Secretary of the Board". Accordingly, article 7 (a) of the Regulations of the United Nations Joint Staff Pension Fund could read:

> "The Chief Executive Officer of the Fund and a Deputy shall be appointed by the Secretary-General on the recommendation of the Board."

Article 7 (c) could read:

> "The Chief Executive Officer shall perform that function under the authority of the Board and shall certify for payment all benefits properly payable under these Regulations. The Chief Executive Officer shall also serve as Secretary of the Board. In the absence of the Chief Executive Officer of the Fund, the Deputy Chief Executive Officer shall perform these functions."

VII. Other matters

29. As regards entitlement to survivors' benefits for spouses and former spouses,[25] the Advisory Committee agrees with the recommendations of the Pension Board to the General Assembly, as indicated in paragraphs 290, 303 and 312 of the Board's report.

30. On the subject of the review by the International Civil Service Commission of the common scale of staff assessment for pensionable remuneration purposes,[26] the Advisory Committee shares the view of the Pension Board, as indicated in paragraph 348 of the Board's report.

31. With regard to the possible withdrawal of the Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade (ICITO/GATT) from the membership of the Fund,[27] the Advisory Committee was informed that, on several occasions, the Committee of Actuaries and the Board had discussed the methodology to be used to determine the proportionate share of the Fund's assets, payable under article 16 of the Fund's Regulations to a withdrawing organization. The Chairman of the Pension Board informed the Committee that the actuarial consultants retained by the World Trade Organization (WTO) have presented differing views regarding the methodology; they also prepared documents certifying the costs of the proposed new salary and pension arrangements of WTO. Based upon that information, the WTO General Council is expected to take a decision on 15 October 1998 as to whether to apply formally for termination of the membership of ICITO/GATT in the Fund.

32. The Committee was informed that, if WTO submits a formal application for withdrawal, there would be need for a special meeting of the Committee of Actuaries during the first part of November 1998, probably in Geneva, followed by a special session of the Pension Board to act on the recommendations of the Committee of Actuaries and,

accordingly, make recommendations to the General Assembly at its fifty-third session. The Advisory Committee recalls that, as indicated in paragraph 300 of the Pension Board's report to the General Assembly at its fifty-first session,[28] with regard to the possible withdrawal of ICITO/GATT, the Board agreed that, just as with any other organization in that position, ICITO/GATT would have to meet the costs that would be incurred by the Fund in responding to any formal request for withdrawal from the Fund, including the costs of any special session of the Board. Upon inquiry, the Committee was informed that such cost reimbursement would also include the costs associated with the special meeting of the Committee of Actuaries.

Notes

[1] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 9* (A/53/9).

[2] Ibid., annex III.

[3] JSPB/48/R.18 and Add.1.

[4] *Official Records of the General Assembly, Fifty-first Session, Supplement No. 9* (A/51/9), paragraphs. 15-51.

[5] See Regulations and Rules of the United Nations Joint Staff Pension Fund (JSPB/G.4/Rev.14).

[6] Ibid., para. 79.

[7] Ibid., annexes II and III.

[8] Ibid., annex III, paras. 23-26.

[9] Ibid., *Supplement No. 9* (A/53/9), para. 85.

[10] Ibid., annex III, para. 25.

[11] Ibid., para. 23.

[12] Ibid., *Supplement No. 9* (A/53/9), paras. 85-86.

[13] Ibid., annex III, paras. 37-40.

[14] Ibid., *Supplement No. 9* (A/53/9), paras. 90-98.

[15] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 9* (A/53/9), paras. 157-165.

[16] Ibid., para. 175 (a).

[17] Ibid., para. 173.

[18] Ibid., para. 172.

[19] Ibid., paras. 176-190.

[20] Ibid., para. 202 (c).

[21] Ibid., para. 187.

[22] Ibid., para. 244.

[23] Ibid., annex XV.

[24] Ibid., *Forty-seventh Session, Supplement No. 7* (A/47/7/Add.15), paras. 44-48.

[25] Ibid., *Fifty-third Session, Supplement No. 9* (A/53/9), paras. 279-317.

[26] Ibid., paras. 342-352.

[27] Ibid., paras. 353-355.

[28] Ibid., *Fifty-first Session, Supplement No. 9* (A/51/9).

Annex

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

Valuation date	*Regular valuation economic assumptions*[a]	*Required rate of contribution*	*Deficit (surplus)*		
			As a percentage of pensionable remuneration	*In dollar terms (in 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, 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	(0.34)[f]	(417.3)	1.0

[a] Since 1978, valuations have been carried out on a fully dynamic basis, i.e. inflation assumed to continue indefinitely in 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.