United Nations

United Nations Joint Staff Pension Fund

Report of the United Nations Joint Staff Pension Board

General Assembly
Official Records · Fifty-third Session
Supplement No.9 (A/53/9)

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NOTE

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ABBREVIATIONS

ACABQ	Advisory Committee on Administrative and Budgetary Questions
AFICS	Association of Former International Civil Servants
CCAQ (FB)	Consultative Committee on Administrative Questions (Financial and Budgetary Questions)
CCISUA	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System
EBRD	European Bank for Reconstruction and Development
EPPO	European and Mediterranean Plant Protection Organization
FAFICS	Federation of Associations of Former International Civil Servants
FAO	Food and Agriculture Organization of the United Nations
FICSA	Federation of International Civil Servants' Associations
GATT	General Agreement on Tariffs and Trade
IAEA	International Atomic Energy Agency
IAS	International Accounting Standard
ICAO	International Civil Aviation Organization
ICC	International Computing Centre
ICCROM	International Centre for the Study of the Preservation and the Restoration of Cultural Property
ICGEB	International Centre for Genetic Engineering and Biotechnology
ICITO/GATT	Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade
ICSC	International Civil Service Commission
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IMIS	Integrated Management Information System
IMO	International Maritime Organization
ISA	International Seabed Authority
ITLOS	International Tribunal for the Law of the Sea

ITU	International Telecommunication Union
OIOS	Office of Internal Oversight Services
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNJSPF	United Nations Joint Staff Pension Fund
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization
WTO (Tourism)	World Tourism Organization
WTO (Trade)	World Trade Organization

I. INTRODUCTION

1. The United Nations Joint Staff Pension Fund was established in 1949, by a resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their services with the United Nations, under Regulations that, since then, have been amended at various times.

2. The Fund is administered through the United Nations Joint Staff Pension Board, which consists of 33 members, representing the 20 member organizations that are listed in annex IX. One third of the Board members are chosen by the General Assembly and the corresponding governing bodies of the other member organizations, one third by the executive heads and one third by the participants. The Board reports to the General Assembly on the operations of the Fund and on the investment of its assets. When necessary, it recommends amendments to the Regulations which govern, inter alia, the rates of contribution by the participants (currently 7.9 per cent of their pensionable remuneration) and by the organizations (currently 15.8 per cent), eligibility for participation and the benefits to which participants and their dependants may become entitled. Expenses incurred by the Board in the administration of the Fund - principally the cost of its central secretariat at United Nations Headquarters in New York and the expenses of managing its investments - are met by the Fund.

3. The present report is submitted by the Board following its forty-eighth session, held from 7 to 16 July 1998 at the United Nations Office at Vienna. The members, alternate members and representatives accredited to the session of the Board, and those who actually attended, are listed in annex X.

4. The major items dealt with by the Board were: (a) actuarial matters, including in particular the twenty-fourth actuarial valuation of the Fund as at 31 December 1997; (b) management of the investments of the Fund, including reports by the representative of the Secretary-General for the investments of the Fund on the investment strategy and performance for the two-year period ending 31 March 1998; (c) concept paper on the future long-term administrative arrangements between the Fund and the United Nations and with other member organizations; (d) proposed revised administrative expenses for the biennium 1998-1999; (e) status of the proposed agreement between the Fund and the Government of the Russian Federation concerning the pension-related claims of former Fund participants from the former USSR; (f) entitlement to survivor's benefits for spouses and former spouses; and (g) reviews of various aspects of the pension adjustment system.

5. The Board examined and approved the financial statements and schedules for the year ended 31 December 1997, and considered the report of the Board of Auditors on the accounts and operations of the Fund. It also reviewed matters related to the arrangements for internal audits of the Fund, the monitoring and control procedures for benefit payments, and the development of accounting standards for actuarial valuations of the Fund.

6. Other matters considered by the Board and included in the present report were: (a) review by the International Civil Service Commission (ICSC) of the common scale of staff assessment for pensionable remuneration purposes; (b) the possible withdrawal of the Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade (ICITO/GATT) from membership in the Fund; (c) further review of the provisions governing the suspension of benefits in cases of re-employment of retirees in member organizations of the

Fund, in response to a request made by the General Assembly in section VIII of resolution 51/217 of 18 December 1996; and (d) size and composition of the Board and its Standing Committee.

7. The membership of the Standing Committee, which acts on behalf of the Board when the latter is not in session, is given in annex XI.

8. The membership of the Committee of Actuaries, established under article 9 of the Regulations, is given in annex XII.

9. The membership of the Investments Committee, established under article 20 of the Regulations, is given in annex XIII.

10. Section II contains a summary of the operations of the Fund for the biennium ended 31 December 1997. Sections III to X contain accounts of the matters on which action is required by the General Assembly, as well as matters on which the Board is obliged to report to the Assembly. **The salient observations, conclusions and recommendations of the report are highlighted in bold print.** A draft resolution for the consideration of the General Assembly is contained in annex XVI.

II. SUMMARY OF THE OPERATIONS OF THE FUND FOR THE BIENNIUM ENDED 31 DECEMBER 1997

11. During the biennium ended 31 December 1997, the number of participants contributing to the Fund decreased from 68,708 to 67,740, or by 1.4 per cent; the number of periodic benefits in award increased from 38,914 to 43,149, or by 10.9 per cent. On 31 December 1997, the breakdown of the periodic benefits in award was as follows: 13,803 retirement benefits, 8,587 early retirement benefits, 6,338 deferred retirement benefits, 6,214 widows' and widowers' benefits, 7,391 children's benefits, 768 disability benefits and 48 secondary dependants' benefits. During the period, 11,584 lump-sum withdrawal and other settlements were paid. A breakdown by member organization of participants and of benefits awarded will be found in annex I.

12. During the same two-year period, the principal of the Fund increased from $12,600,908,111 to $14,002,822,782, or by 11.1 per cent (see annex II, statement II).

13. The investment income of the Fund during the period amounted to $1,655,924,487, comprising $1,227,887,984 in interest and dividends and $428,036,503 in net profit on sales of investments. After deduction of investment management costs amounting to $29,883,419, net investment income was $1,626,041,068. A summary of the investments as at 31 December 1997, and a comparison of their cost and market values, will be found in annex II, schedules 2 and 3.

III. ACTUARIAL MATTERS

A. Actuarial valuation of the Fund as at 31 December 1997

Introduction

14. Article 12 of the Fund's Regulations provides that "the Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary".[1] The primary purpose of the actuarial valuation is to determine whether the present and estimated future assets of the Fund will be sufficient to meet its liabilities. The practice of the Board has been to carry out a valuation every two years.

15. The Consulting Actuary submitted to the Board the report on the twenty-fourth actuarial valuation of the Fund as at 31 December 1997; the previous valuation had been as at 31 December 1995 and its results had been reported to the General Assembly at its fifty-first session in 1996.[2] The Board also had before it the observations of the Committee of Actuaries, which had examined the valuation report prior to its submission to the Board.

Actuarial valuation bases

16. The valuation had been prepared on the basis of the actuarial assumptions recommended by the Committee of Actuaries and approved by the Standing Committee in 1997, and in accordance with the Regulations and Administrative Rules of the Fund in effect on the valuation date. As in the past, the valuation reflected a fully dynamic basis, which assumes inflation to continue indefinitely in the future and with certain assumptions as to the growth or decline in future years in the number of participants.

17. As was done in the last five valuations, the actuarial value of the assets as at 31 December 1997 was determined on the basis of a five-year moving market average method, subject to a limiting range of 15 per cent below and above the market value of the assets as at 31 December 1997. In determining future developments, three sets of economic assumptions and three sets of participant growth assumptions were used in various combinations. The economic assumptions were the same as those used in the previous valuations; the participant growth assumptions involved modest growth for three years, zero growth, and modest decline for three years. These assumptions are set out in tabular form below:

	I	II[a]	III
A. Economic assumptions		(per cent)	
Increases in pensionable remuneration (in addition to static increases)	5.5	5.5	5.5
Nominal rate of interest (investment return)	8.0	8.5	9.0
Price increases (reflected in increases of pensions to beneficiaries)	5.0	5.0	5.0
Real rate of interest (investment return after inflation)	3.0	3.5	4.0
Usual designation	5.5/8/5	5.5/8.5/5	5.5/9/5
Cost of two-track adjustment system (per cent of pensionable remuneration)	1.9	1.9	1.9

	I[b]	II	III
B. Participant growth assumptions		(per cent)	
For each of the first 3 years:			
Professional staff	0.5	0.0	-0.5
General Service staff	1.0	0.0	-1.0
After 3 years:			
Professional staff	0.0	0.0	0.0
General Service staff	0.0	0.0	0.0

[a] The assumptions used in the "regular valuation" as at 31 December 1995.

[b] These assumptions are consistent with those used in the regular valuation as at 31 December 1998.

Regular valuation

18. The Committee of Actuaries recommended, and the Board agreed, that the 5.5/8.5/5 set of economic assumptions (i.e., 5.5 per cent annual increase in pensionable remuneration, 8.5 per cent nominal interest rate and 5 per cent annual inflation rate with respect to increases in pensions after award) and the "zero participant growth" assumption should serve as the basis for the regular valuation.

19. The specific combinations included in the actuarial valuations as at 31 December 1997 were as follows:

A.II with B.II (1997 regular valuation);
A.II with B.I (1995 regular valuation);
A.I. with B.II;
A.III with B.II;
A.II with B.III.

Analysis of valuation results

20. The table below provides the results of the twenty-fourth actuarial valuation and compares them with the results of the regular valuation as at 31 December 1995.

		Contribution rate required (as percentage of pensionable remuneration)		
Valuation date	Valuation basis	Required rate	Current rate	Difference (surplus/deficit)
31 December 1997	**5.5/8.5/5 with zero participant growth (regular valuation)**	23.34	23.7	(0.36)
	5.5/8.0/5 with zero participant growth	25.43	23.7	1.73
	5.5/9/5 with zero participant growth	21.04	23.7	(2.66)
	5.5/8.5/5 with 3-year participant growth	23.27	23.7	(0.43)
	5.5/8.5/5 with 3-year participant decline	23.40	23.7	(0.30)
31 December 1995	**5.5/8.5/5 with 5-year participant regular growth (regular valuation)**	25.16	23.7	1.46

21. Therefore, the regular valuation as at 31 December 1997 showed a decrease of 1.82 per cent in the required contribution rate as at 31 December 1995 (from 25.16 per cent to 23.34 per cent), resulting in an actuarial surplus of 0.36 per cent of pensionable remuneration. As can be seen in the table in the preceding paragraph, under real rate of return assumptions of 3 per cent and 4 per cent, with zero participant growth, the results would be, respectively, a deficit of 1.73 per cent of pensionable remuneration and a surplus of 2.66 of pensionable remuneration, demonstrating the major impact of the real rate of return assumption on the valuation results.

22. The elements contributing to the decrease in the required rate of contribution were as follows:

	Elements	Increase (decrease) in imbalance (as percentage of pensionable remuneration)
(a)	Interest on prior imbalance	0.26
(b)	Investment experience	(0.55)
(c)	Net effect of changes in the value of United States dollar and cost-of-living adjustments for pensioners, and other gains affecting pensioners	(0.56)
(d)	Net effect of changes in the value of United States dollar and actual inflation on pensionable remuneration	(0.99)
(e)	Change in participant growth assumption	0.16
(f)	Effect of higher than expected number of new entrants	(0.01)
(g)	Miscellaneous	(0.13)
	Change in imbalance	(1.82)

Present value of accrued benefits

23. As in previous reports, the actuarial valuation contained another indicator of the funded position of the Fund, namely, a comparison of the present assets of the Fund with the value of the accrued benefits on the valuation date (i.e., the benefits for retired participants and beneficiaries and the benefits considered to have been earned by all present participants if their service were terminated on that date).

24. With respect to its liabilities on a "plan termination" basis, the Fund was in a strongly funded position if future adjustments of pensions were not taken into account. The funded ratios on that basis, which varied according to the rate of interest assumed, ranged from 137 to 145 per cent, with 141 per cent being applicable for the regular valuation. This meant that the Fund would have considerably more assets than needed to pay the pensions if no adjustments were made in pensions for changes in the cost of living. However, the funded position was less strong when account was taken of the assumption that pensions in award would increase at the rate of 5 per cent per year and of the 1.9 per cent cost of the two-track system; the funded ratios, under this assumption, ranged from 83 to 93 per cent, with 88 per cent being applicable for the regular valuation. As shown in the table below, the funded ratios have improved substantially since 1982, both with and without assuming future adjustments of pensions for inflation.

Funded ratios, 1982-1997

Valuation as at 31 December	If future pension payments are made: Without pension adjustments (per cent)	With pension adjustments (per cent)
1982	90	49
1984	100	56
1986	118	67
1988	123	70
1990	131	77
1993	136	81
1995	132	81
1997	141	88

Results of valuation in dollar terms and other disclosures

25. The General Assembly had requested the Board, in resolutions 47/203 of 22 December 1992 and 48/225 of 23 December 1993, to consider the form in which it presents the valuation results, taking into account, inter alia, the observations made by the Panel of External Auditors. The Auditors had requested the Board to consider including in its reports to the General Assembly the following additional disclosures and opinions as regards the valuation results: (a) presentation of the results in dollar terms; (b) presentation of a statement of sufficiency under article 26 of the Fund’s Regulations; and (c) presentation of a statement by the Committee of Actuaries and the Consulting Actuary on the actuarial position of the Fund, to which the Board of Auditors may refer in their observations on the accounts of the Fund.

26. The table below summarizes the valuation results as at 31 December 1997, both as a percentage of pensionable remuneration and in dollar terms, under the five combinations of economic and participant growth assumptions:

Economic assumptions	Valuation results surplus (deficit): As percentage of pensionable remuneration	Valuation results surplus (deficit): In dollar terms (millions)
5.5/8.5/5 with zero participant growth (regular valuation)	**23.34**	**417.3**
5.5/8.0/5 with zero participant growth	25.43	(2 336.0)
5.5/9.0/5 with zero participant growth	21.04	2 618.2
5.5/8.5/5 with 3-year participant growth	23.27	502.2
5.5/8.5/5 with 3-year participant decline	23.40	334.7

27. The table below provides the projected liabilities and assets of the Fund in dollar terms, as reflected in the regular valuation results as at 31 December 1997 and 31 December 1995, respectively:

	(Millions of United States dollars)	
	31 December 1997	31 December 1995
Liabilities		
Present value of benefits:		
Payable to or on behalf of retired and deceased participants	9 800.3	8 860.1
Expected to become payable on behalf of active and inactive participants, including future new entrants	33 193.0	33 710.8
Total liabilities	42 993.3	42 570.9
Assets		
Actuarial asset value	16 459.0	13 691.2
Present value of future contributions	26 951.6	27 191.0
Total assets	43 410.6	40 882.2
Surplus (deficit)	**417.3**	(1 688.7)

28. As they have in the past, the Consulting Actuary and the Committee of Actuaries stressed that great care must be taken when considering the dollar amounts of valuation results. The liabilities shown in the table above included those for individuals who have yet to join the Fund; similarly, the assets included the contributions for future new entrants. The surplus indicated only the future effect of continuing the current contribution rate under various actuarial assumptions as to future economic and demographic developments. The valuation results were highly dependent upon the actuarial assumptions used. As

indicated in the table in paragraph 26 above, a significant deficit, rather than a surplus, was indicated on the 5.5/8/5 valuation basis, i.e., a real rate of return of 3 per cent. Both the Consulting Actuary and the Committee of Actuaries pointed out an actuarial surplus or deficit, when expressed in dollar terms, should only be considered in relation to the magnitude of the liabilities and not in absolute terms. 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 deficit under the regular valuation as at 31 December 1995 had been $1,688.7 million, which had represented 4.0 per cent of the projected liabilities.

Hypothetical projection models

29. As in past valuations, hypothetical models of the estimated progress of the Fund over the next 30 years were also prepared on the basis of the economic assumptions in the regular valuation, using the zero participant growth assumptions. The results were presented in both nominal and inflation-adjusted terms. These models showed that the Fund balance at the end of the 30-year period would still be increasing, both in nominal and in inflation-adjusted dollar terms. Additional models, in which the assumed real rates of return on investments ranged from 2 per cent to 5 per cent higher than the assumed 5 per cent rate of inflation, were also prepared. These models showed that the Fund balance continued to increase at the end of 30 years in nominal dollars in all cases, with the balances ranging from $53.7 billion to $196 billion.

Views of the Committee of Actuaries

30. The Committee of Actuaries noted that, for the first time since the valuation as at 31 December 1978, the regular valuation disclosed a small surplus when measured against the present contribution rate of 23.7 per cent of pensionable remuneration; whether an actuarial deficit will reappear depended upon future economic and demographic developments, particularly as regards investment returns and exchange rates. The Committee noted further that, on this occasion, a significant portion of the actuarial gain was attributable to the strengthening of the United States dollar since the last valuation; if this change in exchange rates had not occurred, the Fund would probably have remained in deficit. The Committee noted, however, that inflation rates continued to be low and the gains in the value of the assets of the Fund were not yet fully recognized in the actuarial asset value.

31. On the basis of its consideration of the results of the valuation and other relevant indicators, the Committee of Actuaries was of the view 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".**

Statements on the valuation results

32. The statement of actuarial sufficiency prepared by the Consulting Actuary and approved by the Committee of Actuaries is reproduced in annex IV to the present report. The statement indicates that

> **"the actuarial value of the assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on our understanding of the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as of 31 December 1997, for deficiency payments**

under article 26 of the Regulations of the Fund".

33. The statement on the actuarial position of the Fund, adopted by the Committee of Actuaries, is reproduced in annex V. **In that statement, the Committee of Actuaries indicates that it had**

> **"reviewed the results of the actuarial valuation as of 31 December 1997, which was carried out by the Consulting Actuary. Based on the results contained in the valuation report, and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the Consulting Actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1999, and in the light of future developments".**

34. The Committee of Actuaries indicated its intention to review the demographic and economic experience of the Fund over a number of years, for the purpose of formulating the assumptions to be recommended for use in the actuarial valuation of the Fund as at 31 December 1999. The Committee would also be considering the method to be adopted for the recognition of administrative expenses in future valuations, the implications of any changes in the benefit provisions of the Fund and any other matters referred to it by the Board.

<u>Discussion in the Board</u>

35. In response to questions, the Consulting Actuary commented on the probable effect on the results of the next valuation if there were a further diminution in the number of active participants and if the market value of the assets were to decline. He indicated that a 10 per cent reduction in the number of active participants would, assuming a constant active population thereafter, increase the required contribution rate by approximately 0.34 per cent of pensionable remuneration. The Consulting Actuary stated further that a 15 per cent decline in the value of the equity component of the assets would result in approximately a 23.7 per cent required rate of contribution, after the decline had been fully reflected in the actuarial asset value, and assuming constancy until the next valuation in the market value of assets after the decline and in all other economic variables.

36. With respect to the maturity of the Fund as evidenced by the extent to which the benefit costs in the past several years had exceeded contributions, the Rapporteur of the Committee of Actuaries noted that this situation was to be expected. It remained likely that, in the normal course, the assets would grow in real terms by another 50 per cent over the next two or three decades. This expected growth was shown in the detailed projections contained in the valuation report. It was further noted that the expected cash flow generated by investments would be more than sufficient to meet the excess of benefit payments over contributions.

37. The Board noted with satisfaction the improved financial condition of the Fund as reflected in the results of the actuarial valuation of the Fund as at 31 December 1997. It further 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.

B. Review of interest rates applicable to lump-sum commutations of periodic benefits

38. Since 1 January 1985, the interest (discount) rate established by the Board for the lump-sum commutations of periodic benefits under article 28 (g) of the Regulations of the Fund has remained at the annual rate of 6.5 per cent. The last two reviews of the rate took place in 1994 and 1996. The Board had agreed to review the matter at its 1998 session, based on updated economic information to be provided by the Secretary and the results of the Fund's actuarial valuation as at 31 December 1997.

39. At the request of the Board, the Secretary had submitted to the Standing Committee in 1997 data on the utilization rate by Fund participants of the lump-sum commutation option. That data showed that the utilization rates had not varied significantly during the period 1992-1996, with the exception that the utilization rate was noticeably lower in a number of countries of residence where the local-currency track amount was substantially higher than the dollar-track amount.

40. The Board considered the updated economic and other information that had been provided for its review of the interest rate. It was noted that retention of the current interest rate of 6.5 per cent, in lieu of the real rate of return assumption used in actuarial valuations, resulted in an actuarial gain to the Fund of approximately 1.23 per cent of pensionable remuneration; therefore, lowering the interest rate would reduce or eliminate that actuarial benefit to the Fund.

41. The participants' representatives stressed that retention of the 6.5 per cent interest rate constituted a substantial actuarial benefit for the Fund, the financial impact of which was borne solely by the participants. Since the mid-1980s the interest rate has been maintained at 6.5 per cent for actuarial rather than economic reasons. As interest rates have fallen, the participants have been increasingly penalized, with the Fund reaping windfall gains. The participants' representatives noted further that the Committee of Actuaries had recommended retention of the 6.5 rate, without providing any economic or technical basis for the recommendation. Reducing the rate to between 4 and 5.5 per cent now, with respect to future contributory service, would be in line with recent economic trends, new pension legislation in the United States and the practices of other international organizations.

42. Representatives of governing bodies noted that suggestions were being advanced to make a number of changes in benefit provisions with potential actuarial implications. They requested that information be provided on the actuarial implications of each possible change, including reduction in the rate of contribution, with a view to preparing for the next Board session a comprehensive, prioritized list of possible improvements that would be analysed in the light of the actuarial situation of the Fund as at the end of 1999.

43. Several speakers, including some representatives of the executive heads, stated that the 6 per cent rate, which would be fair and reasonable to participants, could be implemented by the Board now and be the subject of future reviews on the basis of the results of subsequent actuarial valuations of the Fund.

44. In response to questions, the Consulting Actuary indicated that, on a strictly technical basis, the interest rate for lump-sum commutations should be set at a uniform rate of about 4 per cent. However, at least since 1984, the

rate has been set by the Board at a substantially higher level in order to help the Fund's actuarial situation.

45. In the course of the discussion, the participants' representatives made the following proposal, which they considered a compromise, to change the interest rate for lump-sum commutations:

> **"The Board decides to change the rate applicable to lump-sum commutations to 6 per cent, with respect to contributory service performed as from 1 January 1999, and to report thereon to the General Assembly."**

46. Prior to formal action by the Board on the proposal by the participants' representatives, the representatives of the governing bodies proposed an amendment to the text, which was supported by some representatives of the executive heads, to read as follows:

> **"The Board decides 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."**

47. In the absence of a consensus on either proposal and in accordance with the applicable procedure, the Chairman conducted a roll-call vote on the amended text in paragraph 46, which was approved by the Board by a vote of 17 in favour, 11 against and 2 abstentions. The entire text, as amended, was then approved, by a vote of 18 in favour, 11 against and 1 abstention.

IV. INVESTMENTS OF THE FUND

A. Management of the investments

48. The Board reviewed the investments of the Fund on the basis of a report and accompanying statistical data presented by the representative of the Secretary-General. The report described the economic and investment environment and the strategic and tactical methods followed in determining the investments and provided detailed information on the investment performance during the two-year period ending 31 March 1998.

49. The present report highlights the most important aspects of the investment information provided to the Board. The separate report of the Secretary-General to the Fifth Committee on the investments of the Fund will provide further information (A/C.5/53/18).

Investment performance

50. During the two-year period under review, the market value of the assets of the Fund increased by $4,631 million, from $15,539 million on 31 March 1996 to $20,170 million on 31 March 1998. The total investment returns for the years 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 two years under review were 5.9 per cent and 18.9 per cent, respectively. These represented the fifteenth and sixteenth consecutive years in which the Fund had achieved positive returns.

51. The rates of return were calculated by an outside consultant, using a generally accepted method for such calculations that had been fully disclosed to the Board at its thirty-fourth session. That method includes actual income received from dividends and interest, as well as realized capital gains and losses, and takes into account changes in the market value of the investments and the timing of cash flow.

52. The total returns for each of the past four years are shown below:

Total Fund: total returns based on market value for the years ending 31 March

	1998	1997	1996	1995
		(Percentage)		
Equities				
United States equities	45.5	18.9	30.2	11.1
Equities outside United States	15.4	7.2	15.1	6.5
Total equities	27.3	11.6	20.5	8.1
Bonds				
United States dollar bonds	10.6	6.2	8.0	2.9
Non-United States dollar bonds	4.3	2.5	3.3	18.6
Total bonds	7.0	3.6	5.1	12.9
Real estate	18.9	8.6	10.4	0.0
Short-term investments and reserves	7.0	4.4	4.1	5.0
TOTAL FUND	20.4	8.9	14.6	8.7

53. The representative of the Secretary-General cautioned against focusing on short-term results and reiterated that investment returns should be looked at over the long term as the Fund had long-term investment objectives. The management of the Fund continued to maintain a careful balance between risk and reward expectation over the medium to long term, rather than taking the risk inherent in seeking very high short-term returns. To help in achieving that goal, the Fund continued to adhere to its policy of wide diversification by asset class, geography and currency.

54. The cumulative annualized total returns over the past 5, 10, 15, 20 and 25 years were approximately 12.4 per cent, 10.8 per cent, 12.9 per cent, 12.5 per cent and 10 per cent, respectively. The cumulative annualized total rate of return over the 38-year period for which data are available was 9 per cent, representing a yearly "real" rate of return of 3.8 per cent after adjustment by the United States consumer price index.

55. The Secretary-General, acting on the recommendations of the Investments Committee, establishes asset allocation ranges to be used as guidelines during the year. These guidelines are reviewed by the Investments Committee four times a year during its regular meetings and, if necessary, the Committee recommends adjustments based on market conditions. Therefore, the composition of the portfolio reflects the judgement of the Investments Committee, the Investment Management Service staff and the investment advisers, based on the prevailing economic, market and currency trends. **All investments were reviewed and analysed by the staff and were required to meet the four criteria of safety, profitability, liquidity and convertibility, which had been endorsed by the Board and confirmed by the General Assembly.**

56. The policy of broad diversification of investments by currency, types of asset classes and geographical areas continued to serve as the most reliable method of protection over long periods of time against the unpredictability and volatility of financial markets. Even within the same region, movements in markets and currencies tended not to be synchronized, and this had been especially true during the past two years.

57. The major contribution to the investment returns during the two-year period ended 31 March 1998 came from market performance. As the United States dollar strengthened against nearly all major currencies, the overall currency effect on the Fund was negative in United States dollar terms. **The Fund's exposure to United States equities contributed more to the total return than did any other asset class held by the Fund, having provided total returns of 18.9 per cent and 45.5 per cent, respectively, for the years ending 31 March 1997 and 31 March 1998. At 31 March 1998, the allocation to equities was 66.2 per cent compared to 63.2 per cent at 31 March 1996, bonds were 25.5 per cent, a decrease from 26.2 per cent, real estate was 4.6 per cent, compared to 5.3 per cent, and short-term investments and reserves were 3.7 per cent, compared to 5.3 per cent.**

58. The higher allocation to equities has been beneficial to the Fund as the equity portfolio had total returns of 11.6 per cent and 27.3 per cent, respectively, for the years ending 31 March 1997 and 31 March 1998 and contributed the most to the Fund's positive return during the two-year period under review. The long-term strategy to increase the Fund's equity exposure has reflected the changed global investment environment, in which more pension assets are being invested in equities, owing to less government debt being issued as fiscal deficits are shrinking and the increasing use of equity financing by corporations. Equity markets have performed well globally in an environment of falling interest rates, low inflation and healthy growth in

corporate profits. Equities had outperformed bonds during the past 38 years and the pace has accelerated from 1982 to the present.

59. During the two-year period, bond yields fell in most major markets and the Fund's total bond portfolio had a return of 3.6 per cent for the year ended 31 March 1997 and 7 per cent for the year ended 31 March 1998. That performance exceeded the Fund's benchmark, the Salomon Brothers World Government Bond Index, which had returns of 1.2 per cent and 5.4 per cent, respectively, for each of the two years. The Fund's bond portfolio was helped by its overweighting in United States and United Kingdom bonds and an underweight position in yen bonds.

60. The Fund's real estate investments outperformed both bonds and cash during the biennium, with a total return of 8.6 per cent for the year ending 31 March 1997 and 18.9 per cent for the year ended 31 March 1998. The biggest contributor to that performance was United States investments, which comprise the majority of the Fund's real estate portfolio.

61. In addition to changes in the proportions of the various asset classes in the portfolio, the Fund also made changes within each asset class to implement its investment strategy and to take advantage of new trends in economic cycles and financial markets, as well as movements in currencies and interest rates. **The proportion of investments in North American currencies was increased to 54 per cent from 48 per cent, in European currencies it was increased to 33 per cent from 30 per cent, and investments in Asian currencies were decreased sharply to 11 per cent from 20 per cent.**

Comparisons of investment returns

62. The Fund continued to be the most widely diversified pension fund that maintained its accounts in United States dollars but had liabilities in many other currencies. Comparisons of the performance of any fund with those of other funds can be misleading as methods of calculating returns vary and other factors need to be taken into consideration. **While it was not possible to find a pension fund portfolio sufficiently similar to the Fund's against which investment returns might be compared, a strategic benchmark for the Fund had been implemented on 1 January 1997. That benchmark consists of two major indexes commonly used in the financial world to compare returns of equities and bonds: the Morgan Stanley Capital International World Index and the Salomon Brothers World Government Bond Index. The Investments Committee, after carefully reviewing several proposals, had approved a benchmark composed of 60 per cent Morgan Stanley Index and 40 per cent Salomon Brothers Index. During the year ended 31 March 1998, the Fund slightly underperformed the benchmark by 0.9 per cent.**

63. Over the past 20 years, the first component of the benchmark, the Morgan Stanley Capital International World Index, had achieved a total annualized return of 14.6 per cent compared to 14.1 per cent achieved by the Fund's total equities. The second component, the Salomon Brothers World Government Bond Index, had achieved a total annualized return of 9.9 per cent compared to a total annualized return of 10.9 per cent achieved by the Fund's bond portfolio.

Geographic and currency diversification

64. The Fund continues to be unique among major pension funds in its commitment to global investment. As at 31 March 1998, funds were invested in 51 countries, including direct investments in 27 developing countries, and were in 33 different currencies. At the end of the biennium, $9,923 million, or

49.2 per cent of the Fund's investments, were in currencies other than the United States dollar.

65. In keeping with General Assembly resolution 36/119 of 10 December 1981, the Fund has continued its efforts to identify appropriate investment opportunities in developing countries, taking into consideration Assembly resolutions and the established investment criteria. On 31 March 1998, direct and indirect investments in developing countries amounted to $1,669 million at cost, a decrease of 2.7 per cent since 31 March 1996, mostly owing to the sale of bonds issued by regional banks. The proceeds from those sales were invested in equities and bonds in various developing countries as opportunities became available. **Development-related investments accounted for 12 per cent of the Fund's assets at book value, with about 43.8 per cent of these holdings denominated in currencies other than the United States dollar.**

66. During the period under review, the Secretary-General, through the Investment Management Service, continued to maintain contact with multilateral international and regional institutions, as well as other sources, to take advantage of investment opportunities in developing countries. Visits had been undertaken to a number of developing countries and several new positions were initiated.

Discussion in the Board

67. During the discussion on the investment performance, members of the Board posed a wide range of questions related, inter alia, to the proportion of the Fund's assets invested in equities, the decrease in the Fund's market value (by US$ 1.1 billion from the end of July 1997 to the end of May 1998) during the fall of the Asian markets, the timing of the Fund's reduction of holdings in Asian markets, whether the Fund had a "stop loss" policy, the proportion of the investments held in pounds sterling, the implications of the introduction of the Euro, the frequency and timeliness of disclosures of information related to the investments, the proportion of equity investments in the United States, the review procedures used in times of crisis in the financial markets, the method of calculating investment returns, the comparability of the Fund's investment performance to those of other funds, whether ecological considerations were taken into account in selecting investments, and whether all four of the criteria of safety, profitability, liquidity and convertibility were applied in each investment decision.

68. Referring to the volatility of financial markets, the long-term rates of return and the related risks of asset types, and the four criteria governing the Fund's investment policy, several participants' representatives stressed that it would be advisable to consider modifying the asset allocation of the Fund to take into account a possible market correction in the equity market. It was also mentioned that on a 25-year basis the rate of return on bonds and equities had been almost equal.

69. In response to requests by the participants' representatives, the representative of the Secretary-General, the Chairman and other members of the Investments Committee indicated their intention to augment the flow of information on the investments of the Fund to Board members, and confirmed that steps would be taken to provide such information and to distribute reports on a timely basis. At its next meeting, the Investments Committee would further discuss the issues raised, in order to promote transparency.

70. On the impact of the crisis in Asia and the Pacific on the economies and

financial markets in the United States and other developed countries, the members of the Committee stated that the United States would not suffer as much as might be expected because it had export markets in North America and Europe, where economic growth was strong and offset weakness from Asia. In addition, there would be a positive impact from downward pressure on inflation and interest rates. Although the United States equity market was fairly valued, there were still good companies whose share prices were not performing as well as the broader market but constituted good investments for the long term. It has been estimated that global economic growth would be reduced by less than 1 per cent as a result of Asia's slowdown.

71. As to the allocation of assets, it was noted that equities outperformed bonds over the long term and that, since the Fund was an indexed defined benefit plan, it was important to focus on long-term growth needs, for which equities were the best source. Within Europe and elsewhere, greater emphasis was being placed on increasing investments in equities in respect of pension funds, by removing or reducing current restrictions on such investments. This trend would continue with the introduction of the Euro and the creation of a much larger market with greater liquidity, stability and visibility. Economic fundamentals favoured equities for the long term. In the investments of the assets of the Fund, concentration has been placed on choosing companies of high quality which would be attractive to buy when their prices fell. It was extremely important to be selective in making investments but also not to overreact when markets fell, as it was often difficult to judge the right moment to re-enter markets to benefit from the ensuing recovery in share prices. The current period had been a difficult time for investments in developing markets but over the long term they would also be areas of growth. Many lessons had been learned from the collapse in share prices in Asia, which will be applied in the future.

72. With respect to crisis management, the Investment Management Service communicated regularly with members of the Investments Committee by fax, telephone and other electronic means to discuss any major developments in the financial markets. All parties involved in the investment process reviewed the Fund's portfolio continuously and carefully. The representative of the Secretary-General and the Investment Management Service did not wait until a crisis occurred to make decisions; investment decisions were made on an ongoing basis, taking into account views received from members of the Investments Committee, the institutional advisers and other sources. The Fund was well diversified and had long-term objectives. As to a "stop loss" policy, there was no predetermined percentage decline which would mark a critical point, bearing in mind the long-term investment perspective of the Fund; a better measure has been to monitor closely the developments in respect of investment holdings over a number of years.

73. On the extent of the investment holdings in British pounds sterling, it was noted that this reflected the strength of that currency and the performance of the British market; it was not felt that currency hedges were needed because the United Kingdom was not among the initial Euro countries. Regarding the percentage of the Fund's assets held in real estate, it was observed that the current percentage would decline as the total market value of the Fund grew since there would likely not be corresponding increases in real estate investments.

74. The Fund now needed investment income to meet its liabilities; therefore, in determining the strategy and placement of investments this factor was taken into account. The Secretary of the Board provided frequent updates on the liability profile of the Fund; in addition, information on the actuarial

valuations and the assumptions used therein was provided to the Investments Committee periodically by the Rapporteur of the Committee of Actuaries and the Fund's Consulting Actuary. As to the four criteria of safety, liquidity, profitability and convertibility, they were interrelated and all four were taken into account in deciding on the investment recommendations made to the Secretary-General.

75. The Board was informed that ecological considerations were not a primary factor in making investment decisions for the Fund and that care should be taken before limiting investments for such reasons, taking into account the need to provide suitable investment returns without undue risk. The Investments Committee followed clearly defined guidelines and objectives; investment decisions would also continue to take into account suggestions and observations made by the Board and the General Assembly.

76. As regards performance comparisons, efforts had been made to find funds which would be suitable comparators to the Fund. However, the 25 largest funds in the United States invest mainly in United States instruments and have liabilities mainly in United States dollars. The Fund invests globally and has liabilities in a number of currencies. In measuring risk, it was also important to keep the investment objectives and time-frame in mind. For long-term investors, it was acceptable to use standard deviations in risk analysis. As to the method used by the Fund to determine the investment rate of return, it was based on reviews and recommendations made by outside consultants.

77. With regard to discussions on alternative arrangements for management of the investments, the representative of the Secretary-General stated that the bulk of the funds continued to be managed internally, although six firms had discretionary management of small capitalization companies and the Fund had four institutional advisers. "Passive" management (i.e., investing in index funds) was one option to be considered for a fund as large as the Fund.

78. The Board expressed its appreciation to the representative of the Secretary-General, to the Chairman and members of the Investments Committee, and to the staff of the Investment Management Service and the investment advisers, for the good investment performance of the Fund. The Board also thanked the Chairman and members of the Investments Committee for their efforts in the interest of the Fund, particularly during the recent crisis in Asia, and for the frank and comprehensive exchange of views during the joint meeting.

B. Membership of the Investments Committee

79. The Secretary-General, in accordance with article 20 of the Regulations of the Fund, conveyed to the Board the names of three members of the Investments Committee, Messrs. Y. Oltramare, E. N. Omaboe and J. Reimnitz, whom he intended to propose to the General Assembly at its fifty-third session, after consultation with the Advisory Committee on Administrative and Budgetary Questions. They would all be reappointed as members for further terms of three years, commencing on 1 January 1999. Mr. F. Harshegyi and Mrs. H. Ploix were appointed to serve as ad hoc members in 1998. The Board also expressed its condolences on learning of the death of Mr. Alexander Papamarkou and noted, with appreciation, the years of distinguished service he had provided to the Fund.

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

A. Financial statements and audit

80. The Board examined and approved the financial statements and related data on the operations of the Fund for the biennium ended 31 December 1997, submitted by the Secretary for inclusion in the report of the Board to the General Assembly and to the member organizations.

81. The Board requested that, in the future, the administrative expenses in schedule 1 of the financial statements be compared with the approved budget for each biennium. A number of queries were raised as regards schedule 6 on the foreign tax accounts receivable; the Board requested that, in future, the presentation be enhanced with the assistance of footnotes, if necessary, in order to show clearly which Member States continued to withhold taxes on the Fund's investments.

82. The Board considered the findings and recommendations of the Board of Auditors, and its observations thereon are set out below.

83. In respect of foreign tax accounts receivable (annex III, paras. 13-15), no consensus emerged in the Board as to whether any of the amounts therein should be written off.

84. On the waivers of recovery in seven cases of overpayment (annex III, paras. 16-18), several speakers stated that the recommendation in the Board of Auditors' report regarding determination of the possible personal responsibility of Fund staff for loss, as a result of any negligence, and effecting recovery action on that basis from staff members, should not be supported. It was noted that mistakes do occur, particularly during peak workload periods, and that financial recovery from staff for the consequences of negligence would not be appropriate in all cases. Provisions already exist for disciplinary action and, where appropriate, for imposing financial liability in cases where gross negligence or wilful misconduct has been established.

85. On the issue of insurance coverage for the Fund's investments in equities (annex III, paras. 23-26), the Board noted that the Board of Auditors had found that the level of coverage was inadequate because its scope ranged only from 0.2 to 8.2 per cent of the market value of the assets held by the Fund's custodians and therefore recommended that the matter be reviewed, with a view to providing adequate insurance coverage. The representative of the Secretary-General noted that the insurance coverage related to losses arising from dishonesty by employees in the custodian or sub-custodian banks, including forgery and fraud. It was emphasized that the contracts with the custodians made both the custodian and sub-custodian banks liable for this type of loss. 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. Thus, insurance was required only against failure of the custodian bank before the securities were registered in the name of the United Nations; the securities at risk at any particular time represented only a fraction of the total assets of the Fund.

86. At the time of entering into the contracts with the custodians, the Secretary-General had obtained the opinion of outside counsel with expertise in custody and advisory investment contracts as to the appropriate level of

insurance for this type of risk. The advice given was that the levels customarily required in each market, based either on practice or on local legislation, were sufficient in view of the nature of the risk; the levels of insurance coverage incorporated in the Fund's custodial contracts fully met this standard, as confirmed recently by a consultant. Taking into account the desire to both ensure security and avoid unnecessary cost increases, the representative of the Secretary-General undertook to make enquiries as to the feasibility and attendant cost of increasing the levels of such insurance coverage. A decision would then be taken, having regard to the comments made in the Pension Board on the need to control the level of custodial costs. Information would be provided in due course of the outcome of these enquiries and any action taken by the Secretary-General.

87. On the issue of the verification of thumbprints and signatures in respect of certificates of entitlement returned by Fund beneficiaries (annex III, paras. 37-40), the Board of Auditors recommended that suitable equipment to assist the codifiers in this area be procured. With the exception of one member representing the General Assembly, the Board could not concur with any wider use of thumbprints and stressed the need to ensure that the verification process remained cost-effective.

88. As regards the Board of Auditors' observation that the Regulations and Rules of the Fund did not provide for penalties in fraud cases (annex III, para. 46), the Secretary advised the Pension Board that he would submit a paper on the issue to the Standing Committee in 1999.

89. The Board took note of the report of the Board of Auditors, which reflected recognition that the Fund's operations were carried out satisfactorily.

B. Review of arrangements for internal audits of the Fund

90. Pursuant to a recommendation made in 1994 by the Board of Auditors, which had been supported by the Pension Board, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the General Assembly, the Fund's 1996-1997 biennium budget included resources for the establishment of an internal audit function for the Fund. Performance of that function was entrusted to the Office of Internal Oversight Services (OIOS) of the United Nations Secretariat, subject to review by the Board in 1996 and by the Standing Committee in 1997 (in the context of the preparation of the Fund's proposed budget for the biennium 1998-1999).

91. In 1996, some Board members expressed the view that the Fund would benefit most from internal audits that were carried out by an internal audit section established within the Fund secretariat; however, the Board decided to maintain the assignment of the internal audit function to OIOS. The Board also agreed that reports on the internal audit work of OIOS would be transmitted by OIOS to the Secretary, who would then determine whether and how such documentation should be provided to the Board; the results of internal audits of the investments area would be communicated by OIOS both to the designated representative of the Secretary-General for the Fund's investments and to the Secretary.

92. At its 1997 meeting, the Standing Committee agreed that, bearing in mind the relatively short period that OIOS had performed the internal audit function for the Fund, the task should continue to be assigned to OIOS for the biennium 1998-1999. Accordingly, the Fund's budget for that biennium, as approved by

ACABQ and the General Assembly in 1997, included provision of the resources required by OIOS to carry out that function. However, some members of the Standing Committee reiterated the view that, in the longer term, the Fund would benefit from the establishment of an internal audit unit within the Fund secretariat. The Standing Committee also agreed that, pursuant to the decision taken by the Board in 1996, the internal audit arrangements would be reviewed by the Board in 1998 and then by the Standing Committee in 1999, in the context of its consideration of the Fund's proposed budget for the biennium 2000-2001.

93. At its recent session, the Board considered a report by the Secretary which contained a summary of the internal auditing performed by OIOS during the period from 1 September 1996 to 30 April 1998 and the first report by OIOS covering its work during that period. The Secretary indicated that in November 1996 OIOS had initiated a long-term comprehensive audit of the administration and operations of the Fund's secretariat, both in New York and in Geneva, with a view to assisting the Fund's management in identifying areas where internal controls and other procedures could be strengthened or improved. Particular attention was given to examining the system for verifying the continued entitlement of beneficiaries to the periodic benefits they were receiving from the Fund. The Fund secretariat undertook prompt follow-up action in a number of individual cases of overpayments that were identified by OIOS. In addition, detailed new procedures were implemented with respect to the handling of both returned and unreturned certificates of entitlement. As to the investments area, a qualified outside firm has been engaged after an extensive bidding process, to carry out, under the supervision of OIOS, an operational audit of the Fund's investment decision-making process and activities; the operational audit by that firm began in June 1998.

94. The Secretary recommended that the internal audit function continue to be assigned to OIOS, noting that OIOS had performed the function only since September 1996 and that there had been positive developments.

95. During the discussion in the Board, the participants' representatives reiterated their views that the internal audits should be management tools designed to assist in improving operations and ensuring sound monitoring and control procedures. They believed that the initial audit observations should be focused in that direction. They reiterated their view that the current ad hoc arrangement of assigning the internal audit function to a United Nations entity, namely, OIOS, should not be continued. They expressed strong preference for establishing an internal audit section within the Fund secretariat which would report directly to the Secretary.

96. The representatives of the executive heads, joined by the members of the Board representing the General Assembly, supported the proposal of the Secretary to continue the current arrangements, while keeping them under review. In their view, these arrangements appeared to be working well and adjustments had been made to ensure a good and effective relationship between OIOS and the management of the Fund, and the development of expertise within OIOS in the area of pension and investment-related audits.

97. There was general agreement on the need for close cooperation and coordination of work between the Fund's internal and external auditors. It was also stressed that the internal auditors should follow up on any recommendations made by the external auditors for improvements in the Fund's procedures.

98. The Board agreed to continue with OIOS as the Fund's internal auditors at least through the end of the biennium 2000-2001, and indicated that the current

report of OIOS need not be submitted to the General Assembly since all the matters covered in the report have been or are being addressed by the Fund secretariat. 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 Fund secretariat itself, 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 OIOS, based on a detailed report to be submitted to the Board at its next regular session in 2000. It was also agreed that the arrangements for internal audits of the Fund should be part of the comprehensive study of its long-term administrative requirements.

C. Monitoring and control procedures for payments, including surviving spouses' benefits

99. The issue of monitoring and control procedures has been on the Board's agenda since its July 1994 session, when it requested the Secretary to continue to explore new technologies and procedures aimed at strengthening the verification process, taking into account current resources available for this purpose. At its 1996 session, the Board reviewed an updated report on the strengthening of the verification process, including matters related to the design, preparation and mailing of the certificates of entitlement that are sent at regular intervals to all beneficiaries of the Fund. The Board noted with satisfaction the progress made by the Fund in tightening the process of verification, stressed that any new procedures and approaches had to be cost-effective and likely to deter or detect fraud without creating undue burdens on the many thousands of beneficiaries, and requested that the subject be kept under review. The General Assembly, in resolution 51/217, took note of the measures already taken, as well as those under consideration by the Fund.

100. At its recent session, the Board considered a report by the Secretary on the measures that had been implemented to strengthen the verification process, which included in the certificates of entitlement a warning, in three languages, against misrepresentation of facts, and a statement to be marked regarding non-remarriage by a widow/widower receiving benefits as the surviving spouse. In addition, two new general procedures regarding certificates of entitlement had been introduced over the past year, covering their preparation and handling, as well as the follow-up required when they were not returned. Other measures to strengthen the verification process included continuing evaluations of the technology available for signature verification. Greater emphasis has been placed, with the assistance of the Fund's internal auditors, on the review of beneficiaries over the age of 75 in a number of countries to determine their continued eligibility for benefits. In this regard, a number of preliminary statistical samplings and studies were undertaken to obtain insights and ideas as to how to protect the benefit system against fraud and abuse.

101. The Board requested more involvement of the local pension secretariats in assisting the Fund secretariat in the follow-up process related to non-returns of certificates of entitlement. The Board also stressed that control measures were primarily a tool for limiting the possibility of fraud. Any procedures or approaches taken or under consideration should be cost-effective and likely to detect or deter fraud, as a point could be reached where the returns on the expenses involved were not justified.

102. The Board noted that monitoring and control procedures were operational in nature and therefore should continue to be reviewed by the internal auditors.

It therefore decided that, in future, such reports would not be required, unless the Secretary needed policy guidance from the Board or when additional resources might be required for an investment in new technology.

D. Accounting standards for actuarial valuations of the Fund

103. The Secretary provided information on the work done in respect of the development of accounting standards for actuarial valuations of the Fund in pursuance of observations and recommendations made by the external auditors.

104. The Consulting Actuary apprised the Board of recent changes in International Accounting Standard (IAS) 19, the relevant accounting standard applicable to the financial statements of the employers. He noted that recent changes to IAS 19 have apparently confirmed the position taken by the Consulting Actuary and the Committee of Actuaries in the past that, as in the case of other multi-employer pension plans, the required contribution for its employees by a member organization of the Fund should be taken as the applicable accounting expense of that member organization in a given year.

105. The Board concurred with the following conclusions of the Committee of Actuaries, noting with satisfaction the manner in which this difficult technical subject had been handled by the Consulting Actuary and the Committee of Actuaries:

(a) That each member organization of the Fund would disclose its contribution to the Fund on behalf of its participating staff members as the organizations' applicable expense;

(b) That the disclosure statements developed to date were sound and sufficient, including the disclosure text for member organizations;

(c) That it would be for the Consultative Committee on Administrative Questions (Financial and Budgetary Questions) (CCAQ(FB)) to determine whether the description of the valuation methodology known as the Open Group Aggregate Method, adopted for the Fund and applied over the years, should be incorporated in the United Nations system accounting standards;

(d) That CCAQ(FB) should also decide on the contents of the final text of a disclosure statement by member organizations which might be included in a note to their respective financial statements.

VI. ADMINISTRATIVE ARRANGEMENTS BETWEEN THE FUND AND THE UNITED NATIONS AND WITH THE OTHER MEMBER ORGANIZATIONS

A. Review of concept paper prepared by the secretary of the Board

Introduction

106. At its session in 1996, the Board requested the Secretary, in cooperation with the United Nations Administration, to prepare a study of the short-term logistical requirements of the Fund secretariat and a concept paper describing the present nature of the administrative arrangements between the Fund and the United Nations and with the other member organizations of the Fund, together with an analysis of their adequacy for the Fund's operations over the next 10 years or longer.

107. The Board considered the concept paper at its 1998 session, which included the information and analyses requested by the Board at its previous session, the Standing Committee when it considered a preliminary version of the concept paper in 1997 and ACABQ, in the context of its review of the report and recommendations of the Standing Committee to the General Assembly on the proposed revised estimates for the biennium 1996-1997 and the proposed budget for the biennium 1998-1999. The concept paper provided a detailed review of the current cost-sharing arrangements between the United Nations and the Fund (hereafter referred to as UN/UNJSPF) and proposed, for the consideration of the Board, 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 affiliated programmes. The paper also examined the relationship of the Fund secretariat with the other member organizations and the costs related thereto, and provided a perspective for possible future developments as regards assistance and cooperation. It also contained the views of the Secretary as to the longer-term needs of the Fund in respect of, inter alia, (a) its computer systems and operations, (b) enhancement of the role of the Geneva office and (c) office space.

108. The Board also considered an addendum to the concept paper, prepared jointly by the Secretary and the representative of the Secretary-General for the investments of the Fund, which responded to requests made by the Board in 1996 and the Standing Committee in 1997 for an analysis of the respective responsibilities of the Secretary as Chief Executive Officer of the Fund for the administration of the Fund and those of the Secretary-General for the investments of the assets of the Fund.

Background information

109. In its consideration of the initial budget proposals of the Secretary for the biennium 1998-1999, the Standing Committee in 1997 focused on the Fund's audit arrangements, office space and mainframe computer services, in view of their importance and long-term administrative and cost implications. A summary of those developments is provided below.

(a) Audit arrangements

110. As indicated in paragraph 90 above, the Standing Committee agreed that the internal audit function should continue to be assigned to OIOS for the biennium 1998-1999. The resources requested and approved for the internal audit function for the biennium 1998-1999 amounted to $527,100, of which $105,400 was

charged to section I of the United Nations regular budget, since the Fund's secretariat also serves as the local pension secretariat of the United Nations; thus, a UN/UNJSPF cost-sharing ratio of approximately 20/80 per cent.

111. The de facto UN/UNJSPF cost-sharing ratio for external audits was approximately 88/12 per cent for the biennium 1996-1997. Based on the actual cost experience and on the extension of the audits to include the Fund's Geneva office, the Secretary had proposed, and the Standing Committee had agreed, that the Fund could assume in full the increase in external audit costs as a step towards establishing a more reasonable and fairer sharing of the costs. Accordingly, of the total external audit costs of $397,200, the Standing Committee had proposed that the additional $157,600 be charged to the Fund's budget, resulting in a UN/UNJSPF cost-sharing ratio of approximately 60/40 per cent, pending completion of the longer-term study in 1998 of the appropriate UN/UNJSPF cost-sharing arrangements for both the internal and external audit costs. However, the General Assembly decided, on the recommendation of ACABQ, to maintain the current de facto UN/UNJSPF cost-sharing arrangement for external audit costs, pending the completion of the 1998 review. Accordingly, the amount of $157,600 proposed in the Fund's budget was reduced by $108,600, to $49,000, i.e., maintenance of the cost-sharing ratio of approximately 88/12 per cent.

(b) Office space

112. Since the inception of the Fund, the United Nations has provided, free of charge, office space and furniture to the Fund in New York and Geneva; however, in the early 1990s, the Fund had paid some $1.5 million to construct modular work stations and to purchase related office furniture. At the Standing Committee meeting, the United Nations Administration indicated that it might not be possible to provide the Fund with additional office space within the main Secretariat building and that, if additional space were found, whether in the main Secretariat building or elsewhere, the intention would be to charge the Fund for any additional costs incurred by the United Nations, in terms of the costs of the actual additional space, moving and construction.

113. The Secretary advised the Standing Committee that the issue of office space would be among the most important matters to be addressed during the remainder of 1997 and in the concept paper to be presented to the Board in 1998. For the short term, the Secretary requested contingency provisions in the revised estimates for the biennium 1996-1997, for restructuring the current office space in the event that no additional space was made available during 1997.

(c) Mainframe computer services

114. Prior to 1990, the Fund had been charged a nominal amount of $40,000 per biennium for use of the United Nations mainframe computer in New York. Since then, in recognition of the significant growth in its mainframe usage, the Fund had been paying a larger share of the costs involved, although still at reduced rates. In the Fund's budget for the biennium 1996-1997, an amount of $559,100 was included for mainframe computer costs, which reflected a de facto UN/UNJSPF cost-sharing ratio of approximately 75/25 per cent.

115. The Secretary informed the United Nations in February 1997 that he was prepared to propose to the Standing Committee that for the biennium 1998-1999 a larger portion of the costs of mainframe computer services should be assumed by the Fund, namely, an interim movement to a 50/50 per cent sharing of the costs, pending determination of a longer-term arrangement. However, in its proposed

budget for the biennium 1998-1999, the United Nations Administration decided to allocate to the individual users all charges related to computer mainframe operations carried out at the International Computing Centre (ICC). In respect of the Fund’s usage of the mainframe, no provisions were included in the United Nations budget proposals, leaving the entire cost of the Fund’s mainframe computer usage, estimated at $2,966,600, to be met by the Fund.

116. In the Standing Committee, most members expressed concern with the way in which the decision was reached to change the long-standing arrangements, without the Pension Board or the Standing Committee having had the possibility first to consider the matter. They noted that the change would modify the long-standing relationship between the United Nations and the Fund, and would result in savings for the United Nations at the expense of the Fund.

117. After extensive discussions, during which no agreement could be reached, the Standing Committee decided, with some reservations, to propose resources in the Fund’s budget for the biennium 1998-1999 which would include the provision of $1,483,300 for mainframe computer costs, i.e., one half of the estimated costs. This was done on the understanding that the Board would consider the matter further in 1998, in the context of the study of the administrative arrangements between the Fund and its member organizations and, in particular, the review of the services and facilities provided over the years to the Fund by the United Nations and vice versa.

118. In its report, ACABQ took the view that the United Nations Secretariat should await the concept paper requested by the Pension Board before making changes to the current cost-sharing arrangements, and that changes should not be implemented until the proposals were examined by the Board and ACABQ (A/52/519, paras. 16 and 26). ACABQ therefore recommended that, in the meantime, the UN/UNJSPF cost-sharing ratio should remain at 75/25 per cent. The General Assembly concurred with the recommendations of ACABQ and approved a consequent reduction of the Fund’s share of the mainframe computer cost to $741,700, and an addition to the United Nations regular budget for the biennium 1998-1999 of $2,224,900, pending further review in 1998.

(d) Standing Committee consideration of the preliminary concept paper in 1997

119. The Standing Committee reported to the General Assembly on its consideration of the preliminary concept paper prepared by the Secretary and on its recommendations for follow-up action (A/52/278, paras. 33-45). It was noted that an assessment of the future administrative requirements of the Fund secretariat could not be separated from possible developments in its member organizations, which had to respond to demands for reform, streamlining and restructuring of their own operations and costs. There had been indications of at least three possible future developments: (a) some organizations might seek to reduce their budget costs by outsourcing their pension secretariat services to the Fund’s secretariat, if feasible and cost-effective; (b) some might make reductions in the resources provided to their local pension secretariats, which may lead to difficulties in carrying out their pension-related obligations in a timely and efficient manner; and (c) some others might seek to charge the Fund for services and facilities they have provided in the past.

120. The sharing of the costs of administering the Fund is governed by articles 4 (a) and 15 of its Regulations. Article 4 (a) provides that "the Fund shall be administered by the United Nations Joint Staff Pension Board, a staff pension committee for each member organization, and a secretariat to the Board and to each such committee". Article 15 provides that:

"(a) Expenses incurred by the Board in the administration of these Regulations shall be met by the Fund.

"(b) Biennial estimates of the expenses to be incurred under (a) above shall be submitted to the General Assembly for approval ...

"(c) Expenses incurred in the administration of these Regulations by a member organization shall be met by that organization."

121. The administrative expenses of the Fund are separated into three categories:

(a) Administrative costs, which include the cost of salaries, related staff costs and operational costs of the Fund secretariat, the fees charged by the Consulting Actuary to the Fund for actuarial valuations and other services, and costs related to meetings of the Committee of Actuaries;

(b) Investment costs, which cover fees payable to the advisers and custodians for the investment portfolio, the cost of salaries, related staff costs and operational costs for the staff in the Investment Management Service and costs related to meetings of the Investments Committee;

(c) Audit costs, which cover both internal and external audit costs in both the administrative and investment areas.

122. The expenses of individual member organizations under article 15 (c) relate to the costs of their local staff pension committee secretariats, the travel of their representatives to meetings of the Board and its organs, the associated costs of local pension secretariat services provided to the Fund participants employed by the organization concerned, and the assistance of the Medical Service of each member organization in the review of disability cases. These expenses are borne entirely by the budgets of the member organizations.

123. The administrative arrangements between the Fund and the United Nations and its affiliated programmes are far more comprehensive because (a) the General Assembly had established the Fund, serves as the exclusive legislative body for the United Nations pension system and has decision-making authority over the administrative expenses of the Fund; (b) the United Nations serves as the host organization for the Fund; (c) the fiduciary responsibility for the investments of the Fund has been delegated to the Secretary-General of the United Nations since the inception of the Fund; and (d) the Fund's secretariat provides pension secretariat services for the United Nations and its affiliated programmes, in respect of which a contribution is made by the United Nations in section I of its regular budget.

124. As regards (d) above, in accordance with the long-standing apportionment formula agreed to by the Board and the General Assembly in 1954, and reconfirmed as reasonable in 1979, the United Nations share includes one third of the total cost of established posts, related common staff costs and overtime, as well as a contribution to the identifiable costs of communications. As the host and lead organization, the United Nations has also provided other facilities and services without charge, including office space and administrative, staff payroll, procurement, conference and other related services. It has also provided the use of mainframe computer services over the years at nominal or reduced rates.

125. During its discussion of the preliminary concept paper and the current cost-sharing arrangements, the Standing Committee recognized that the pursuit of

greater self-reliance by the Fund, or the future apportionment of charges to the Fund for services and facilities currently provided by its member organizations, would substantially increase the administrative expenses of the Fund. It therefore requested that the concept paper to be submitted to the Board in 1998 examine in depth all aspects of the future relationship between the Fund and the United Nations and with the other member organizations. In particular, the Standing Committee stressed the need, in the preparation of the concept paper, for close consultation between the Secretary and the United Nations Administration, bearing in mind the special relationship that exists between the United Nations and the Fund, and with a view to resolving to the maximum extent the difficulties that had arisen during the consideration of the Secretary's proposed budget for the biennium 1998-1999.

126. The Secretary was requested to seek advice and suggestions from a wide range of persons with extensive administrative knowledge and management experience in respect of the operations of the Fund, the Board and the United Nations common system; in addition, the Secretary should not be constrained by purely budgetary considerations. It was of paramount importance that, whatever administrative arrangements were proposed, they should enable the Fund secretariat to administer properly a large, independent, international and inter-agency pension system whose responsibility towards Fund participants and beneficiaries would extend far into the future.

(e) Observations and requests made by ACABQ in 1997

127. In its report, ACABQ made observations and requests related to the matters to be addressed in the concept paper (A/52/519, paras. 17-19). It stated that there should be a comprehensive study of all the administrative requirements between the Fund and its member organizations; in particular, the long-standing apportionment formula should be reviewed (see para. 124 above), indicating clearly the services the United Nations provides to the Fund and the services the Fund's secretariat provides to the United Nations, as well as the corresponding costs.

128. ACABQ requested that the impact on the Fund of the rapid increase in the volume of peacekeeping operations in recent years be addressed. It noted that under the apportionment formula there had been no consequential increase in the administrative costs of the Fund covered by the United Nations regular budget; therefore, it appeared that those costs were absorbed by the Fund. ACABQ also requested the United Nations to review its methodology for apportioning charges to its affiliated programmes (UNDP, UNFPA, UNICEF, etc.) so that those programmes of the United Nations pay for their appropriate share of the costs of the Fund's secretariat.

129. ACABQ noted that significant changes in the administrative arrangements between the Fund and the United Nations would ultimately lead to substantial increases in the administrative expenses of the Fund, which would, in turn, require a change in the relevant assumption used in the actuarial valuation of the Fund as to the level of the administrative expenses and would affect the consequent determination of the required rate of contribution to the Fund. In this connection, ACABQ noted that the Committee of Actuaries would be reviewing the level of administrative costs (including audit costs) to be reflected in future actuarial valuations of the Fund.

Review and recommendations in the concept paper prepared by the Secretary for the Board

(a) Introductory perspective

130. The preliminary concept paper had included information on the operations of the Fund over the 10-year period from 1986 to 1996 and made projections to the years 2001 and 2006. A summary of the key data is reproduced below. In addition, the evolution of the operations of the Fund over the longer period, from 1971 through 1997, is shown in annex VI.

		1996	2001	2006	Percentage increase 2006/1996
		(millions of United States dollars)			
A.	Market value of assets	16 913.4	25 431.9	38,240.9	126.1
B.	Principal of the Fund	13 312.1	18 956.4	26 994.0	102.8
C.	Contribution income	800.7	998.5	1 245.1	55.5
D.	Benefit costs	915.0	1 436.5	2 234.1	144.2
E.	C-D	(114.3)	(438.0)	(989.0)	765.3
F.	Number of participants	67 997	70 933	73 983	8.8
G.	Number of periodic benefits	41 433	53 159	68 203	64.6
H.	Ratio G:F	1.6:1	1.3:1	1.1:1	
I.	Staffing	136			
J.	Administrative expenses	21 293 600			

131. As indicated in the table, the implications of the projected growth in the size and scope of the Fund’s operations on the future administrative requirements of the Fund’s secretariat would depend on developments in its member organizations as regards the services and facilities they would provide the Fund in the future, in relation to the growing requirements of the Fund. There would clearly be significant increases in the administrative expenses to be charged to the Fund if it were required to become more self-reliant in some or all of its operations.

(b) Services currently provided to the Fund by the United Nations and other member organizations

132. The United Nations currently provides, without charge, the following services: office space and furniture; personnel services (recruitment, promotion, separations, examinations, language training, other training, etc.); financial services (staff payroll, accounting system, etc.); use of United Nations computer systems and some communications services (including the United Nations Integrated Management Information System (IMIS), global communication facilities, etc.); general and conference services (procurement, security, interpretation, translation, reproduction of documents, messenger service,

premises mailing, office cleaning, utilities, telephone system and equipment, office supplies, travel/transportation services, medical services, etc.). The United Nations has also provided mainframe computer services and some communications services at reduced rates. All of these services are provided in both New York and Geneva.

133. The Fund secretariat does not have among its current staff the necessary expertise to undertake an assessment of what the costs of these services would be, if the Fund were to be charged for them, nor does it have the staff needed to carry out the range of functions involved.

134. As indicated earlier, in accordance with article 15 (c) of the Regulations of the Fund, the local pension secretariats of the other member organizations provide similar services to their active participants, as well as secretariat services to their staff pension committees. In order to obtain an indicative assessment of the overall costs incurred by those member organizations, the Secretary requested from them cost information in respect of: (a) the staffing arrangements for pension activities, excluding, on a proportionate basis, the non-pension work of the staff concerned; (b) office space for staff dealing with pension matters, taking into account the costs for security, furnishings, cleaning, utilities, etc.; and (c) the costs of other facilities and services provided for pension activities (e.g., computing and programming services, telecommunications and audit).

135. While providing the information requested, some organizations expressed concern that there would inevitably be variations in approaches followed in quantifying the costs of staffing and of the services and facilities provided, given existing variances in standard staff costs and in the methods used to cost the other elements; there would also be differences related to the location of each organization. It was further noted that there were some differences in the scope of services and responsibilities entrusted to each of the local pension secretariats by the organizations concerned. In response to those concerns, the Secretary made certain changes in the form of presentation and provided footnotes as requested by each organization in respect of its data. The objective was not to undertake a comparison of the costs reported by organizations, given their different locations, levels of services provided and costing methods, but rather to have each organization provide an estimate of the direct and indirect costs they were assuming in their respective budget for pension-related activities.

136. With those qualifications and as requested by the Secretary, the organizations provided cost information broken down into four categories: staffing arrangements, office space requirements, facilities and services, and travel of the Secretary of the local staff pension secretariat. That data is presented in tabular form in annex VII below.

137. As an indicative cost estimate, these organizations as a whole assume a cost of approximately $4 million per annum in respect of services to some 23,876 active participants employed by them as of the end of 1997 (35.2 per cent of the total number of active participants). As a rough comparison (which does not take into account the various services and facilities provided by the United Nations that exceed those provided by the other member organizations), the charge to the United Nations and its affiliated programmes under the one-third formula amounted to $5.8 million for the biennium 1998-1999 ($3.3 million as the United Nations share and $2.5 million as the UNDP/UNICEF share); therefore, the annual cost for United Nations/UNDP/UNICEF is approximately $2.9 million, covering 43,864 active participants (64.8 per cent of active participants).

(c) Services provided by the Fund secretariat to the United Nations as its local pension secretariat

138. The services provided by the Fund secretariat to the United Nations and its affiliated programmes include (a) secretariat services to the United Nations Staff Pension Committee and (b) services provided to active participants employed by the United Nations family and/or to their administrative personnel.

139. As regards secretariat services to the United Nations Staff Pension Committee, the services include the preparation of documentation related to reviews of claims for disability benefits and of the continued eligibility for such benefits; analyses of issues before the Pension Committee, the Pension Board and/or the Standing Committee; and travel arrangements for members of the Pension Committee.

140. The range of services related to active participants and to administrative personnel employed by the United Nations and its affiliated programmes include: responding to all representations, either written or oral, from or on behalf of active participants in respect of their enrolment in the Fund; changes in their work or family status; breaks in service; transfers; annual statements of their benefit status; re-employments and re-entries into the Fund; seeking separation documents from the employing entities and payment instructions from the separated participant; restorations/validations of prior service; provision of benefit estimates; inquiries regarding disability claims; deaths in service; children's entitlements; individual meetings with participants and staff representatives on pension questions or issues; participation in pre-retirement programmes; interrelating with the administrations of each United Nations entity on all pension matters, including documentation requirements, preparation of year-end reports, eligibility for participation in the Fund, etc.

141. The cost of these services would be extremely difficult to quantify. The servicing requirements for the United Nations family take on added complexities, not only because of the number of active participants involved, but also the number of employing entities in the United Nations family which have separate administrations and decentralized practices (e.g., UNDP, UNEP, UNHCR and UNICEF), the dispersion of these entities and their staff around the world, and the differences in the nature and length of the service of the participants employed.

142. As indicated earlier, it was agreed in 1954, and reconfirmed in 1979, that provision of one third of the total cost of established posts, related common staff costs and overtime (as well as a contribution towards the identifiable cost of communications involved), would serve as the basis for determining the level of the costs to be charged to the United Nations for such local pension secretariat services; the United Nations, in turn, assesses a proportion of the costs to UNDP and UNICEF. To date, the United Nations has not apportioned any of the charges among other United Nations programmes and activities (e.g., peacekeeping, UNEP, UNHCR and UNRWA).

143. Pursuant to the request of ACABQ to address the impact of the increase in the volume of peacekeeping operations in recent years, the table below sets out the number of participants recruited to peacekeeping missions at the end of each of the past six years:

	1992	1993	1994	1995	1996	1997
Number of participants	1 029	1 114	1 069	4 825	4 917	4 496
Percentage of total United Nations participants	3.0	3.0	2.8	11.0	11.2	10.3
Percentage of all participants	1.7	1.8	1.7	7.0	7.2	6.6

144. As can be seen from the table, the number of staff members appointed to peacekeeping operations who entered the Fund (which does not include staff from established offices who are in mission status) peaked in 1996 at 4,917, or 11.2 per cent of all United Nations participants. The number shown for 1997 includes participants who may have separated but whose benefits have not yet been processed. The increased servicing requirements impacted on the timeliness of the discharge of servicing responsibilities and contributed to the need for greater use of overtime work.

(d) Review of possible changes in the cost-sharing arrangements

145. As had been requested by the Standing Committee in 1997, the Secretary sought advice and suggestions as to possible changes in the current cost-sharing arrangements from a number of persons with extensive management experience and knowledge of the operations of the Fund, the Pension Board and the United Nations common system. **It was generally recognized that changes in the Fund's administrative and cost-sharing arrangements would require long-term policy and financial commitments from the United Nations, given its size and special relationship with the Fund.**

146. Two cost-sharing alternatives were considered in broad terms:

(a) Maintain the current situation but revise certain cost-sharing arrangements:

(i) The Fund secretariat would continue to provide local pension secretariat services to the United Nations;

(ii) The current cost formula would be reviewed and modified, as required;

(iii) A reasonable and acceptable allocation of responsibilities would be determined for the costs of office space, computer operations, audit and some of the other services and facilities that are currently provided fully or largely by the United Nations;

(b) Discontinue the arrangement whereby the Fund's secretariat serves as the pension secretariat of the United Nations:

(i) One third of the Fund's established posts would be transferred to the United Nations and the responsibility for pension secretariat services would be shifted to that Organization (as is the situation for the other member organizations);

(ii) As in subparagraph (a) (iii) above.

147. Another approach advanced in a paper by the International Labour

Organization (ILO) Staff Pension Committee would outsource all or most of the local pension secretariat services of the member organizations to the Fund's secretariat. This would result in "economies of scale", and the resultant savings could enable the organizations to offset some of the additional costs that would arise if all organizations shared certain costs that are now met mainly or fully by the United Nations and/or by the Fund (e.g., computer services, office space and audits). In essence, this approach would involve consolidation of all pension administrative costs, including the costs of local secretariat services, into one budget, the costs of which would be met by (a) charging a portion to the assets of the Fund and (b) charging each member organization for the local secretariat services provided to it by the Fund's secretariat, according to a formula to be determined. As regards the costs under (a), consideration could also be given to having the organizations share those costs that relate to certain services and facilities (e.g., computer services, office space and audits) so as to limit the actuarial implications.

148. The main conclusions of the ILO Staff Pension Committee were:

(a) After more than 50 years of operation, the Fund was at an important turning point in that the relationship between the level of contributions and the benefit expenditures would require increased dependence on investment income;

(b) The administrative expenses charged to the Fund should not be increased to relieve organizations of the budgetary cuts that have been imposed on them, as this would have negative implications on the Fund's long-term financial equilibrium;

(c) Given the significant growth in a number of member organizations, it would be reasonable to reallocate to them some of the costs that had formerly been absorbed solely by the United Nations;

(d) The reform of the Fund's administrative operations should be based on:

(i) An operational analysis aimed at achieving economies of scale in the member organizations, including possible outsourcing of pension administration activities now carried out by member organizations to the Fund's secretariat;

(ii) Rationalization of the administrative expenses of the Fund, including decentralization of the functions of the Fund's secretariat so as to provide technical and administrative support to member organizations.

149. The ILO Staff Pension Committee has initiated a pilot study to examine which of its pension services might be transferred to the Fund secretariat and has had preliminary discussions with the Fund secretariat.

150. The advantages and disadvantages of outsourcing pension secretariat services to the Fund, and of having the member organizations share certain costs, were reviewed as part of the consultations undertaken by the Secretary. It was noted that shifting some of the Fund's major administrative costs to the member organizations would avoid or limit any adverse actuarial impact on the Fund; moreover, potential adverse implications for the Fund's budgetary process could arise owing to the likelihood of increased difficulties in reaching a consensus in the Board and in the General Assembly. In addition, an ongoing legal commitment would have to be given by the governing bodies of each member organization to meet its determined share of the costs of the Fund's budget, as

approved by the Assembly.

151. While some saw potential long-term merits in the approach advanced by the ILO Staff Pension Committee, the general inclination, emerging from the consultations, was to avoid or minimize, at this time, introducing further complexities into the Fund's operations, especially if the problems that had arisen during the last budgetary exercise could be redressed in a simpler and fair manner. A great degree of importance was attached to an approach that would not only be straightforward and easy to manage but that would also facilitate and not complicate the achievement of consensus recommendations and decisions in the Board and in the General Assembly.

152. Towards this end, the Secretary placed emphasis on reviewing and reaching agreement with the United Nations Administration on an appropriate cost-sharing formula to determine the administrative costs to be charged to the United Nations for the pension secretariat services provided by the Fund secretariat, taking into account not only staffing costs, but also the costs of certain services and facilities now met fully or largely by the United Nations (hereafter referred to as the UN/UNJSPF cost-sharing formula).

153. There was also general support for pursuing full or greater autonomy for the Fund secretariat with respect to personnel and procurement services, particularly as to decisions on its staffing, use of consultants and acquisition of equipment (in the cases of UNDP, UNHCR, UNICEF, OIOS, etc.).

(e) <u>Discussions between the Fund secretariat and the United Nations Administration on cost-sharing arrangements</u>

154. The discussions between the Fund secretariat and the United Nations dealt with (a) the continued validity of the current one-third/two-thirds cost-sharing formula; (b) the determination of the services and facilities that the United Nations would continue to provide without charge; and (c) those costs that should be shared under an appropriate cost-sharing arrangement.

155. At the outset, it was agreed that any new cost-sharing arrangements would have to be determined subsequent to the examination and determination as to whether the current one-third formula, applicable to the cost of established posts and overtime, remains adequate. Based on the results of that exercise, the next step would be to determine whether the one-third formula, or any adjustment thereof, should be extended to other objects of expenditure not currently included in the formula.

156. The Fund secretariat prepared, for discussion purposes, a working paper that provided detailed statistical analysis of the operational activities of the Fund on behalf of participants and beneficiaries. Such activities are assigned "work type" numbers under the Fund's Optical-based Information System (OBIS). Specifically, the "work types" were broken down into three categories: those that related (i) totally to the Fund, (ii) partially to both the work of the Fund secretariat and of the local pension secretariats and (iii) totally to the work of the local pension secretariats. This exercise was made possible through the use of the extensive and sophisticated computer systems introduced by the Fund in the early 1990s. The analysis covered all cases closed during the years 1996 and 1997. A second independent analysis was carried out by the Fund's Geneva office in respect of its processing workload, the results of which were then extrapolated to the entire Fund secretariat.

157. Based on these analyses, the Fund secretariat and the United Nations

Administration jointly concluded that the one-third/two-thirds formula continued to be reasonable and fair. It was therefore agreed that, if the one-third/two-thirds formula was a fair assumption for the reimbursement of staffing costs, it should also be used for the following costs that heretofore had not been shared: computer, office space and audit costs, as set out below. In addition, it was agreed to propose that the one-third/two-thirds formula should take effect prospectively, i.e., as from 1 January 1999.

(i) Computer costs

158. For the biennium 1998-1999, the cost of the Fund's usage of mainframe computer services was estimated at $2,966,600; the other computer costs, currently charged in full to the Fund, amounted to $2,351,500. Therefore, the total computer costs of $5,318,100 would be subject to the proposed one-third/two-thirds formula, but with effect from 1 January 1999 only.

(ii) Office space costs

159. The current total space occupied by the Fund is:

Pension Fund secretariat in New York	17,694 square feet
Pension Fund secretariat in Geneva	153 square metres
Pension Fund, Investment Management Services, in New York	6,476 square feet

160. Based on rental rates charged to specialized agencies, the total estimated rental costs, for the year 1999, would be $708,400. **Taking into consideration that the one-third/two-thirds formula relates to determining the costs for pension secretariat services for the United Nations, the United Nations agreed that one third of the cost of space occupied by the Fund secretariat in New York and Geneva, excluding space occupied by the Investment Management Service, would be absorbed by the United Nations and two thirds would be borne by the Fund. The United Nations would not absorb any of the cost of space occupied by the Investment Management Service in New York. The Investment Management Service share would be offset against investment income, as is currently done for all activities under the budget component "Investment costs". The cost of the Investment Management Service space would therefore be fully charged against the assets of the Fund. Such apportionment of costs would apply only in respect of the years 1999 onward.**

(iii) Audit costs

161. The Fund's external auditors had indicated that the allocation of audit costs between the Fund's administrative and investment areas was approximately on a 50/50 basis, taking into account the audit staff assigned to the respective areas. **Since the investment activities do not involve pension secretariat services, the United Nations would not absorb any of the costs of investment audits. If the 50/50 ratio were also to apply to the internal audits, the United Nations would reimburse the administrative budget of the Fund one third of 50 per cent of the total audit costs, internal and external.**

(iv) Other services and facilities

162. The United Nations Administration agreed to continue to absorb fully the costs related to the other services and facilities provided to the Fund, such as staff payroll processing, personnel and procurement functions, miscellaneous supplies and certain telecommunications costs, etc., on the understanding that should there be any adjustment to the agreement reached as to the one-third/two-thirds formula or should any requests be made for additional costs to be absorbed by the United Nations, the United Nations would reserve its position on the full absorption of such indirect costs.

(v) General temporary assistance funded positions

163. In recent years, in order to avoid adding costs to the United Nations regular budget, the Fund had not requested additional established posts; instead, it had met its needs through general temporary assistance funded positions, although the functions were ongoing. Such general temporary assistance funded positions are charged fully to the Fund. The United Nations agreed to the intention of the Fund secretariat to propose to the Board, for eventual submission to the General Assembly, the conversion of six general temporary assistance funded positions into established posts (1 P-3; 5 GS). For the biennium 1998-1999, the total estimated costs in respect of those six positions would have been $801,900. The total estimated annual cost for 1999 would have been $405,000, of which one third would have been reimbursed by the United Nations and two thirds would have been charged to the Fund.

164. However, as indicated in paragraph 233 below, during its consideration of the revised estimates for the biennium 1998-1999, the Board decided not to recommend at this time the conversion of the six general temporary assistance funded positions to established posts; instead, the Board recommended that temporary assistance costs in respect of the Fund secretariat be subject to the proposed UN/UNJSPF cost-sharing formula.

165. The Fund secretariat and the United Nations Administration also agreed to recommend to the Board that the proposed one-third/two-thirds formula be reviewed every six years.

166. The table below shows the impact of the proposed UN/UNJSPF cost-sharing arrangements (i.e., one third/two thirds), applied prospectively as from 1 January 1999.

Increased (decreased) costs for the year 1999 under the proposed change

Item	United Nations	Total UNJSPF	UNJSPF Administration	UNJSPF Investments
Computer costs	(226 200)	226 200	226 200	—
Office space costs	(530 600)	530 600	355 700	174 900
Audit costs	(149 800)	149 800	(81 300)	231 100
Temporary assistance costs	175 800	(175 800)	(175 800)	—
Total	(730 800)	730 800	324 800	406 000

(f) Actuarial implications of the proposed UN/UNJSPF cost-sharing arrangements

167. In 1960, the Pension Review Group had recommended that the desirable upper limit on administrative expenses (other than investment costs) chargeable to the Fund should be set at 0.14 per cent of total pensionable remuneration, although it recognized that such costs might eventually rise to as much as 0.18 per cent. The Pension Review Group had stated that the level of the limit was set "on the strict understanding that no new types of administrative charges are imposed on the Fund".[3] In essence, the assumption was that the United Nations and the other member organizations would meet the local pension secretariat costs and would provide other administrative services and facilities to the Fund, and that the investment costs would be charged against investment income.

168. In 1985, the Committee of Actuaries reviewed the 0.14 per cent rate and concluded that 0.20 per cent of pensionable remuneration for administrative costs could be justified in the light of developments in the previous 25 years. Among the reasons for the change cited by the Committee of Actuaries were the higher ratio of retired to active staff and the reductions, at the time, in the scale of pensionable remuneration for staff in the Professional and higher categories. However, as a spur to financial stringency and efficiency, the Committee recommended that the limit be set at 0.18 per cent of total pensionable remuneration.

169. Therefore, since 1985 the administrative costs assumed in actuarial valuations have been 0.18 per cent of pensionable remuneration. The actual ratio of administrative costs to the total pensionable remuneration has varied from biennium to biennium, but on average, the administrative costs have remained within the limit of 0.18 per cent of pensionable remuneration on a "net basis", i.e., excluding non-recurrent administrative costs.

170. At its meeting in 1997, the Committee of Actuaries noted that the number of retirees continued to grow at a greater rate than that of active participants and that, therefore, the administrative costs of the Fund, expressed as a percentage of total pensionable remuneration, could be expected to increase. The Committee signalled that the resources required to administer a plan of the size, worldwide scope and administrative complexity of the United Nations pension system could no longer be simply related to the level of the pensionable remuneration of active participants, but would also have to take into account the situation of retirees and their beneficiaries. It therefore indicated its intention to review the level of the administrative costs (including related audit costs) to be reflected in future actuarial valuations of the Fund.

171. At its meeting in June 1998, the Committee of Actuaries was informed that the Fund's administrative/audit costs could be expected to increase as from 1999, since a number of services and facilities that had previously been provided by the United Nations at little or no cost would in future be shared by the Fund and the United Nations.

172. 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.

173. The Committee noted that the Fund's administrative costs have been quite low and compared favourably with the costs of comparable pension plans. The Committee also noted that benefit costs in the future would increase more

rapidly than total pensionable remuneration and that this development should be taken into account in determining the manner in which the administrative expenses are to be reflected in the actuarial valuations. Based on the expected additional costs to be borne by the Fund and the drop in the level of total pensionable remuneration (see para. 175 (a) below), the administrative costs were likely to rise to the order of 0.25 per cent of pensionable remuneration.

174. The Committee expressed its intention to review this matter further at its meeting in 1999, in the light of decisions to be taken on the Fund's budget at the fifty-third session of the General Assembly, as well as developments regarding the level of total pensionable remuneration and beneficiary payroll.

175. The Secretary also drew attention to the following:

(a) The total pensionable remuneration as at 31 December 1997 stood at $3,533.26 million as against $3,585.18 million at 31 December 1995, a reduction of 1.4 per cent. The total pensionable remuneration of General Service staff was 7.5 per cent lower than at the end of 1995, mainly owing to the strengthening of the United States dollar against other currencies (the salaries of such staff are set in local currencies and their pensionable remuneration is the dollar equivalent of their gross pensionable salary). Over the same two-year period, the level of the administrative costs had increased, and would continue to increase in the future as the Fund assumes part of the costs of services and facilities previously provided free or at reduced rates;

(b) A substantial portion of the administrative/audit costs in the Fund's budget covers activities other than services to active participants; it would therefore no longer seem appropriate to continue to assess, let alone limit, the level of administrative costs by reference to the total pensionable remuneration of active staff. Rather, as suggested by the Committee of Actuaries, the administrative/audit cost factor included in the actuarial valuations could be based on the past trends of the actual relationship of the administrative costs to both active and beneficiary payrolls. If this approach were taken, as was done in respect of other assumptions used in the valuations, the valuation reports could include an analysis of the actual experience of the administrative/audit costs during the previous two years as compared to the assumption made in the latest valuation;

(c) Based on the current level of total pensionable remuneration, as a "rule of thumb", an increase in administrative/audit costs of $500,000 could be assumed to reflect an actuarial increase in the required rate of contribution of approximately 0.014 per cent of pensionable remuneration.

(g) Future developments

176. To meet the quality service expectations of the General Assembly, the member organizations and participants and beneficiaries, the Fund secretariat and the Investment Management Service will require resources, services and facilities commensurate with the growth and scope of operations of the Fund. On their part, the Fund secretariat and the Investment Management Service must continuously strive for greater efficiency, effectiveness and economy in their respective operations. This, in turn, will require optimal use of state-of-the-art technology; streamlined and clear delineations of supervisory responsibilities and accountability; simplified procedures, while ensuring maintenance of effective controls; adjustments of methods of work in relation to technological and structural changes; ongoing training of staff, etc.

177. The fundamental objective is clear: to provide services of high quality to the participants and beneficiaries of the Fund, at a reasonable cost. The determination of what constitutes reasonable cost must reflect an appreciation of the growing and ever-changing administrative and investment demands associated with a highly complex multi-employer defined benefit pension plan. Currently, the assets of the Fund stand at approximately $20 billion, held on behalf of more than 110,000 participants and beneficiaries residing in some 187 countries.

178. One of the pressing near-term needs of the Fund secretariat would be to enhance its computer systems and operations, through expansion and modernization. This would require not only state-of-the-art hardware and software, but also development of the requisite skills by the staff concerned and a conducive working environment in terms of office space and facilities; it is essential that a fund as large and complex as the Fund has computer operations that are stable, efficient and reliable. Since the early 1990s, the Fund secretariat has continuously expanded and improved its computer operations, moving away from total reliance on the United Nations mainframe computer services to complementing those services with the Fund's own computer systems and operations.

179. In June 1996, the Fund secretariat was informed that the United Nations planned to move all mainframe computer processing to ICC in Geneva. The Fund secretariat worked closely with ICC to test all PENSYS and OBIS systems before the migration, which took place in May 1997. The Fund's mainframe applications are now fully operational in the ICC mainframe environment, and the response time and other performance metrics have been within agreed service limits.

180. The Secretary and the Director of ICC agreed that the Fund would remain on the ICC mainframe for a period of at least three years. This decision was based on (a) the time required for the Fund to evaluate alternative computing arrangements (i.e., outsourced processing, in-house computing facility, continued reliance on ICC); (b) the lead time involved in moving mainframe processing to another outsourcer or to in-house facilities; and (c) the Centre's need for a minimum commitment by the Fund, for resource planning purposes (i.e., equipment lease, load balancing, cost estimates for all participating organizations).

181. Taking into account (a) the time required to evaluate alternative computing arrangements, (b) the delays in the planned delivery schedules for new systems because of the ICC consolidation efforts, (c) the time and effort required for year 2000 compliance testing and (d) the adjustments required to accommodate the introduction of the Euro, **the Secretary decided to defer until 1999 the evaluation of alternative computer arrangements. At that time, the Fund will be in a better position to present the results of the long-term computing study, as part of its budget proposals for the biennium 2000-2001.**

182. That study will consider (a) the advantages and disadvantages of self-reliance; (b) new technological advances in computer hardware and software; (c) data communication alternatives for faster and more reliable exchanges of information with the Fund's Geneva office, and with the member organizations; (d) the availability of software packages to reduce software development time and risk, while providing a "user friendly" environment; (e) opportunities to minimize future costs; and (f) the need to strengthen further the arrangements for ensuring the security and confidentiality of the Fund's records on participants and beneficiaries.

183. Another high-priority project will be the continuation of the enhancement of the role of the Fund’s Geneva office. In a comprehensive study on the administrative and operational capacities of the Fund’s secretariat carried out by an outside consultant in 1989, it was concluded that:

> "The role of the Geneva office should be expanded to provide more liaison services in coordination with the local secretaries in Europe. In addition, since many retirees from the Fund live in Europe, the Geneva office’s role of developing and maintaining relationships with beneficiaries is vital and useful ... it would be useful for Geneva to have information on workflow ... to answer inquiries on the paper processing and payments made in New York. A much greater delegation of authority should be made to the Geneva office to deal with the broad range of activities now carried out by the central secretariat in New York as would be practical and feasible."

184. The Secretary and the Board concurred with this recommendation and steps were initiated in the 1990s to enhance progressively the role of the Geneva office, through the development of the necessary infrastructure, including staffing, computer programs and payment facilities. It was generally recognized that these changes would have to be pursued in a phased manner, taking into account the gradual need for more staff, office space and equipment to carry out the additional functions assigned to the Geneva office. It was also essential to establish appropriate procedures and control mechanisms, in view of the intention to delegate benefit determination responsibilities, as well as authority for the disbursements of monies from the Fund, to the Geneva office.

185. In view of the potential interest from a number of member organizations to transfer some, if not all, of their local pension secretariat functions to the Fund’s secretariat, and considering that most member organizations are located in Europe, any such requests would best be considered and, if agreed upon, then implemented through the Fund’s Geneva office. There are also other areas besides western Europe that could be served fully, or at least partially, by the Geneva office. It would be the intention of the Secretary to focus on this matter in the years immediately ahead.

186. However, further enhancement of the Geneva office would require provision of office space and other services and facilities by the United Nations and/or by the other member organizations in Geneva. At the present time, in view of the lack of additional space, it would be difficult to add staff and equipment, as well as to redeploy staff, to the Geneva office.

187. The Secretary also expressed the view that in the long term the Fund may eventually have to establish some small regional offices for servicing a worldwide pension operation.

188. The Secretary stressed that the lack of sufficient office space would continue to impede efforts to improve the operations of the Fund. The Fund’s office space should be reasonably contiguous, so as to avoid fragmenting the operations of the Fund’s secretariat, given its extensive computer network and the interlinkages of the operations among its sections/units. If the Fund secretariat were required to move out of the Secretariat building, in full or in part (the same holds true for the Geneva office), it would result in disruptions in the operations of the Fund, to the detriment of the services provided to both participants and beneficiaries; the extent and duration of the problem would depend on the nature and scope of the relocation.

189. Should the Fund secretariat move to new premises, it would have to be done on a phased basis and would require significant work in respect of relocation, rewiring and telecommunication linkages for the new computer environment. In this regard, it would have to be borne in mind that, under the proposed UN/UNJSPF cost-sharing arrangement, the Fund would have to assume two thirds of the costs involved in respect of the administrative area and the full costs for the investment area.

190. The Secretary indicated his intention to focus on the space requirements for the Fund secretariat and related logistical issues in a report he would submit to the Standing Committee next year and in the budget proposals for the biennium 2000-2001.

(h) <u>Analysis of the respective responsibilities of the Secretary as Chief Executive Officer of the Fund for the administration of the Fund and of the Secretary-General for the investments of the Fund</u>

191. The question of defining the specific areas of responsibility delegated by the Board to its Secretary for the administration of the Fund, and to the Secretary-General for the Fund’s investments, arose as a consequence of the discussions that took place in the Standing Committee when it had considered, in 1995, a proposed upgrading of the post of the Chief of the Investment Management Service to the D-2 level. At that time, the Standing Committee (a) reaffirmed the Secretary’s role as the Chief Executive Officer of the Fund and the Board’s responsibilities with respect to investment policies and transactions, and (b) stressed the need to avoid a bifurcation in the Fund’s operations.

192. At its 1996 session, the Board was unable to reach a consensus on this matter and decided that, at its session in 1998, "it would revert to consideration of the level of the post of Chief of the IMS, in the light of an analysis of the responsibilities of the Secretary of the Board as Chief Executive Officer of the Fund for the administration of the Fund and those of the Secretary-General for the investments of the assets of the Fund, to be carried out and submitted to the Board jointly by the Secretary of the Board and the representative of the Secretary-General for the investments of the Fund, taking into account the views expressed by the members of the Board and of the Standing Committee".[4] At its 1997 meeting, the Standing Committee indicated that the concept paper should also address this matter.

193. The Secretary and the representative of the Secretary-General for the investments of the Fund reviewed the provisions in the Fund’s Regulations and Rules and agreed to submit the following conclusions to the Board:

> "The Fund’s Regulations make the separate areas of responsibility of the Secretary-General and of the Secretary of the Board quite clear: the Secretary-General is the trustee for the investment of the Fund’s assets, while the Secretary acts under the authority of the Board in the discharge of the latter’s responsibility for administrative supervision of the Fund as a whole. When these distinct areas of responsibility under the Fund’s Regulations are appropriately recognized, all the tasks and duties assigned in the Fund’s Regulations to the Board, the Secretary and the Secretary-General can be carried out effectively and efficiently, for the ultimate benefit of the Fund’s participants and beneficiaries worldwide. The key consideration must be to serve the interests of the single, indivisible inter-agency entity established by the General Assembly: the United Nations Joint Staff Pension Fund.

"The designated representative of the Secretary-General and the Secretary of the Board are in agreement that there is no need to amend the Fund's Regulations. Those Regulations already provide a clear framework for delineating in practice the respective areas of responsibility of the Board, the Secretary-General and the Secretary. Full responsibility and managerial accountability for the Fund's investments rests with the Secretary-General. Responsibility is with the Board for administrative actions carried out under its authority. For the Board to be able to meet that responsibility in a meaningful manner, the Secretary of the Board must be fully informed of all administrative matters related to the Fund's investment activities; he should be consulted before the implementation of any major changes in the execution of those activities (e.g., replacement of investment advisers or custodians) and generally with regard to matters pertaining to the budget, auditing, contracting and procurement, and personnel of the Investment Management Service.

"The representative of the Secretary-General for the investments of the Fund and the Secretary consider that the Fund's Executive Office should continue to provide the required executive office services to the Investment Management Service."

Discussion in the Board

194. A number of speakers expressed appreciation for the close and constructive consultations and cooperation between the Fund's secretariat and the United Nations Administration in reviewing and reaching agreement on proposed cost-sharing arrangements between the Fund and the United Nations, in respect of both the local pension secretariat services provided by the Fund's secretariat to the United Nations and its affiliated programmes and the provision by the United Nations of various services and facilities to support the administrative functioning of the Fund's secretariat.

195. Appreciation was also expressed for the cooperation between the Secretary and the designated representative of the Secretary-General for the investments of the Fund in preparing the joint paper analysing the responsibilities of the Secretary as Chief Executive Officer of the Fund for the administration of the Fund and those of the Secretary-General for the investments of the assets of the Fund.

196. There were also statements of concern by a number of speakers that, for the first time since the establishment of the Fund, the United Nations, as the host organization, would charge the Fund for the costs of office space provided to the Fund's secretariat and the Investment Management Service; in this connection, several members of the Board raised questions as to the level of the unit charges by the United Nations for office space provided to the Fund, particularly as regards the office space in Geneva. Representatives of the International Civil Aviation Organization (ICAO) Staff Pension Committee noted that New York and Geneva were both high-cost locations and that it might be prudent to explore the possibility of moving the operational services of the Fund to a suitable low-cost location.

197. The two main areas of concern, as reflected in the interventions made on this item, related to (a) whether the approach taken in the concept paper as to the sharing of costs between the Fund and its member organizations represented the best or preferred course to take, and (b) the actuarial implications of shifting more of the direct and indirect costs of administering the Fund from the budgets of the member organizations to a charge against the assets of the

Fund.

198. The view was expressed by several speakers that, as an inter-agency entity, the Fund should review the costing arrangements by reference to the defined principles, practices and objectives that were followed in respect of national and international pension and social security plans. In this connection, several speakers supported the approach suggested in the paper submitted by the ILO Staff Pension Committee.

199. Other speakers preferred the simpler and straightforward approach reflected in the concept paper, taking into account the difficulties inherent in any effort to reach consensus agreement on more sweeping changes. In any event, these speakers noted that the Board could not take decisions with respect to the outsourcing by other member organizations of part or all of their local pension secretariat services to the Fund’s secretariat; this would require initiatives by individual organizations and the agreement of each and all of their governing bodies to share in the costs heretofore charged against the assets of the Fund or met by the United Nations.

200. While questions were raised with respect to certain aspects of the elements covered by the proposed new UN/UNJSPF cost-sharing arrangements, there was general acknowledgement in the Board that the proposed arrangements reflected an agreement between the provider of local pension secretariat services - the Fund’s secretariat - and the recipient of such services - the United Nations and its affiliated programmes - and that therefore the proposal should be accepted and recommended to the General Assembly. In this connection, during the discussion of the revised estimates for the biennium 1998-1999 (see paras. 203-244 below), it was agreed to include temporary assistance costs among the items covered by the proposed UN/UNJSPF cost-sharing formula.

201. It was also generally agreed that further consideration should be given to the longer-term approach to the issues addressed in the concept paper and to other relevant issues; consideration should also be given to ways and means of ensuring, on the one hand, that the Fund would be able to obtain the resources required to manage efficiently and effectively a large and highly complicated international pension scheme and, on the other hand, maintaining the administrative costs of the Fund at a level that would not result in adverse actuarial implications for the Fund, requiring increases in the rate of contribution to be charged to participants and their employing organizations. The participants’ representatives requested the establishment of a working group; others felt that the consultative process followed this year had worked well and should be continued, while leaving open the possibility of a group meeting just before the Standing Committee convenes.

202. The Board, therefore, decided:

(a) To note, with satisfaction, the proposed UN/UNJSPF cost-sharing arrangements and recommend their acceptance by the General Assembly (paras. 154-166 above);

(b) To consider the arrangements set out in the concept paper to represent the first step in the process of reform;

(c) To agree on the need to address next year, in the context of the consideration of the proposed budget for the biennium 2000-2001 by the Standing Committee, the issues of computer services, enhancement of the role of the Geneva office, the overall staffing structure of the Fund secretariat and the

need for additional office space for the Fund's secretariat;

(d) To continue consideration of the strategy for arriving at conclusions as to the longer-term administrative arrangements for the management of the Fund, including the approach in the ILO proposal, the need for greater autonomy for the Fund's secretariat and other related matters;

(e) To request the Secretary to undertake further studies on the matters covered in the concept paper, continuing to consult informally as he had done in respect of the current paper, and reporting thereon to the Standing Committee in 1999;

(f) To take note of the analysis and conclusions contained in the joint paper prepared by the Secretary and the representative of the Secretary-General for the investments of the Fund (paras. 191-193 above).

B. Administrative expenses: revised estimates for the biennium 1998-1999

Revised estimates submitted by the Secretary of the Board

203. In section V of resolution 52/222 of 22 December 1997, the General Assembly approved net resources totalling $50,069,500 for the biennium 1998-1999, comprising $15,655,900 for administrative costs, $33,942,900 for investment costs and $470,700 for audit costs.

204. The revised budget estimates for the biennium 1998-1999 submitted by the Secretary for the consideration of the Board amounted to $54,593,700, consisting of $17,300,600 for administrative costs, $36,672,600 for investment costs and $620,500 for audit costs. The breakdown of the increase of $4,524,200 over the approved appropriations of $50,069,500 was as follows:

(a) Under administrative staffing costs, a net reduction of $20,600, which included (i) the conversion of six temporary assistance funded positions to established posts, proposed as part of the revised cost-sharing arrangements (a reduction of $159,500, owing to the cost-sharing arrangement with the United Nations as regards established posts, under which two thirds of the cost would be borne by the Fund), (ii) the reclassification of the post of the Executive Officer from the P-4 to the P-5 level ($12,300), (iii) 18 work-months of temporary assistance for the pension revisions required for some 340 cases as a consequence of a recent ILO Tribunal judgement ($86,600), and (iv) $40,000 for the training of staff on the new accounting system (see subpara. (c) below);

(b) Under investment staffing costs, additional resources amounting to $19,800 for the reclassification of the D-1 post of the Chief of the Investment Management Service to the D-2 level and the post of the Deputy Chief from the P-5 to the D-1 level;

(c) In respect of computer costs, additional resources amounting to $1,083,400 for the development and implementation of a new accounting system for the Fund (excluding the $40,000 for the training of staff on the new accounting system indicated under subparagraph (a) above), and net additional resources amounting to $226,200 resulting from proposed changes in the UN/UNJSPF cost-sharing formula (see para. 166, table);

(d) Additional resources amounting to $2.5 million for investment advisory and custodial fees;

(e) $35,000 under communications, for additional special connections and for new services requiring contracting by the Investment Management Service for Internet services;

(f) $530,600 to meet office space costs which, under the proposed UN/UNJSPF cost-sharing formula, would be broken down as follows: two thirds of the Fund's office space costs in the administrative area ($355,700) and the full cost of the Investment Management Service office space ($174,900) (see paras. 159, 160 and 166 above);

(g) An increase of $149,800 for audit costs, owing to the proposed changes in the UN/UNJSPF cost-sharing arrangements, comprising $141,000 under external audit and $8,800 under internal audit (see paras. 161 and 166, table).

<u>Budget issues remanded to the Board</u>

205. In its report to the General Assembly at its fifty-second session (A/52/278, paras. 18-32 and 68-92), the Standing Committee focused mainly on the short- and long-term implications for the administrative expenses of the Fund of four issues: (a) the audit arrangements for the Fund, (b) office space, (c) computer costs and (d) staffing for the Investment Management Service. The budget proposals of the Secretary, with the comments thereon of the Standing Committee, were reviewed by ACABQ. The General Assembly concurred with the recommendations of ACABQ contained in its report (A/52/519, paras. 26 and 27) and the four issues were remanded to the 1998 session of the Board for further consideration.

206. The Board examined the four issues in the context of its review of and conclusions on the concept paper prepared by the Secretary (sect. A above), particularly of the review of the UN/UNJSPF cost-sharing arrangements for office space, computer operations and audits, and the respective responsibilities in the administrative and investment areas. In his proposed estimates for the biennium 1998-1999, the Secretary reflected the impact of the proposed UN/UNJSPF cost-sharing formula on the audit, computer and space costs to be charged to the Fund.

(a) <u>Audit costs</u>

207. The total audit costs for the biennium 1998-1999 amounted to $924,300, of which $527,100 was for internal audits and $397,200 for external audits. The net resources approved in the Fund's budget for the biennium 1998-1999 amounted to $470,700, of which $421,700 related to the internal audits and $49,000 to the external audits, reflecting the de facto UN/UNJSPF cost-sharing of approximately 20/80 and 88/12 per cent, respectively (see paras. 110 and 111 above). Under the proposed UN/UNJSPF cost-sharing arrangements, all costs related to audits of the investment area would be borne entirely by the Fund as such activities do not involve any local pension secretariat services for the United Nations; the audit costs for the administrative area would be shared under the proposed UN/UNJSPF one-third/two-thirds formula (see para. 161 above).

208. In order to determine the breakdown of the audit costs, based on the experience with external audits, it had been determined that 50 per cent of the audit work related to the investment area. Therefore, 50 per cent of the full cost of investment audits would be borne by the Fund, and one third of the remaining 50 per cent of audit costs would be borne by the United Nations.

Therefore, under the proposed arrangements, effective as from 1 January 1999, the consequent increase in the cost to be assumed by the Fund for the biennium 1998-1999 would be $149,800, of which $141,000 related to external audit costs and $8,800 to internal audit costs (see para. 166, table). As a result, the Fund would pay approximately 83.3 per cent of the total audit costs as opposed to 50.9 per cent under the existing arrangements.

(b) Office space

209. Under the proposed UN/UNJSPF cost-sharing arrangement, the one-third/two-thirds formula would apply as from 1 January 1999 to the cost of space occupied by the staff of the Fund secretariat; the cost of space assigned to the Investment Management Service staff would be charged in full to the Fund. As a result, for the 17,694 square feet of space occupied by the Fund in New York and the 153 square metres occupied in Geneva, the cost to the Fund for the administrative operations would be $355,700 and the cost of the Investment Management Service space would be $174,900, a total annual increase to the Fund's budget of $530,600 (see para. 166, table). These charges were calculated using the 1999 standard charges by the United Nations in New York and Geneva.

(c) Computer costs

210. The additional resources requested under this heading ($1,309,600) related to (a) the proposed UN/UNJSPF cost-sharing arrangements with the United Nations ($226,200) and (b) the revised cost of the new accounting system for the Fund ($1,083,400). As described in section A above, the United Nations had in the past absorbed the bulk of the Fund's mainframe usage costs; but, after the move of the United Nations mainframe operations to Geneva, it had requested full reimbursement by the Fund for its mainframe usage. However, on the recommendation of ACABQ, the General Assembly decided that no change should be made in the de facto UN/UNJSPF cost-sharing arrangements between the Fund and the United Nations, pending consideration of the concept paper by the Board in 1998. Thus, the 75/25 per cent sharing of the Fund's mainframe usage was retained (i.e., $2,224,900 by the United Nations and $741,700 by the Fund) for the biennium 1998-1999.

211. Under the proposed UN/UNJSPF cost-sharing arrangement, the one-third/two-thirds formula would apply, as from 1 January 1999, to the cost of mainframe services provided by ICC, and to other computer costs currently borne entirely by the Fund. As a result, the revised costs for the Fund as from 1 January 1999 would be a net increase of $266,200 for the biennium 1998-1999 (see para. 166, table).

212. As regards the request related to the new accounting system, resources in the amount of $436,800 had been requested and approved in 1997 for the development of a new accounting system to replace the General Accounting System, which, although no longer supported by the United Nations, continued to be used by the Fund for reporting purposes. Those funds were to be used to evaluate various alternatives for replacing the existing mainframe-based General Accounting System (i.e., possible customization of the United Nations IMIS, development of an in-house system, or the purchase and customization of a software package) and to develop the system(s) most suitable for the Fund's needs. The related resource requirements were based on estimates provided by the management of IMIS, which had been based on a general review of the Fund's operations. In a subsequent meeting with IMIS management, it was recognized that the degree of customization required to integrate the Fund's systems to the IMIS system would involve much greater costs than the cost of purchasing a

software package. Factors that had to be considered in that regard included (a) the disparate technology platforms of the United Nations/IMIS and the Fund; (b) the complexity of the IMIS product and the difficulty inherent in customizing such an integrated system; and (c) the short time-frames required for installation, especially considering that the General Accounting System was not year 2000 compliant.

213. In May 1998, the Fund contracted with a consulting firm to undertake an assessment of the Fund's computerized accounting requirements. The initial stage of that analysis would review all the Fund's existing accounting functions and transactions, leading to a requirements report that would be utilized to prepare a request for proposal. By October 1998, the Fund would expect to be in a position to select a software package that would provide all required functions and features.

214. In the light of those developments, with the assistance of a software vendor, cost estimates were obtained that were generally supported by experts in the field of software procurement and installation. On this basis, the total cost of the accounting system project was estimated at $2,102,000. Taking into account the amount of $436,800 already approved for the biennium, the additional resources required would amount to $1,665,200 consisting of (a) $350,000 for accounting software, including general ledger, accounts payable and accounts receivable modules; (b) $50,000 for development software, which will provide a means to tailor the accounting package to the Fund's specifications; (c) $80,000 for vendor-provided software support services; (d) $1,145,200 for consulting services for the integration of the accounting package with the Fund's mission-critical applications (PENSYS) and the workflow optical-based imaging system (OBIS); and (e) $40,000 for on-site user training in all aspects of the accounting system.

215. Applying the proposed UN/UNJSPF cost-sharing arrangements, i.e., the one-third/two-thirds formula, to the additional cost of $1,625,200 (which excludes the training cost element, since such costs are borne entirely by the Fund), the one-third share of the United Nations additional cost would be $541,800. Therefore, the cost to the Fund would be $1,083,400, plus the $40,000 for training referred to in paragraph 214 above.

(d) Staffing

216. Under administrative costs, the Secretary made two staffing proposals. The first related to the request for the conversion of six positions funded under general temporary assistance to established posts. The conversion of the General temporary assistance funded positions (1 P-3, 5 GS) had been discussed with the United Nations Administration since the proposed one-third/two-thirds cost-sharing formula would apply to the consequent additional established posts, whereas temporary assistance is fully charged to the Fund. The result would have been a reduction of the Fund costs by $135,000 and a corresponding increase in the United Nations regular budget (see para. 163 above).

217. Also requested under this heading was the reclassification of the P-4 post of Executive Officer to the P-5 level to reflect the additional responsibilities and functions assigned to the post, taking into account (a) changes brought about by the implementation in the delegation of authority and in the accounting process of the United Nations IMIS, and (b) the increasing administrative responsibility of the Fund's Executive Office in discharging personnel, budget and financial activities for the Fund secretariat and for the Investment Management Service. The classification level of this post has been confirmed by

the Office of Human Resources Management of the United Nations Secretariat.

218. Under temporary assistance, the Secretary requested additional resources amounting to $86,600, at 1999 rates, as a consequence of a recent ILO Administrative Tribunal judgement, which would require retroactive revisions of the last three General Service salary scales in Rome, and therefore the need to recalculate some 340 pension benefits in award. In 1994, when confronted with a similar situation in Geneva, the Board sought and obtained temporary assistance funds for the recalculation of benefits. On the basis of that experience, the Secretary estimated that 18 work-months of temporary assistance would be required.

219. As indicated in paragraph 212 above, the Secretary also requested an amount of $40,000 for the training of staff related to the introduction of the new accounting system.

220. The total cost of these proposals would have been a net reduction of $20,600 in the administrative costs, under the proposed UN/UNJSPF cost-sharing arrangements (see para. 204 (a) above).

221. Under investments costs, the Secretary proposed the reclassification of the post of the Chief of the Investment Management Service from the D-1 to the D-2 level and that of the Deputy Chief from the P-5 to the D-1 level. The Standing Committee had approved a new post at the P-5 level for the Deputy Chief of the Investment Management Service, pending consideration by the Board at its 1998 session of the reclassification of the post of the Chief of the Service. The Secretary requested the Board to propose to the General Assembly the reclassification of the two posts, based on (a) the substantial growth in the size, scope and complexities of the Fund’s worldwide investment operations, (b) the consequent managerial and substantive responsibilities of the Chief of the Service, (c) the analysis requested by the Board of the respective responsibilities of the Secretary of the Board, as Chief Executive Officer of the Fund, for the administration of the Fund and those of the Secretary-General for the investments of the Fund, which had been carried out jointly by the representative of the Secretary-General for investments of the Fund and the Secretary of the Board (see paras. 191-193 above), and (d) confirmation by the Office of Human Resources Management that the post of the Chief of the Investment Management Service should be classified at the D-2 level. The total cost of the two reclassifications would amount to $19,800.

222. Additional resources were also requested for custodial fees ($2.5 million) and communications ($35,000) for special connections and new services which require contracting for Internet services.

223. In 1994 a new custody and record-keeping structure was implemented to acquire better control of, and reporting on, the growing assets of the Fund. Following an extensive process involving requests for proposals and a thorough review of the bids submitted, the Fund entered into new custody relationships with three regional custodians and a master record keeper; the new arrangements led to a substantial reduction in fees. The historical fee rate that the Fund had been previously charged, from the early 1960s, by the then custodian, Fiduciary Trust Company International, was 4.5 basis points of the market value of the assets, plus all sub-custody fees and transaction fees. Fiduciary Trust Company International quoted the same price during the bidding process in 1994. The rates of the three regional custodians ultimately selected were: for the United States/Canada/Mexico/Latin America holdings, an average of 1.2 basis points, plus transaction fees; for the Europe/Asia ex-Japan holdings, an average

of 3 basis points, plus transaction fees; and for Japan, 0.9 basis points, plus transaction fees. The fee for the master record keeper is a fixed service fee and increases only if additional reports or services are requested.

224. The following table presents a comparison of fees paid with the average market value of the assets of the Fund for each biennium from 1992-1993 to 1996-1997, reflecting the gradual implementation of the new custody structure. It also provides estimates of the fees for the biennium 1998-1999, in United States dollars.

225. The market value of the Fund at the end of March 1998 was in excess of $20 billion and could reach $23 billion by the end of 1999. The custody fees for the biennium 1998-1999, which are largely based on the market value of the Fund, were therefore expected to increase to about $9.7 million. This amount would still be substantially less than the fees paid in the biennium 1992-1993 when the value of the Fund was almost half of its current value. Had no change been made in the custodial arrangements, the level of the custody fees for the biennium 1996-1997 would have been about $16,699,280, as compared to the $6,880,738 actually paid during the same period, a savings of almost $10 million. Similarly, the fees for the biennium 1998-1999 would have reached $18,674,000, as against the current estimate of $9.7 million, a cost avoidance of $8,974,000.

226. As a result of lower than anticipated small capitalization fund fees, it is expected that the 1998-1999 advisory fees will be reduced to a level of $19.1 million, or by $400,000. Therefore, the total estimated cost of the advisory and custodial fees for the biennium 1998-1999 was revised to $28.8 million ($9.7 million for advisory fees and $19.1 million for custodial fees), an increase of $2.5 million over the initial appropriation of $26.3 million.

227. The electronic communications with the regional custodians, as well as the data services, would have to be upgraded, requiring additional special connections and new services, and contracting for Internet services. Additional resources in the amount of $35,000 were therefore requested.

Biennium	Custodian/ master record keeper (MRK)	Average market value	Fees based on market value	Transaction and other fees	Total fees paid
		United States dollars			
1992-1993	Fiduciary Trust Company International	11 172 888 500	10 655 600	1 198 112	11 853 712
1994-1995	Fiduciary Trust Company International		3 589 728	355 028	3 944 765
	Bank of Tokyo		94 866	44 585	139 451
	Boston Safe Deposit		595 545	320 205	915 750
	Barclays Bank		1 656 217	60 248	1 716 465
	WM Company (MRK)		—	—	1 296 152
		13 490 763 000			8 012 574
1996-1997	Bank of Tokyo		269 999	58 039	328 038
	Boston Safe Deposit		1 222 947	342 553	1 565 500
	Barclays Bank		2 169 793	209 105	2 378 898
	Deutsche Bank		815 572	0	815 572
	WM Company (MRK)		—	—	1 792 730
		17 019 299 245			6 880 738
1998-1999, estimates	Bank of Tokyo		190 000	40 000	230 000
	Boston Safe Deposit		2 500 000	200 000	2 700 000
	Deutsche Bank		4 670 000	300 000	4 970 000
	WM Company (MRK)		—	—	1 800 000
	Estimated:	20 800 000 000			9 700 000

Discussion in the Board

228. The representatives of the governing bodies and executive heads expressed concern with the continued rapid growth of the Fund’s budget, particularly as regards the biennium proposals, and stated that revised estimates should be limited to unforeseen and extraordinary expenses; they also called for greater transparency in the presentation of future proposals. Specifically, the representatives of the governing bodies indicated that they could not support the conversion of general temporary assistance funded positions to established posts at the present time and they had some difficulties with the cost of the proposed new accounting system, the proposed upgradings of the post of the Deputy-Chief of the Investment Management Service (from P-5 to D-1) and the post of the Fund’s Executive Officer (from P-4 to P-5), and with the request for additional general temporary assistance related to the impact of the judgement of the ILO Administrative Tribunal.

229. The representatives of the executive heads indicated the need for the past biennial expenditure to be presented in tabular format in order for the Board to compare the resources requested with past expenditure. They requested that in the future further information should be provided on the staffing proposals, including a staffing table of approved posts and an organization chart showing

the component operations of the Fund and the related posts. As regards the cost-sharing proposals, they indicated that the executive heads were supportive of the recommendations, including the conversion of the general temporary assistance funded positions to established posts. They also recognized the need for investments in the computing operations of the Fund, and requested that the needs and requirements of each of the member organizations of the Fund be taken into account in developing the Fund's systems. Finally, they requested that the budget presentation for the biennium 2000-2001 provide a clear indication of the goals and targets that would be sought in the implementation of the Fund's work, including performance indicators.

230. The representatives of the participants stated that the proposed revised estimates reflected the needs of the Fund secretariat and the Board should not endeavour to micro-manage the Fund.

231. During the discussion, a number of speakers focused on the cost of space for the Fund. They noted that this was a new item and that the costs charged by the United Nations Office at Geneva for space in Geneva seemed rather high; they therefore suggested that other alternative sites in Geneva should be investigated. Comments were also made regarding the Fund's having to absorb the costs arising from an ILO Administrative Tribunal judgement to reverse a decision taken by the International Civil Service Commission. In this connection, several speakers suggested that the consequent cost should be removed from the Fund's budget and charged against the ICSC budget.

232. In response to the various questions, the Secretary indicated that the amount of the temporary assistance resources requested in relation to the number of pension revisions required was based on the past experience of the Fund as to the work required to reconcile contributions and recalculate lump sums and pension benefits already in payment, and to make retroactive adjustments and payments. As regards office space costs, the amounts requested were based on the standard charges assessed by the United Nations. As to the level of the Fund's budget, the Secretary stressed the servicing nature of the operations of the Fund and the size and scope of its activities. He also assured the Board that efforts would be made to improve future budget presentations and any new computer systems introduced by the Fund would take into account the reporting requirements of the member organizations.

233. Subsequently, the representatives of the executive heads presented an informal proposal as regards the Fund's budget, incorporating the following points:

(a) Approval of the proposed UN/UNJSPF cost-sharing formula as set out in the concept paper, but with the inclusion of the sharing of general temporary assistance among the objects of expenditure to be covered by the formula;

(b) An ungraded post to replace the D-2-level post for the Secretary of the Board;

(c) Reclassification of the post of the Chief of the Investment Management Service from the D-1 to the D-2 level;

(d) No conversion of general temporary assistance posts to established posts;

(e) No reclassification of the post of the Deputy Chief of the Investment Management Service from the P-5 to the D-1 level nor of the post of Executive

Officer of the Fund from the P-4 to the P-5 level;

(f) Approval of the proposed computer costs and identification of the non-recurrent items in this area;

(g) A reduction in the overall estimates by $300,000, comprising $200,000 in the Investment Management Service and $100,000 in the administrative costs of the Fund;

(h) The request that the budgetary provisions for the biennium 2000-2001 be prepared by the Secretary on a basis broadly consistent with the budgetary policies applicable to the organizations.

234. The Board had discussed the levels of the posts of the Secretary and of the Chief of the Investment Management Service in a closed session. The Board noted that, while normally it would not have considered requests for reclassification of posts outside the regular biennial budgetary cycle, the question of the upgrading of the post of the Chief of the Investment Management Service and the impact on the post of the Secretary had been remanded by the Standing Committee to the Board.

235. The Board noted that the responsibilities of the post of the Secretary of the Fund have continued to expand, parallel with the growth in the size and the increased complexities of the Fund's operations. The Board also considered that, de facto, the Secretary actually carried out two sets of responsibilities, since, at the same time, he served both as the Chief Executive Officer of a large and complex pension operation and as the Secretary of a subsidiary organ of the United Nations General Assembly.

236. The unique combination of policy and operational responsibilities of the Secretary would justify a reclassification of the post at a level above the present D-2 grade. However, the Board believed that the post should not be upgraded to the level of Assistant Secretary-General, a level usually associated with "political" appointments.

237. Therefore, the Board favoured making the sui generis post of Secretary an "ungraded" post, with the base salary and related allowances set at the mid-point between the top step of D-2 and the Assistant Secretary-General level; it agreed to submit a recommendation to that effect to the General Assembly. The Board also considered that a revision of the title of the post was necessary to describe more accurately the increased responsibilities of the Secretary; accordingly it agreed to recommend to the General Assembly a change in the designation of the title in the Regulations to reflect the Secretary's dual function of Chief Executive Officer of the Fund and Executive Secretary of the Board. This recommendation was not expected to have any repercussions for the common system.

238. The Board also agreed with the need to provide an improved operational management structure for the Investment Management Service in view of the rapid growth in the size of the Fund's investments, and consequently endorsed the recommendation to reclassify the post of the Chief of the Service from the D-1 to the D-2 level, with the title of Director of the Investment Management Service.

239. The Board subsequently reverted to the remaining issues and noted that, as indicated in the concept paper (sect. A above), the Secretary would be providing additional information to support his long-term proposals in the context of the

proposed budget for the biennium 2000-2001 to be presented to the Standing Committee in 1999. The representatives of the governing bodies, in supporting the proposals put forward by the executive heads, stated that they had some reservations regarding the request for increased resources for the Fund’s computing operations and requested that the secretariat provide more supporting information to both ACABQ and the General Assembly.

240. Several speakers expressed concern about the proposals recommended by the executive heads, which they believed would adversely impact the ability of the Fund secretariat to meet its servicing responsibilities in a timely and effective manner. A number of participants’ representatives questioned the proposal to delete the reclassification of the post of the Executive Officer of the Fund from the P-4 to the P-5 level and the post of the Deputy Chief of the Investment Management Service from the P-5 to the D-1 level; in this regard, they noted that the Office of Human Resources Management had confirmed the classification levels and that a delay in implementation would seem to be in conflict with the fundamental principle of equal pay for equal work.

241. A representative of the General Assembly expressed his dissatisfaction with the way in which the discussion of the budget proposals had taken place. In his view, further consideration should have been given to the issue of the current funding of the Secretary’s post, in view of its inter-agency and organizational nature. He also stated that the appointment of the Chief of the Investment Management Service should be subject to consultation with the Secretary of the Board; a representative of an executive head supported this approach.

242. In response to a question on the recosting of the initial budget estimates for the biennium 1998-1999, particularly to reflect the dramatic change in the value of the dollar vis-à-vis the Swiss franc since the original estimates for the biennium were prepared and approved by the General Assembly, the Secretary indicated that, because of the timing of the meetings of the Board and Standing Committee, which take place at mid-year, and the fact that, unlike the situation in other organizations, assessments of Members States are not involved (the Fund secretariat draws resources from the principal of the Fund as and when required), the Fund has not had its budget recosted once formulated. However, noting that the resources approved for the biennium 1998-1999 for Geneva related primarily to staffing costs which were estimated at a time when the exchange rate differed significantly from the current situation, the Secretary undertook a recosting of the posts in Geneva, leading to a reduction of $132,500 under established posts and common staff costs, which was greater than the reduction of $100,000 requested, in respect of administrative costs, under the proposal by the representatives of the executive heads (see para. 233 above).

Conclusions and recommendation of the Board

243. After considerable discussion, the Board agreed that the Secretary should revise the budget to be submitted to reflect the changes and suggestions submitted by the representatives of the executive heads (see para. 233 above). On that basis, the revised estimates were recalculated, resulting in an amount of $54,231,200, consisting of $17,149,200 for administrative costs, $36,461,500 for investment costs and $620,500 for audit costs. This reflected a decrease of $362,500 in the amount proposed in the submission by the Secretary, and an increase of $4,161,700 over the initially approved appropriation of $50,069,500. Annex VIII contains tables showing the proposed revised estimates for the biennium 1998-1999, with a detailed breakdown by objects of expenditure (table 1) and a summary breakdown (table 2). Table 3 of that annex provides information on staffing, together with an organization chart.

244. Accordingly, the Board recommends 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, chargeable directly to the Fund, for the administration of the Fund, in respect of the staffing and other proposals set out in tables 1 to 3 of annex VIII.

VII. STATUS OF PROPOSED AGREEMENT BETWEEN THE BOARD AND THE GOVERNMENT OF THE RUSSIAN FEDERATION

Introduction

245. At its fifty-first session, in 1996, the General Assembly considered, and concurred with, a proposed agreement between the Government of the Russian Federation and the Board, which had been negotiated by representatives of the Fund secretariat and of the Russian Government, and had received the approval of the Board in July 1996. In both the proposed agreement and its accompanying protocol, as well as in the recommendation of the Board to the General Assembly, the proposed agreement was envisaged as the first step in addressing problems related to claims and representations made by former participants from the former Union of Soviet Socialist Republics, Ukrainian Soviet Socialist Republic, and Byelorussian Soviet Socialist Republic, including in particular those who had transferred their pension rights accrued in the Fund under the transfer agreements between the Fund and the three Governments concerned; those agreements had been approved by the General Assembly, on the recommendation of the Board, and had entered into effect on 1 January 1981.

246. In paragraphs 2 to 6 of section IV of its resolution 51/217 of 18 December 1996, the General Assembly:

(a) Noted that the proposed agreement did not give rise to any rights or entitlements of any kind for any person under the Regulations of the United Nations Joint Staff Pension Fund, and that the provisions of the proposed agreement are not incorporated in any way in the Regulations or Administrative Rules of the Fund;

(b) Concurred with the proposed agreement, which would represent the first step in resolving the problems that have arisen with respect to the application of the transfer agreements;

(c) Noted that some Member States have expressed concern that the proposed agreement only covered certain former Fund participants who were now citizens of the Russian Federation (i.e., it did not cover former participants who had been nationals of the USSR at the time of the transfers of their pension rights, but were now nationals of the independent States);

(d) Endorsed the further steps envisaged in the proposed agreement and in paragraph 246 of the report of the Board, as endorsed by the Advisory Committee on Administrative and Budgetary Questions in paragraph 32 of its report, and, towards that end, urged the Governments of the Member States concerned to undertake direct discussions aimed at resolving the financial issues involved in respect of those former participants who were their citizens or permanent residents;

(e) Requested the Board to report to the General Assembly at its fifty-third session on the developments in respect of the further steps mentioned in paragraph (d) above and to submit recommendations related thereto to the General Assembly, as appropriate.

247. The Board provides herein the report requested.

Background information

248. In 1991, at the request of the Board, the Secretary contacted the Governments of the Russian Federation, Ukraine and Belarus in order to commence discussions with respect to the claims and representations he had received from former Fund participants resident in the former USSR, Byelorussian SSR and Ukrainian SSR. Since then, this matter has been the subject of annual reports by the Secretary to the Board or Standing Committee, and of reports by the Board to the General Assembly.

249. At a meeting in Moscow in May 1996, a proposed agreement between the Government of the Russian Federation and the Board had been negotiated covering the situation of former participants, with at least five years of contributory service, who transferred their accrued UNJSPF pension rights under the provisions of the Fund’s transfer agreement with the former USSR. It covered only current Russian citizens, owing to the firm position of the Government of the Russian Federation, maintained throughout the discussion, that it could only enter into agreements with respect to its own citizens. The proposed agreement and the protocol thereto contained explicit references to further stages in negotiations concerning the former Fund participants who were Russian citizens and not covered by the initial agreement. In June 1996, the Secretary had apprised the Permanent Missions to the United Nations of Ukraine and Belarus of these developments and transmitted copies of the proposed agreement. He also stated that the two Governments might wish to conclude similar agreements with the Fund, the payments that would have to be remitted to the Fund being a matter for discussion between each of the two Governments and the Government of the Russian Federation. Nationals of any other countries that had been part of the former USSR could also be covered by similar agreements that might be concluded with each of the newly independent States concerned.

250. Under the proposed agreement, periodic pension benefits similar to those provided under the Fund’s Regulations would be paid prospectively to the former participants covered, as from 1 January 1997 or at age 60, whichever was later. While there would be cost-of-living adjustments analogous to those under the Fund’s pension adjustment system, there would be no retroactive payments of any kind. Widows’ and widowers’ benefits would also be paid, but no children’s benefits, and no periodic benefit could be commuted into a lump sum. It was also agreed that the list of the former Fund participants to be covered by the proposed agreement would be finalized in consultations involving the Fund secretariat, the Russian Government and the Association of Former International Civil Servants (AFICS) in Moscow, and that the actuarial costs of implementing the proposed agreement would be provided to the Russian Government. The terms of the proposed agreement also stipulated that the agreement would not enter into effect until the first of 10 annual instalment payments of the actuarial costs involved had been made to the Fund by the Government of the Russian Federation.

251. The proposed agreement was self-contained. It clearly stipulated that the rights granted thereunder flowed neither from the Regulations of the Fund nor from any obligation or responsibility on the part of the Fund. The proposed agreement gave the Standing Committee the authority to resolve disputes relating to decisions taken by the Secretary in its implementation. There was also provision for suspension of the payment of benefits if the annual instalments payable by the Government under the proposed agreement were delayed or cancelled. Before its entry into force, the proposed agreement had to be formally approved by the Government of the Russian Federation, after securing its approval by the Board and the concurrence of the General Assembly.

252. The majority of the former participants, who were not covered by the proposed agreement (other than through indications that their situations would be the subject of future discussion), had less than five years of contributory service, and therefore had never vested a right to a periodic pension. In their cases, lump-sum payments had been made by the Fund either to the USSR Social Security Fund in Moscow under the three transfer agreements or, for the pre-1981 cases, usually to the Bank for Foreign Trade of the USSR in the names of the former participants. These payments were made on the basis of the written instructions that each former participant had submitted to the Fund.

253. During the discussion in the Board at its 1996 session, it was stressed that accelerated progress towards implementing the proposed agreement was essential, particularly given the advanced age of many of the former participants concerned. While the Board would have preferred a single comprehensive agreement, it recognized that the proposed agreement could serve as a catalyst for further action as envisaged in both the proposed agreement and in the accompanying protocol, to resolve the claims of the other former participants who were not covered by the first stage of the process.

254. The Board approved the proposed agreement in 1996 and then sought the concurrence of the General Assembly. The Board conveyed to the Assembly the importance of pursuing similar agreements with the other Member States whose citizens transferred their pension entitlements under any of the three transfer agreements concerned. In addition, the Board urged that subsequent efforts address the claims of those former participants from the countries concerned who were not covered by the proposed agreement, including in particular those who had separated before the three transfer agreements entered into effect (i.e., before 1981), as well as those who had transferred their pension rights but had had less than five years of contributory service when they separated. The Board indicated that the financial arrangements for meeting the actuarial costs of such agreements would have to be determined by the States concerned.

255. In 1996, extensive discussion took place in the Fifth Committee of the General Assembly and during informal consultations. A number of recorded votes took place in both the Fifth Committee and the General Assembly, culminating in the Assembly's concurrence with the proposed agreement, as well as with the other observations and requests, set out in section IV of resolution 51/217 (see para. 246 above).

<u>Developments since December 1996</u>

256. In accordance with the objectives set out by the Board at its 1996 session and taking into account section IV of General Assembly resolution 51/217, the Secretary had pursued the following:

(a) Completion of the process of identifying the former transferees covered by the proposed agreement, with the assistance of the Government of the Russian Federation and AFICS/Moscow;

(b) Determination by the Fund's Consulting Actuary of the actuarial costs of the proposed agreement, based on the final list of persons to be covered;

(c) Approval of the proposed agreement by the Russian Federation;

(d) Implementation of the agreement upon receipt of payment by the Government of the Russian Federation of the first instalment of the actuarial costs;

(e) Commencement of discussion on the situation of other former participants from the former USSR, Ukrainian SSR and Byelorussian SSR who were not covered by the proposed agreement.

257. On 27 January 1997, the Secretary sent a letter, through the Permanent Representative of the Russian Federation to the United Nations, to former Vice-Prime Minister Y.F. Yarov, who had initiated the process leading to the proposed agreement, giving a full account of the developments in the General Assembly. The Secretary stated, inter alia, that:

> "... given the thorough and lengthy discussion in both the Pension Board and the Fifth Committee, covering the technical and political issues involved, I feel it is most important that we now move rapidly toward the implementation process leading to final approval and entry into force of the proposed agreement. The actual entry into effect of the proposed agreement would then require (a) approval by the Russian Federation of the proposed agreement and (b) payment of the first instalment of the actuarial costs as stipulated in the proposed agreement".

Copies of the letter were also sent to the then Head of the Government Office, to the Minister of Labour and Social Development, to two Deputy Ministers in the Ministry of Foreign Affairs, and to other officials who had been involved in the issues addressed in the proposed agreement.

258. At the request of the Secretary, the Secretary-General of the United Nations, during his visit to Moscow in May 1997, raised with the Foreign Minister the matter of expediting approval of the proposed agreement by the Russian Federation. The Secretary was subsequently advised that the Foreign Minister had indicated that the Government was awaiting information on the cost of the proposed agreement.

259. The identification of the former participants who had had five or more years of contributory service and had their pension rights transferred under one of the three transfer agreements was completed in early May 1997, and the relevant pension data was provided to the Consulting Actuary on 15 May 1997, for separate calculations of the actuarial costs involved, for the following grouping of former participants:

358 citizens of the Russian Federation;

26 citizens of Ukraine;

16 citizens of Belarus;

7 citizens of other countries, formerly part of the USSR.

The nationalities and status of 21 former participants remained unidentified.

260. On 24 June 1997, the results of the actuarial calculations were communicated by the Secretary to the Permanent Mission of the Russian Federation to the United Nations, for transmission to the Government in Moscow.

261. The Secretary had also pursued contacts with the Permanent Representatives to the United Nations of the various countries, other than the Russian Federation, whose citizens may be concerned with the resolution of this matter on a comprehensive basis. In the case of Ukraine, there had also been

discussion as to possible future courses of action that the Government might wish to pursue, in respect of which the Fund provided further information on former participants who are citizens of Ukraine.

262. At the suggestion of AFICS/Moscow, the Secretary had written, on 29 July 1997, to Mr. O. Sysoyev, the Deputy Prime Minister, Minister of Labour and Social Development, to seek his assistance in advancing the process of approval of the proposed agreement. In addition, he used the occasions of visits to New York of officials of the Russian Federation to press for replies to his numerous communications to Moscow.

263. The Secretary-General of the United Nations raised the matter again with the Foreign Minister of the Russian Federation during his visit in April 1998. As a follow-up to that intervention, the Permanent Representative of the Russian Federation to the United Nations informed the Secretary, on 14 May 1998, that he had sent an extensive communication to Moscow on the matter, pressing for a resolution of the issue and a formal response to the Secretary, taking into account that the Board would hold its session in early July 1998.

264. In his note to the Board at its 1998 session, prepared in mid-June 1998, the Secretary reported that there had not been any formal communications from the Russian Government concerning either the provisions of the proposed agreement or the actuarial cost information provided in May 1997. In these circumstances, the Secretary indicated he could not express confidence that there would soon be a positive development.

265. The Secretary informed the Board that, over the past year, there have been informal suggestions as to how the actuarial costs of implementing the proposed agreement might be reduced (such as adopting special actuarial assumptions, based on the particulars of the affected group; deleting cost-of-living adjustments; and changing the commencement date for implementation of the proposed agreement). All of those suggestions would require detailed renegotiations, which would consequently necessitate resubmission of the revised proposal to the Board and the Assembly.

266. Another suggestion advanced would replace or negate the proposed agreement by an undertaking from the Russian Government to adjust the national pension/social security benefits of the former participants, through direct payments to the former participants by the Government. This approach had been listed as a possibility during the early discussions, but had been firmly discarded by the Government and by AFICS/Moscow. If the Russian Government decided to pursue this approach, the role of the Fund secretariat and the Board would be limited to providing data on the former participants to be covered, i.e., there would be no need for an agreement between the Fund and the Russian Government.

267. The Secretary recalled that the approach set out in the proposed agreement and in the accompanying protocol, including the requirement to obtain prior approval of the agreement by the Board and the General Assembly before seeking the formal approval of the Government of the Russian Federation, had been adopted at the insistence of the Government of the Russian Federation. Moreover, the proposed agreement was negotiated with the involvement of senior officials from all of the ministries concerned and at the initiative of then Vice-Prime Minister Yarov. It appears that officials in some of the ministries have difficulties with the proposed agreement and in particular with the approach followed. The result has been the failure, thus far, to obtain approval of the proposed agreement by the Government of the Russian Federation.

The problem has been compounded by the absence of any formal notification to the Fund of the Government's position, considering that the proposed agreement was also intended to represent the first step in a continuing process, aimed at resolving all the problems that had arisen with respect to all the former participants from the former USSR, Ukrainian SSR and Byelorussian SSR. Therefore, in the view of the Secretary, any reopening of the substance of the proposed agreement would likely result in all parties concerned renewing their past efforts to attain their preferred solutions, leading to a return to the impasse that prevailed until 1995.

268. In this connection, the Secretary also drew to the attention of the Board that the Fund secretariat has been assuming significant direct and indirect costs during the search for solutions and, in particular, during the development of the proposed agreement and the follow-ups thereto. In particular, actuarial costings were prepared of various options that had been explored prior to the formulation of the proposed agreement, followed by separate costings of the proposed agreement under two implementation dates (1 January 1996 and 1 January 1997). These actuarial assessments were carried out by the Fund's Consulting Actuary at the expense of the Fund. In addition, the indirect costs, in terms of staff time devoted to data preparation (obtained from archives) and analyses have been considerable. Finally, the Secretary indicated that this issue could not remain an indefinite liability for the Fund, especially if it does not seem likely to result in any consequent benefit for the former participants concerned.

269. After the preparation of the Secretary's report, the Secretary received the following communication dated 1 July 1998 from the Permanent Representative of the Russian Federation to the United Nations, which was distributed to the Board:

> "The issue of the entry into force of the Agreement has been a matter of concern for the Government of the Russian Federation ever since it was concurred with by the General Assembly in 1996. However, the work on this issue has taken longer than originally anticipated in view of the difficult financial situation in the country, as well as because of a number of competing priorities and other acute domestic social problems which the Government had to tackle.
>
> Nevertheless, significant efforts have been made during this period by various parties concerned in order to resolve the outstanding problems and clear the obstacles in the way of the approval of the Agreement by the Russian Federation. This issue has recently been placed on the immediate agenda of the Russian Government and is currently under consideration.
>
> I hope that I will shortly be in a position to advise you of the outcome of this consideration."

Discussion in the Board

270. The Board noted that the General Assembly had requested a report this year on developments with respect to the further steps envisaged after adoption of the proposed agreement; in the event, the Board could, at this stage, only report that the Government of the Russian Federation has not yet formally approved the proposed agreement, which has precluded the pursuance of any "further steps" mentioned in General Assembly resolution 51/217 (see para. 246 (e) above).

271. The representative of AFICS/Moscow, participating in the discussion on this item at the request of AFICS/Moscow and the Federation of Associations of Former International Civil Servants (FAFICS), appealed to the Board’s goodwill and sympathy to find a solution to the impasse that had occurred in relation to both the proposed agreement and the subsequent steps envisaged by the Board and the General Assembly. The Board was informed that former participants in the Russian Federation were receiving no compensation for their years of UNJSPF contributory service and were living on pensions of some $60 a month. AFICS/Moscow stressed the urgent need to find a solution, given the age of the majority of these pensioners and the desperate situation they faced, having been denied any benefit from their participation in the Fund.

272. A number of speakers expressed the view that, while the Secretary and the Board had done their best to find a solution to the problems facing participants from the former USSR, there seemed little hope that the proposed agreement would be approved by the Government, at least in the near future, given the economic difficulties in the Russian Federation. They suggested that the Board, while continuing to press the Government to honour its undertakings, recommend to the General Assembly that a way be found to commence implementation of the provisions of the agreement through advanced payments by the Fund, or through utilization of the Emergency Fund to pay minimum pension amounts, pending formal approval by the Russian Federation of the proposed agreement. It was noted in this connection that a general rule of social security law provided that pensioners should not be penalized by delays in implementing and administering the provisions of the applicable pension or social security scheme.

273. Other speakers considered that, pragmatically, a certain flexibility should be accorded to the Secretary and Chairman of the Board to pursue, if so requested by the Government of the Russian Federation, measures to facilitate approval by the Government of the proposed agreement, such as modifications of the financing provisions (for example, a payment period longer than the 10 years foreseen) or an adjustment to the effective date, in an attempt to "jump start" its implementation. At the same time, they stressed the need for the Secretary, the Board and the General Assembly to continue to apply pressure on the Government to take action to approve the proposed agreement, which had been negotiated with senior officials in the Russian Government and had been submitted to the Board and the Assembly for their prior approval, to be followed by approval by the Government and payment of the first instalment of the costs involved.

274. One member of the Board pointed out some of the problems facing the Government of the Russian Federation (the current economic climate and accompanying social tension, reassignment of ministers, restructuring of government departments, etc.), which contributed to the delay in obtaining formal approval of the proposed agreement. He noted that the issue was currently under discussion within the Government and that some developments could be expected. He indicated that the amounts involved in implementing the proposed agreement had been substantially higher than expected by the Russian authorities.

275. Several members also noted, in reply to certain statements suggesting the attribution to the Board of an element of responsibility for the current situation, that the United Nations Legal Counsel had, in a formal legal opinion noted by the General Assembly, denied the existence of any such liability on the part of the Board. As to the proposed agreement, this was concurred with by the Assembly on the basis that it would function outside the context of the Fund’s Regulations, would be self-financing and would serve as a first step towards a

comprehensive solution to all the problems that had arisen, and not simply with respect to citizens of the Russian Federation who had had five or more years of contributory service.

276. As to the suggestion that the General Assembly might be requested to authorize advanced payments from the Fund for purposes not covered by the Fund's Regulations and to persons who were not beneficiaries of the Fund, the view was expressed that this could not be considered, for both legal and political reasons.

277. It was also noted that the Board could not, on the one hand, continue to press the Government to approve the proposed agreement and pay the first instalment of actuarial costs and, on the other, submit proposals to the General Assembly to implement the proposed agreement through advanced payments by the Fund in order to pay pensions not yet legally authorized, particularly since the proposed agreement only covered a limited class of former participants, far less than the total number of former participants concerned. The General Assembly had concurred with the proposed agreement on the explicit understanding that it was self-financing and contained no financial implications for the Fund; this was in keeping with the Assembly's view that the Fund had acted in accordance with the legally effective and binding transfer agreements when it made payments to the Social Security Fund of the former USSR in accordance with the terms of those agreements.

278. After considerable debate, the Board decided by consensus:

(a) To request the Secretary and the Chairman to intensify their efforts, including through a visit to Moscow, if considered useful, to gain the formal written approval by the Government of the Russian Federation of the proposed agreement and protocol thereto, negotiated between the Board and the Government in 1996;

(b) To authorize the Secretary and the Chairman, when obtaining the formal approval of the Government, to allow for certain modifications in the proposed agreement on matters related to the schedule of payments and/or the date of entry into force of the benefit scheme. It was understood that the total amount of the actuarial costs due in order to finance the self-contained agreement could not be modified, other than in relation to either of the above possible changes. If any modifications were deemed necessary and agreed upon in this way, they would be incorporated in the proposed agreement, subject to their formal approval by the General Assembly at its fifty-third session in 1998. The agreement would then be implemented on receipt of the first instalment of costs due;

(c) To request the Secretary to keep the staff pension committees informed of developments throughout this process;

(d) To authorize the Standing Committee, pursuant to rule B.4 of the Fund's rules of procedure, to deal with this item further in 1999, in the light of developments.

VIII. ENTITLEMENT TO SURVIVORS’ BENEFITS FOR SPOUSES AND FORMER SPOUSES

A. Introduction

279. In section VIII of resolution 51/217, the General Assembly took note of the review by the Board of the entitlement to survivors’ benefits for spouses and former spouses, and of the intention of the Board to examine further the various aspects of this issue, including consideration by the Standing Committee of the Board in 1997 of a limited modification to the Fund’s administrative rule B.4 on confidentiality and of the implications of introducing a payment facility in respect of court orders on family support, as well as consideration by the Board at its session in 1998 of the more far-reaching issue of the possible revision of articles 34 and 35 of the Regulations of the Fund.

280. The results of the further review of the Board are set out below.

B. Confidentiality provisions of administrative rule B.4

281. At its 180th meeting, in July 1997, as delegated by the Pension Board and after extensive discussion, the Standing Committee approved a revised text for administrative rule B.4, effective 1 August 1997. In accordance with article 4 (b) of the Regulations of the Fund, the revised text, which is contained in annex XIV below, is reported to the General Assembly.

282. The revised text would continue to protect the Fund’s immunity from law suits, while meeting the requirement under the Conventions on the Privileges and Immunities of the United Nations and of the Specialized Agencies that the Fund cooperate with national judicial authorities in the administration of justice. Thus, if a Fund participant or beneficiary were sued in a national court by a former spouse for alimony or divorce settlement or for failure to fulfil a payment obligation, accurate information could henceforth be provided to the court by the Fund, without the authorization of the participant.

283. Since revised administrative rule B.4 entered into effect, the Fund secretariat has processed three applications made under its provisions, where the beneficiary refused to offer his or her authorization.

C. Payment facility for former spouses

284. At the forty-seventh session of the Board, the Secretary noted that, in 1995, the World Bank (followed recently by the International Monetary Fund (IMF)) introduced an amendment to its Staff Retirement Plan "to permit payments from the Plan for the support of divorced or legally separated spouses of retired Plan participants".

285. In an official circular, the World Bank stated that, "by allowing for the direction of pension payments to former spouses, the amendment changes only the distribution of payments of existing benefits, **it does not create any new benefits, nor a fiduciary obligation to a spouse or former spouse, nor makes the spouse or former spouse a beneficiary of the Plan"** [emphasis added]. In other words, this arrangement did not constitute a surviving spouse’s benefit.

286. At its 1997 meeting, the Standing Committee, in considering the issue

again, recommended that the Board consider further in 1998 the possible adoption of a World Bank-type payment facility through an appropriate amendment to the Fund’s Regulations and Administrative Rules. The Inter-American Development Bank (IDB) was also considering such a proposal. Most members of the Standing Committee preferred limiting the application of such a facility to cases where the participant requested it, as was the case with IMF, so as to avoid problems arising from conflicting decrees issued by courts in different national jurisdictions.

287. In both the World Bank and IMF arrangements, the facility was irrevocable, unless the underlying legal obligation had been materially altered. Like all such payments (alimony, etc.), the payment facility terminated on the death of the participant or former participant. The facility related only to periodic benefits (i.e., not to lump sums or withdrawal settlements) and would only be revised consistent with amendments or modifications to the court order establishing the alimony or support obligation. The request could be made before or after separation, but could not be operational before the commencement of the periodic benefit. Given the expected relatively small number of cases, the additional administrative costs involved would seem negligible. There would, of course, be no actuarial implications.

288. Based on the experiences of the World Bank and IMF, and the views expressed in the Standing Committee last year, the Secretary suggested to the Board that the Fund might wish to follow the IMF formula, which required a request from the participant concerned. Implementation would be by means of an amendment to article 45 of the Fund’s Regulations, which currently prohibits the assignment of benefits. The Secretary suggested further that, if refinements proved necessary after an initial period of application by the Fund, appropriate provisions could be added to the Administrative Rules in due course.

Discussion in the Board

289. While some Board members believed that requiring a request from a participant to utilize the payment facility would render it nugatory, most indicated that, given the problems related to interpretation of court orders and conflicting court orders from different jurisdictions, they would prefer the IMF approach. It was pointed out that in many jurisdictions, in the context of a divorce or maintenance action, a court could require a participant to make an application to utilize the facility. It was also noted that, should the actual experience indicate that the requirement of a request from the participant had the effect of negating the purpose of the payment facility, the Board could review the matter further.

290. The Board decided to recommend to the General Assembly amendment of article 45 of the Regulations of the Fund, to provide for a payment facility in respect of former spouses. The text of the proposed amendment is contained in annex XV below.

D. Proposed entitlement for divorced surviving spouses

291. At present, there is no entitlement due to a divorced spouse under the Fund’s Regulations. Moreover, the potential benefit for a spouse is a surviving spouse’s benefit, i.e., it is contingent: it might never come into operation or, if it did, that may occur 30 or 40 years after a divorce.

292. At its session in 1996, the Board had noted that past discussions of

concepts of rights, equity and fairness in relation to issues arising from the dissolution of marriages led to many practical problems because of the diverse elements at play in each particular case. Every marriage and/or divorce had its own particular financial framework and context, which made it extremely difficult to generalize. For example, in many marriages now, both parties worked and had their own separate pension coverage. Also, in many, if not most, divorces in some countries, the fact that divorce would affect a spouse's contingent pension benefits was recognized in the divorce settlement, and compensation was granted for such contingent loss. In some cases, the Fund participant and/or the divorced spouse later remarried. In other cases, the divorced spouse did not remarry, but may not have received any benefits from the divorce settlement or court order, or portions of what was due to the divorced spouse may remain unpaid. The divorce may have taken place shortly before the death of the former Fund participant or many years earlier. There were also difficult issues related to the legal recognition of marriages and/or divorces in different countries; reliance on alimony payments as the main, or sole, basis for providing a benefit to a divorced spouse may not have universal relevance.

293. It was difficult in the international multicultural context in which the Fund operated to draw compelling conclusions from the experience or practice in any particular national jurisdiction. In any case, there was no uniformity: some jurisdictions mandated pension coverage for surviving divorced spouses, some did not, and some made it optional (at a cost) at the election of the participant. As an illustration, under statutory provisions applicable to the United States federal civil service, perhaps more relevant than others because it served as the comparator for the conditions of service of staff in the Professional and higher categories, a "former spouse survivor annuity" was payable, either because a qualifying court order or voluntary election, with a corresponding reduction in the retirement benefit payable to the main beneficiary. But even here, it had to be recognized that the issues of determination and regulation are significantly easier to address within the context of a single national jurisdiction.

294. As for international organizations, the most relevant examples would be the World Bank, IMF and IDB. None of these pension plans provided separate financial benefits for divorced spouses, though, as indicated earlier, they have payment facilities.

295. The pension plans of the coordinated group of organizations did, on the other hand, provide a limited survivor's benefit in favour of a former spouse, subject to certain conditions. The Fund also understood that the European Union pension plan also granted an additional surviving spouse's benefit to a divorced spouse, if the deceased Plan participant had been under an obligation to pay maintenance to the survivor.

296. Some of the other elements considered by the Board were the following:

(a) Actuarial implications (considered not significant by the Committee of Actuaries);

(b) Relationship, if any, between the division of assets at the time of divorce and the proposed Fund benefit;

(c) Impact of the length of the prior marriage (and current marriage), presumably during the period of contributory service only, and of the time interval between the divorce and the death of the participant;

(d) Effect of remarriage of the former spouse, or remarriage(s) and further divorce(s).

297. The timing of entry into effect of any modification to the existing Regulations might also be a substantive issue, given that many current beneficiaries claimed that retroactive modification to the structure of their benefits would violate their acquired rights, protected under article 47 of the Regulations.

298. The ILO Staff Pension Committee presented a paper to the Standing Committee meeting in 1997, which served as the basis for the proposal made by the Secretary to the Board in 1998 to establish a new, limited benefit for divorced spouses, provided certain criteria were met. The proposal would have involved provisions along the following lines:

(a) A divorced spouse would be entitled to the benefit in subparagraph (b) below, if all of the following conditions were fulfilled:

(i) The participant had been married to the former spouse for a continuous period of at least 10 years, during which contributions were paid to the Fund on account of the participant or a disability benefit was paid;

(ii) The former spouse had not remarried;

(iii) The participant's death occurred within 15 years of the date when the divorce became final, unless the former spouse proved that at the time of death the participant was under a legal obligation to pay maintenance to the former spouse;

(iv) The former spouse had reached the age of 40. If this was not the case, the benefit would commence on the date that age was reached;

(v) Evidence was provided by the former spouse that the participant's pension entitlements were not taken into account in a divorce settlement;

(b) The amount of the benefit would be equal to two [or three] times the minimum amount payable to a widow(er) under article 34 (c) (i) [currently $2,941 per annum], provided, however, that the total benefits paid to the former spouse, when added to any retirement, early retirement, deferred retirement, disability or widow's or widower's benefit otherwise payable to the former spouse, did not exceed the amount to which the former spouse would have been entitled, as a widow's or widower's benefit, if he or she had still been married to the participant at the time of death (or, in the case of more than one participant, if he or she had still been married to the participant entitled to the largest benefit).

299. The Secretary's proposal would not have affected the accrued or future benefit of any participant or of the surviving spouse, if any; what was proposed was a separate additional benefit, payable from the Fund's assets. As such, it would have operated prospectively as from 1 January 1999. The proposal would also have provided that there would be no question of retroactive payment of any benefits.

Discussion in the Board

300. The majority of the Board was of the view that a revision to the Fund’s Regulations on this subject should be recommended to the General Assembly at the current session. Several speakers supported the Secretary’s proposal for the establishment of a new, limited contingent benefit for divorced spouses.

301. An alternative proposal was, however, made by the representatives of the executive heads, supported by other members, for the sharing of the existing surviving spouse’s benefit between former and current spouses, pro rata, based on the duration of the marriage, in line with the situation in many national jurisdictions, but with the limitative conditions set out in the Secretary’s proposal and for prospective application only, i.e., in relation to participants separating as from 1 April 1999, so as not to infringe the acquired rights of existing beneficiaries.

302. Several members considered that any proposal moving towards creation of a surviving spouse’s benefit would impose an unjustifiably onerous administrative burden on the Fund secretariat, as well as financial and actuarial costs for the Fund and possible legal suits against the Board over implementation of such proposals. They also believed that the criterion in the proposal related to divorce settlement provisions could cause serious implementation problems, as well as strong reactions and challenges from a current spouse who would have to share the surviving spouse’s benefit with a former spouse.

303. In the absence of a consensus, the proposal of the executive heads to recommend to the General Assembly a new article in the Fund’s Regulations was approved by the Board by a vote of 21 in favour, 5 against and 4 abstentions. The Board therefore decided to recommend to the Assembly an amendment to the Regulations of the Fund to provide for a divorced surviving spouse’s benefit. The text of the amendment is contained in annex XV below.

304. The Board noted that the proposal was based on the division of an existing benefit and as such should not give rise to significant actuarial implications, particularly since it would be activated by a request containing evidence of fulfilment of the relevant criteria; additional costs would mainly arise in the limited cases where there was a surviving divorced spouse, who fulfilled all the pre-conditions, but no current spouse. To avoid problems as to which law was the "proper" law to determine entitlement, the benefit is made payable only if in the opinion of the Secretary the conditions for the payment were met. This decision by the Secretary would have to be reasonable and not based on improper motives. Thus, the test would be not whether the Secretary had chosen a particular divorce decree based on the "proper" law applicable to the marriage, but whether his or her choice was reasonable in the light of all the information provided to him or her.

305. Several speakers expressed serious disappointment that the Board’s proposal did not cover all divorced spouses, whatever the date of separation of the participant concerned. One member representing the General Assembly indicated that he had voted against the proposal because he considered it inappropriate to recommend a revision of the Fund’s Regulations on the basis of a vote, rather than by consensus.

306. The Board also requested the Standing Committee, at its meeting in 1999, to take up the question of the situation of divorced spouses who were not covered by the proposed new article, in the light of the discussion in the Board, the actual experience in implementing the new article, if approved by the General

Assembly, and the cost experience.

E. Purchase of survivors' benefits in respect of marriages after separation

307. With respect to marriage after separation, the Board noted that the World Bank, IMF and IDB plans permitted a retiree to purchase, by reduction in the principal benefit, a surviving spouse's benefit or a benefit in favour of anyone else. The reduced benefit payable to the retired person could not be less than half the full pension otherwise due, and the spouse's benefit could not be larger than that paid to the retired person. The Bank plans also contained provisions for a waiting period before the purchased benefit election became legally effective, to prevent selections detrimental actuarially to the Plan, i.e., "death-bed marriages".

308. The Secretary proposed the establishment of a surviving spouse's benefit for spouses married after the date of separation, based on the provisions of the three Bank plans.

309. The Board decided to recommend to the General Assembly an amendment to the Regulations to provide for a surviving spouse's benefit in respect of marriages after separation. The text of the proposed amendment is contained in annex XV below.

F. Elimination of the provision to terminate survivors' benefits in cases of remarriage

310. The Board also considered the so-called "remarriage penalty" in articles 34 and 35 of the Regulations, when a widow or widower receiving a survivor's benefit remarried. Currently, the benefit is terminated upon the remarriage, with the payment of a lump-sum settlement corresponding to twice the annual rate of the benefit.

311. A change in this provision would probably have no significant consequences as the number of remarriages reported to the Fund has traditionally been very low. It would also free the Fund secretariat from the onerous task of verifying that widows or widowers have not in fact remarried.

312. In the absence of a consensus, the Board agreed, by a vote of 20 in favour, 3 against and 6 abstentions, to eliminate the "remarriage penalty". Accordingly, the Board decided to recommend to the General Assembly the amendment, in article 34 (f) and (g) of the Regulations to delete the words "or until remarriage", as well as subparagraph (h) of that article, with effect as from 1 April 1999. The text of the amendment is contained in annex XV below.

313. The Board also agreed that the Standing Committee should consider at its 1999 meeting whether, and if so, how, this change might be applied to surviving spouses who had remarried prior to its effective date.

G. Other matters

314. The Board also reviewed the present provisions of the Regulations relating to partial commutation of a deferred retirement benefit under article 36 of the Regulations, whereby a surviving spouse's benefit was forfeited. It was noted

that the fairness of this provision might be questioned, particularly if the Regulations were modified to provide benefits for former spouses or for spouses married after the date of separation.

315. The ILO Staff Pension Committee had also requested, in 1997, that the Board at some time review and consider the possible award of children's benefits to children born "after separation". At present the definition of a "child" in article 1 (e) is as follows:

> "'Child' shall mean a child existing on the date of separation or death in service of a participant and shall include the step-child or adopted child of a participant, and a child *in utero* upon its birth; in the event of uncertainty as to whether adoption has taken place, the matter shall be decided by the Board."

316. The Board requested the Secretary to report further on these two issues at its next session.

317. Finally, several speakers stated that, at a future session, the Board should review the totality of its Regulations and Rules with respect to all issues concerning family and social responsibilities.

IX. PENSION ADJUSTMENT SYSTEM

A. Introduction

318. In 1991 and 1994, the General Assembly, acting on recommendation of the Board, approved three changes in the pension adjustment system and concurred with the Board that their actual costs or savings over time should be monitored on the occasion of actuarial valuations of the Fund. The changes were (a) the 1 April 1992 modification, which provided greater compensation for cost-of-living differences in deriving the initial local-currency pension for participants in the Professional and higher categories who submitted proof of residence in a high-cost country, i.e., higher than in New York, the base of the system; (b) the application of the 1 April 1992 modification to staff in the General Service and related categories as of 1 July 1995; and (c) the reduction of the "120 per cent cap" provision to 110 per cent, also with effect from 1 July 1995. At its session in 1998, the Board reviewed the latest assessments of the evolving costs of each of these modifications in the context of the actuarial valuation of the Fund as at 31 December 1997.

319. The Board also considered again a proposed change in the method for determining cost-of-living adjustments of pensions in award.

B. Monitoring of the costs of recent modifications of the two-track feature of the pension adjustment system

1 April 1992 modification

320. Over the six-year period from 1 April 1992 through 31 March 1998 there had been 552 retirement or early retirement benefits whose amounts had been affected by the 1 April 1992 modification. These were participants in the Professional and higher categories who had retired during that period and had provided proof of their residence in countries where the criteria for application of cost-of-living differential factors to determine the initial local-currency track pension had been met. A summary of the benefits actually paid in the 13 countries concerned, together with the amounts that would have been paid under the previous arrangements, was provided to the Board.

321. On the basis of that data, the third assessment of the emerging cost of the April 1992 modification by the Consulting Actuary was 0.32 per cent of pensionable remuneration, based on (a) the methodology used in 1994 and 1996, which takes into account the actual additional payments over the period reviewed, as well as changes in the geographical distribution of the recipients of benefits, and (b) the results of the actuarial valuation as of 31 December 1997.

322. The table below provides a summary of the costs, by assessment period, of the 1992 modification of the pension adjustment system, as applicable to participants in the Professional and higher categories:

Costs of 1992 modification of pension adjustment system, as applicable to Professional and higher categories

Period assessed	Cost as percentage of pensionable remuneration
A. Initial estimated cost made in 1991	0.30
B. 1 April 1992 to 31 March 1994	0.26
C. 1 April 1992 to 31 March 1996	0.33
D. 1 April 1992 to 31 March 1998	0.32

Extension of the 1 April 1992 modification to General Service staff separating on or after 1 July 1995

323. During the period from 1 July 1995 to 31 March 1998, there were three retirement benefits processed in respect of General Service staff which involved proof of residence in a country where the cost-of-living differential factors applied under the revised "Washington formula". The circumstances of these three cases were as follows:

Country of residence	Country of last duty station
United Kingdom of Great Britain and Northern Ireland	Israel
France	Senegal
Portugal	Cape Verde

324. Given the small number of cases, it was not possible to make a meaningful assessment at this time of the emerging cost of the extension of the 1 April 1992 modification of the pension adjustment system to General Service staff separating on or after 1 July 1995.

Reduction of the 120 per cent cap provision to 110 per cent

325. As of March 1998, there were 36,190 main benefits in award (excluding children's benefits), of which 23,993, or 66.3 per cent, related to beneficiaries with only a dollar pension entitlement and 12,197, or 33.7 per cent, to beneficiaries who were on the two-track pension adjustment system (i.e., had two pension records, both a dollar-track amount and a local-currency track amount). The number of cases involving the application of the cap provision was 1,104 out of 12,197 (9.1 per cent), as compared to 273 out of 11,775 (2.3 per cent) as of March 1996.

326. The breakdown for beneficiaries separating since the date of introduction of the 110 per cent cap provision, i.e., 1 July 1995 through 31 March 1998, was as follows: of the 4,367 main benefits 3,544, or 81.2 per cent, related to beneficiaries with only a dollar pension entitlement and 823, or 18.8 per cent, to beneficiaries who were on the two-track adjustment system. With respect to the 823 two-track cases, 107 (13 per cent) were affected, as of March 1998, by

the 110 per cent cap provision. The data for the period of two years nine months reflected a reduction in the utilization rate of the two-track option from the 35.6 per cent level as of March 1996 and 33.7 per cent as of March 1998 to 18.8 per cent for those separating on or after 1 July 1995 through March 1998.

327. As part of the current actuarial valuation exercise, the Consulting Actuary estimated the emerging long-term costs of the two-track system as a whole, based on data since 1990, to be 1.87 per cent of pensionable remuneration; the actuarial assumption used in the latest valuation was 1.9 per cent of pensionable remuneration. In order to make a first assessment of the savings arising out of the new 110 per cent cap provision of the two-track system, the Consulting Actuary undertook to compare (a) the emerging long-term costs of the two-track system with the 110 per cent cap alone, based on an evaluation and projection of the data for those to whom the 110 per cent cap provision might apply, which was 1.6 per cent of pensionable remuneration, with (b) the emerging long-term costs of the two-track system as a whole, based on data since 1990, i.e., 1.87 per cent of pensionable remuneration. On this basis and as a very preliminary first estimate, the emerging long-term savings owing to the introduction of the 110 per cent cap provision were estimated to be in the order of 0.27 per cent of pensionable remuneration; at the time the change in the cap was proposed, the actuarial savings had been estimated at 0.20 per cent of pensionable remuneration.

328. The Consulting Actuary indicated that, since the current assessment of the emerging savings was based on very limited data, it would require more years of experience, including the evolution of the actual utilization of the two-track pension adjustment option given the lower cap provision, before a more definitive estimate of the savings could be made.

329. The Board took note with satisfaction of the assessments provided of the actual emerging costs of the recent modifications of the two-track features of the pension adjustment system and concluded that no changes need to be made at this time, either as regards (a) the rate of contribution or (b) the current parameters of the revised "Washington formula" and of the cap provision.

C. Proposal to change the method for determining cost-of-living adjustments of pensions in award

330. At its July 1996 session, at the request of FAFICS, the Board had considered a proposal to change the method for determining cost-of-living adjustments of pensions in award.

331. Under the pension adjustment system, the dollar pensions and, if applicable, the local-currency pensions, were adjusted on an annual basis on 1 April. The adjustments were made in accordance with the movement of the United States consumer price index (CPI) and, if applicable, of the CPI of the country of residence, subject to the requirement that the relevant index had moved by at least 3 per cent since the last adjustment. If the CPI changed by 10 per cent or more since the last adjustment, then a further adjustment would be made as of 1 October of that year.

332. During the present period of relatively low inflation in many countries, FAFICS has received numerous representations regarding the hardship caused to beneficiaries when they have had to wait two years before their benefits were adjusted for cost-of-living movements, because the 3 per cent trigger for such

adjustments had not been reached after the first year. This had occurred three times during the past six years with respect to adjustments in the United States dollar track. It was quite possible that the 3 per cent trigger for the United States dollar track would not be reached by December 1998, resulting in a three-year waiting period for an adjustment that would only be due effective 1 April 2000.

333. The proposals made by FAFICS in 1996 for changing the Fund’s current system for the adjustment of pensions in award were as follows:

(a) Maintain the annual adjustment as of 1 April, but eliminate the 3 per cent trigger; retain the 10 per cent threshold for semi-annual adjustments as of 1 October; or

(b) Maintain the 3 per cent trigger and annual adjustments, but provide for adjustments as at the beginning of a subsequent quarter if the threshold was not reached for an April adjustment.

334. In 1996, the Committee of Actuaries had indicated that, as a matter of general principle, it favoured annual pension adjustments without any trigger, as was the case with the pension plans in many national services and in other international organizations. The Board, at its 1996 session, having been provided with cost estimates by the Consulting Actuary and in the light of the Fund’s continuing actuarial imbalance at that time, was unable to agree to recommend to the General Assembly approval of either of the FAFICS alternatives.

335. In view of the Fund’s current actuarial situation, as shown by the most recent actuarial valuation as at 31 December 1997, FAFICS renewed its 1996 proposals and included a third alternative: to retain both the annual adjustment and the 3 per cent trigger, but provide for measurement of CPI movements twice a year, with possible adjustments to take place on either 1 April or 1 October, with effect from 1 April 1999.

336. During the course of the discussion, the suggestion was made by a number of speakers to reduce the trigger from 3 to 2 per cent. The Consulting Actuary noted that if the trigger were to be reduced in this manner, the actuarial cost would likely be in the order of 0.07 per cent of pensionable remuneration, assuming a gradual increase in inflation followed by a period of stabilization.

337. The representatives of the General Assembly saw no compelling reason to remove or lower the current 3 per cent threshold at a time when inflationary pressure was low and the purchasing power of pensioners was therefore reasonably protected.

338. The representative of an executive head proposed reducing the threshold for annual cost of living adjustments from 3 to 2 per cent effective as from the adjustment due on 1 April 2001, subject to a favourable actuarial valuation as at 31 December 1999.

339. In the absence of a consensus on this issue and in accordance with the applicable procedures, the Chairman proceeded with a roll-call vote. By a vote of 18 in favour, 12 against and 1 abstention, 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.

Cost-of-living adjustments of deferred retirement benefits

340. In the context of the discussion on actuarial issues, the participants' representatives stated that the time might also be appropriate to revise the provision for adjustments of deferred retirement benefits, which currently start only when the former participant reaches 55 years of age.

341. The Board decided that the issue of cost-of-living adjustments of deferred benefits not in payment, as well as the other changes made since 1983, as part of the measures approved by the General Assembly to redress the past actuarial deficit, should be reviewed by the Secretary, with the assistance of the Consulting Actuary, and submitted to the Standing Committee in 1999, together with the views of the Committee of Actuaries thereon. The Board would subsequently consider in 2000 the views and recommendations of the Standing Committee, in the light of the results of the actuarial valuation of the Fund as at 31 December 1999.

X. OTHER MATTERS

A. Review by the International Civil Service Commission of the common scale of staff assessment for pensionable remuneration purposes

Background information

342. In 1996, ICSC, in close cooperation with the Board, recommended a common staff assessment scale for the Professional and higher categories and the General Service and related categories, for the determination of pensionable remuneration levels of both categories. The General Assembly, in resolution 51/216 of 18 December 1996, approved the scale, with effect from 1 January 1997.

343. At that time, the Board and the Commission had agreed that the common staff assessment scale should be reviewed and updated, as necessary, every two years based on tax changes at the seven headquarters duty stations. The Board also took the view that it could not at that juncture endorse the implementation of an approach based solely on retiree tax deductions, which would have represented a fundamental departure from the current methodology; the Board had therefore recommended that the matter should continue to be studied to ensure that the tax information to be used would accurately reflect the situation of retirees. On balance, the Board had indicated that consideration should be given to the progressive introduction of this method, for example by reflecting, whenever appropriate, marginal tax rates corresponding to retiree tax deductions.

344. The General Assembly had also requested, in 1996, that ICSC report on the impact of the differences in national and local tax rates at the seven headquarters duty stations on the gross pension benefits of locally recruited staff in the General Service and related categories at those duty stations in comparison with the compensation for such taxes provided by the common staff assessment rates.

Review of the staff assessment scale

345. The Chairman of ICSC informed the Board of developments at the forty-seventh session of the Commission in April/May 1998 in respect of the review of data on the movement of average taxes at the seven headquarters duty stations. The tax changes between 1995 and 1997, for both married and single taxpayers, have been rather minimal, and on average have increased or decreased at relevant income levels by approximately 0.5 per cent of gross salaries.

346. The Commission recalled that, while the primary criteria used to determine the common scale of staff assessment were the tax rates at the seven headquarters duty stations, in the actual construction of the common staff assessment scale in 1996, it had applied judgements to meet the following specific objectives:

(a) To address the income inversion phenomenon, particularly at net income levels applicable to both Professional and General Service staff;

(b) To ensure that the net income at lower levels would not be adversely affected;

(c) To avoid increases at the high net income levels.

347. The Commission considered that revisions in the common scale at the time of an update, including those that might result from methodological considerations such as possible phased inclusion of greater use of retiree tax deduction factors, would need to await a more significant change in taxation levels. The Commission therefore decided to report to the General Assembly that the current common staff assessment scale should continue to apply and should again be reviewed in two years' time.

Conclusion of the Board

348. The Board concurred with the view that the level of movement of the taxes at the seven selected duty stations between 1995 and 1997 showed minimum changes; it therefore decided to take note of the recommendation of the Commission not to revise the common scale of staff assessment and to maintain it until the next revision in two years' time, i.e., in 2000. However, concern was expressed in the Board that the Commission had not, in the current review, addressed the issue of using retiree, rather than employee, deductions; it was recalled that in 1996 the Board had indicated that consideration should be given to the progressive introduction of this approach, for example, by reflecting, whenever appropriate, marginal tax rates corresponding to retiree tax deductions.

Impact of national tax rates

349. The use of local taxes to determine pensionable remuneration levels for General Service staff, and the related possibility of basing pension benefits on local practice, had also been examined in depth by ICSC and the Board on a number of occasions; they had concluded that both approaches would involve highly technical and complex considerations and implications for the level of pensions at more than 160 locations. In response to a 1996 request by the General Assembly, the Commission had reviewed national and local tax data at the seven headquarters duty stations and an actuarial analysis of the value of the UNJSPF scheme as compared to that of the local employers' schemes at one of the headquarters duty stations (i.e., Montreal). The Commission considered that the actuarial analysis had been carried out competently and in accordance with normal actuarial practices, and has included its conclusions on that analysis in its report to the General Assembly.[5]

350. The Commission considered that the issue of differences between staff assessment rates and national/local tax rates and the related impact on pensionable remuneration/gross salary levels and consequent pensions had been fully resolved. It also reiterated the position it took in 1992, based on a study of local pension benefit values, namely that the local practice approach should not be further pursued.

351. Representatives of the ICAO Staff Pension Committee expressed concern about the actuarial study and did not agree with the conclusions of the Commission. They recalled that actuarial studies were not an exact science and that their results were heavily dependent on the assumptions used. They stressed that the Commission had used only one set of assumptions and that the results of the actuarial study on the situation prevailing in Montreal would have been different under an alternative set of assumptions. They also recalled that the level of gross pensionable salary of ICAO staff in the General Service category had been frozen since 1993 and that, under the present strengthening of the United States dollar as against the Canadian dollar, not only the dollar pensionable remuneration of those staff, as derived from the conversion of their local currency gross pensionable salaries, continued to decrease, but also the

staff assessment element, which was recalculated on the basis of United States dollar amounts each time there was an adjustment to the salary scale.

352. The Board took note of the ICAO views. It also noted that it was inevitable that at some locations the staff assessment rates would be above the local tax rates, and at others, below. It was for these reasons that both the Commission and the Board had recommended in 1992, and the General Assembly had concurred, that the current universal arrangements should apply. It was further noted that the effect of exchange rate fluctuations on the dollar pensionable remuneration was not unique to Montreal; the pensionable remuneration of General Service staff decreases at duty stations where the United States dollar appreciates, and increases when the United States dollar depreciates. The Board therefore decided to take note of the Commission's conclusions on the Montreal review.

B. Possible withdrawal of the Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade from membership in the Fund

353. The Board was informed of the decision adopted by consensus by the General Council of the World Trade Organization (WTO (Trade)) on 24 April 1998 concerning the possible withdrawal of ICITO/GATT from membership in the Fund. The ICITO/GATT Staff Pension Committee indicated that the General Council had set as its objective the establishment of the WTO (Trade) secretariat on an independent basis (i.e., outside the United Nations common system) by 1 January 1999. In this connection, the General Council set a number of preconditions, with the principal one being that the proposed system of salaries, pensions and other benefits must be shown to be cost-neutral in aggregate terms over the next five to seven years; this would require independent actuarial certification of both cost neutrality and the long-term viability of the proposed plan. A report on the matter is to be presented to the General Council of WTO (Trade) by 15 October 1998.

354. The Board took note of this development and (a) reaffirmed its concurrence with the recommendations made by the Committee of Actuaries in 1996 and 1997 as to the methodology to be used to determine the proportionate share of the Fund's assets under article 16 of the Regulations when a member organization decides to withdraw from the Fund, and (b) decided that, if ICITO/GATT were to make a formal application for withdrawal, it would be necessary to arrange for an appropriate valuation of the Fund as of the date of the proposed withdrawal and for the Committee of Actuaries to submit recommendations to the Board for its decision at a special session.

355. The ICITO/GATT Staff Pension Committee noted the views of the Fund's Consulting Actuary and the Committee of Actuaries, and reserved its position, until the eventual special session, on the determination of the methodology to determine the proportionate share of the Fund's assets to be remitted to ICITO/GATT in the event of termination of its membership in the Fund.

C. Further review of the provisions governing the suspension of benefits in cases of re-employment of retirees

Introduction

356. In section VIII of its resolution 51/217, the General Assembly:

(a) Took note of the review carried out by the Board, as set out in paragraphs 252 to 261 of its report, and of its decision to defer consideration of a possible amendment of article 40 (a) of the Regulations of the Fund, pending action by the General Assembly at its fifty-first session on the report it had requested from the Secretary-General on the question of the employment of retirees by the United Nations;

(b) Recalled its decision 51/408 of 4 November 1996, in which it decided, inter alia, to set a ceiling on the amount that retired staff in receipt of a pension benefit from the Fund who are re-employed by the United Nations may earn per calendar year and to limit such employment to no more than six months per calendar year;

(c) Requested the Board to continue its consideration of an amendment of article 40 (a) of the Regulations of the Fund in respect of the re-employment of retirees in receipt of benefits from the Fund under appointments of more than two but less than six months, and to submit a recommendation thereon to the General Assembly at its fifty-third session.

357. In decision 51/408, the General Assembly placed a ceiling on the amount that retired staff in receipt of a pension benefit from the Fund may earn per calendar year, and the Assembly requested the Secretary-General to report every two years on all aspects of the employment or use of retired personnel. In addition, the Office of Internal Oversight Services was requested to audit the compliance in the United Nations Secretariat with the provisions of the decision on recruitment of retirees and to report thereon to the Assembly at its fifty-third session in 1998.

358. The Board noted the action already taken by the United Nations to address that Organization's concerns about the re-employment of retirees. It also noted that the request to the Board related to possible suspension of payment of a pension benefit based solely on the duration of the appointment, and not on the level of compensation or its relation to the suspended pension; moreover, it would only apply to employment as a staff member and would not cover employment of retirees on special service agreements, which do not confer staff member status, on "when-actually-employed" contracts, and on contracts that specifically exclude participation in the Fund.

359. In 1996, the Board drew attention to the serious practical problem of the administrative obstacles to the Fund's "controlling" any system of re-employment of former participants, a problem that existed even under the current provisions. The Fund does not have access to the personnel records maintained by its member organizations and is dependent on those organizations for the reporting of relevant data regarding the re-employment of UNJSPF retirees.

360. Accordingly, the Board agreed to report to the General Assembly that it would be neither necessary nor appropriate to pursue a revision of article 40 (a) of the Fund's Regulations at this time. The Fund's Regulations applied to all 20 member organizations and, therefore, should not be changed in a manner that would impose United Nations policy objectives and perspectives

relevant to one organization on the Fund's other member organizations. If organizations believed that controls should apply to the re-employment of their retirees, the Board considered that such issues should be dealt with through the personnel policies of those individual member organizations, as was done by the Assembly in respect of the United Nations Secretariat.

D. Composition of the Board and Standing Committee

361. Pursuant to prior decisions taken by the Board and the General Assembly, the Board considered the size and composition of both the Board and its Standing Committee, as well as the rotation schedule for the member seats on the Board and on the Standing Committee beyond 1998. In 1987, acting on the recommendation of the Board, the General Assembly increased the size of the Board from 21 to 33 members; in 1989, the size of the Standing Committee was increased from 9 to 15 members.

362. Although four new member organizations had since joined the Fund, they have all been relatively small, the largest being the International Centre for Genetic Engineering and Biotechnology (ICGEB), which had 138 active participants as at 31 December 1997, less than one half of the participants of the smallest organization currently with a member seat on the Board, i.e., the International Fund for Agricultural Development (IFAD), which had 298 participants as at 31 December 1997. The Secretary informed the Board that no representations had been received from any organization or group, proposing any changes in the size, composition or allocation of seats on the Board or on the Standing Committee. At the same time, the Secretary indicated that, if ICITO/GATT were to withdraw from the Fund, a reallocation of the seats on the Board would be necessary, since that organization currently held one member seat on the Board.

363. The Board agreed to maintain the present size and composition of both the Board and the Standing Committee. It also approved the allocation and rotation of seats for the four regular Board sessions to be held after 1998 and for the allocation and rotation of seats on the Standing Committee for the same period.

364. Members of the Board representing the International Atomic Energy Agency (IAEA) and the World Intellectual Property Organization (WIPO) Staff Pension Committees noted the increases in the total number of active participants in their respective organizations since the establishment of the 33-member Board. It was further indicated that WIPO was expected to grow to about 1,200 participants within the next few years. IAEA and WIPO therefore requested that, should ICITO/GATT withdraw from the Fund, the size and composition of the Board should be re-examined at the first regular Board session held after the withdrawal of ICITO/GATT; the Board agreed to that request.

365. In the course of the discussion, FAFICS noted the continuous increase in the number of UNJSPF retirees and AFICS chapters. As retirees from different countries often had special problems of concern to the Board, and as the participation of FAFICS at Board sessions entailed costs only for FAFICS, the Board was requested to consider, when it next addressed the question of the Board's size and composition, the possibility of increasing the FAFICS representation to three members and three alternates, with some further flexibility with respect to the individuals who would be occupying those seats at any particular time. The Board agreed to consider the request.

E. Proposed amendments to articles 21 and 32 of the Regulations of the Fund in respect of the time limit for cessation of participation in the Fund

366. The Board considered a proposal made by the participants' representatives in 1996 to amend the provisions in articles 21 (b) and 32 of the Regulations, in order to extend from 12 to 36 months the time limit, after separation from service, for determining that a period of participation in the Fund will have ceased, provided that no benefit has been paid. The Board reviewed background information on the current provisions, including the rationale and objectives sought when they were adopted in the early 1980s, as part of a package of economy measures; in addition, the actuarial and substantive implications of the proposed change were brought to the attention of the Board.

Background information

367. One of the changes approved by the General Assembly at its thirty-seventh session, in 1982, as part of the "package" of economy measures implemented effective 1 January 1983, was to limit the right of restoration to re-entering participants whose periods of prior contributory service had been for less than five years (current article 24 (a)). The rationale for the change was that the sum of such unlinked pensions would be less (often considerably less) than a single pension calculated on the basis of the participant's final average remuneration during the last years of his or her career and the totality of the years of contributory service. The reason is that a participant's salary (and thus his or her pensionable remuneration) would normally be highest during the later periods of service. As a cost-saving measure, the Board had recommended, and the Assembly had approved, in 1982, elimination of the previously existing right to restore, upon re-entry into the Fund, prior contributory service of five years or more.

368. At the request of the Board, the Standing Committee, in 1983, examined ways of alleviating the impact of this change in situations where (a) a participant's career with a member organization (or organizations) consisted of a series of unconnected fixed-term appointments, as was frequently the case with technical cooperation experts, and (b) the consequent total amount of two or more retirement benefits because of unlinked periods of contributory service would be significantly lower than the benefit resulting with restoration of the prior period(s). The Committee recalled that the Board's objective at its thirtieth session, at which the package of economy measures had been formulated, was to address situations such as that of a participant who, after, say, 10 years of contributory service at a low pensionable remuneration level, followed by a break in service of 10, 15 or 20 years, rejoined a member organization with a much higher level of pensionable remuneration. The Board did not intend to penalize those who, because of the nature of the skills they could offer to the member organizations, could not be employed on a continuous basis.

369. The Standing Committee noted in 1983 that, in the case of technical cooperation experts, most of the breaks in service were of less than 12 months. In some instances, member organizations could link the periods of contributory service by administrative means, such as the granting of special leave without pay; however, the Standing Committee considered that recourse to such expedients on a regular and systematic basis would be undesirable. The Standing Committee also noted that short interruptions in contributory service would usually have a lesser impact on the size of the final total pension entitlement. Accordingly, the Standing Committee had recommended that, where a participant resumed his or her contributory service in the Fund within 12 months of separation, without a

benefit having been paid, participation in the Fund (although with a break in contributory service) should be deemed to have been continuous.

370. In most cases, it has been the "receipt of benefit" criterion which prevented former participants from benefiting from article 21 (b), rather than the length of the period between separation and re-entry into the Fund. Unless a former participant knows for certain at the end of the first period of contributory service that he or she will be re-employed in the near future by a member organization of the Fund, there is often need for financial reasons to receive either a withdrawal settlement or a partial lump-sum commutation (of a deferred or early retirement benefit).

371. As regards the actuarial implications, the Committee of Actuaries indicated that, since relatively few participants would, for financial reasons, defer receipt of a benefit for a period beyond 12 months, the actuarial implications of the proposed change would not be significant.

Discussion in the Board

372. The members of most staff pension committees supported the amendment of articles 21 (b) and 32; it was opposed by the members representing the Secretary-General and the General Assembly of the United Nations.

373. By a majority, the Board decided to recommend to the General Assembly that articles 21 (b) and 32 be amended to make the relevant period 36 months, rather than 12 months, as from the date of approval of the amendment by the Assembly. The text of the proposed amendments are contained in annex XV below.

F. Emergency Fund

374. The Emergency Fund was initially established by the Board in 1973 from voluntary contributions of member organizations, staff associations and individual contributors to alleviate the distress of recipients of small pensions, caused by currency fluctuations and cost-of-living increases. Since the introduction of the pension adjustment system in 1975, it has been used to provide relief in individual cases of proven hardship owing to illness, infirmity or similar causes.

375. The Board reviewed the operation of the Emergency Fund since the last report to the Standing Committee in June/July 1997, and concluded that the guidelines set out in the general procedure issued by the Secretary for dealing with requests for assistance from the Emergency Fund remained appropriate. During the period from 1 May 1997 to 30 April 1998, 32 disbursements were made (as compared with 24 in the previous reporting period), totalling $59,772; the amounts disbursed over the two-year period from 1 May 1996 to 30 April 1998 totalled $86,804. Total expenditures from the Emergency Fund since 1975 have reached approximately $768,000.

376. As in the past, the bulk of the disbursements has been to assist in the payment of medical expenses, including hospitalization, and related expenses not reimbursable from other sources. In all cases involving claims for medical expenses not covered by the after-service medical insurance schemes of the member organizations, prior advice of the medical consultant was obtained.

Notes

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

[2] Official Records of the General Assembly, Fifty-first Session, Supplement No. 9 and corrigendum (A/51/9 and Corr.1), paras. 15-51.

[3] Official Records of the General Assembly, Fifteenth Session, annexes, agenda item 63, document A/4427, para. 53.

[4] Ibid., Fifty-first Session, Supplement No. 9 and corrigendum (A/51/9 and Corr.1), para. 331.

[5] Official Records of the General Assembly, Fifty-third Session, Supplement No. 30 (A/53/30).

ANNEX II

Audit opinion, financial statements and schedules for the biennium ended 31 December 1997

A. Audit opinion

We have audited the accompanying financial statements, comprising statements 1 to III, schedules 1 to 6, and the supporting notes of the United Nations Joint Staff Pension Fund for the financial period ended 31 December 1997. These financial statements are the responsibility of the Secretary of the Pension Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all respects, the financial position as at 31 December 1997 and the results of operations and cash flows for the period then ended in accordance with the United Nations Joint Staff Pension Fund’s stated accounting policies set out in note 1 of the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the United Nations Joint Staff Pension Fund which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with our usual practice, we have also issued a long form report on our audit of the United Nations Joint Staff Pension Fund's financial statements as provided for in the Financial Regulations.

(*Signed*) Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

(*Signed*) Osei Tutu PREMPEH
Auditor-General of Ghana

(*Signed*) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

15 July 1998

B. Notes on the financial statements of the Fund for the biennium ended 31 December 1997

Note 1. Summary of significant accounting policies

The following are some of the significant accounting policies of the United Nations Joint Staff Pension Fund, which take fully into account the common accounting standards for the United Nations system, and are in accordance with the Regulations of the Fund as adopted by the General Assembly. Going concern, prudence, substance over form, materiality, consistency and accrual are fundamental accounting assumptions and policies:

(a) Investments

Investments are recorded at cost using commercial historical exchange rates instead of United Nations operational rates of exchange. Interest income and dividends are recorded on an accrual basis and foreign taxes withheld are recorded as receivables. Foreign cash is revalued at year-end and a gain or loss realized.

(b) Contributions

Contributions received from participants, member organizations and other funds are recorded on an accrual basis.

(c) Miscellaneous

Donations to the Emergency Fund.

(d) Benefits

Payments of benefits, including withdrawal settlements, are recorded on an accrual basis.

(e) Principal of the Fund

The principal of the Fund represents the active participants' contributions plus interest, together with the balance of equity of the Fund.

(f) Emergency Fund

Appropriation is recorded when the authorization is approved by the General Assembly; payments are charged directly against the appropriation account; any unexpended balance is reverted to the Pension Fund at the end of the year.

(g) Administrative expenses

In accordance with article 15 (b) of the UNJSPF Regulations, the administrative expenses of the Fund are estimated and approved on a biennial basis.

Note 2. Non-expendable property

In line with United Nations practice, non-expendable property is not included in the fixed assets of the Fund but was charged against the appropriations for the year of purchase. The following table shows the inventory value of the non-expendable property, at cost, expressed in millions of United States dollars, according to the cumulative inventory records of the Fund as at 31 December 1997.

	1997
Pension Fund secretariat	4.85
Investment Management Service	0.33
Total	5.18

Note 3. Biennium financial statements

In accordance with article 14 of the Regulations of the Fund and the United Nations Accounting Standards, financial statements are prepared on a biennial basis, covering activities for the period 1996-1997 with comparative figures for the period 1994-1995.

ANNEX III

Report of the Board of Auditors to the General Assembly on the accounts of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 1997

CONTENTS

Summary

The Board of Auditors has audited the financial statements of the United Nations Joint Staff Pension Fund (UNJSPF) for the biennium ended 31 December 1997. The audit was carried out at the secretariat of the Pension Fund in New York and its Geneva office and the Investment Management Service at the United Nations in New York.

The Board's main findings are as follows:

(a) Delays ranging between 37 and 60 months in effecting changes in the records of beneficiaries resulted in an overpayment of $146,273 to four beneficiaries, of which $65,279 was waived by the Secretary of the Fund under rule J.9(b) and reported to the Standing Committee of the Pension Board without indicating whether any staff member should be held responsible for the loss;

(b) The insurance coverage for the Fund's assets, with a total value of $13.5 billion in the custody or control of various custodians, was inadequate as the insured values ranged between 0.2 and 8 per cent;

(c) The duties of the Cashier in the Pension Fund secretariat were not properly segregated to facilitate effective operation of internal check. Similarly, at the Geneva office, the functions of certification and approval of benefits entitlement payments were not adequately segregated to enhance effective operations of internal check;

(d) The Fund's codifiers, who were not trained, used their judgement to determine the validity of the signatures and thumbprints of beneficiaries on certificates of entitlement.

The Board also assessed the preparedness of the Fund to manage the Year 2000 issue and was satisfied with the progress made by the Fund.

The key recommendations of the Board are as follows:

(a) The contracts with the Fund's custodians should be reviewed with a view to providing adequate insurance coverage for the Fund's assets held by the custodians;

(b) The Administration should always arrange the Cashier's functions to facilitate the operation of sound internal check. Also, with the increasing volume of work at the Geneva office, duties should be segregated for more effective control over payments.

A list of the Board's main recommendations is included in paragraph 9.

I. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Joint Staff Pension Fund (UNJSPF) for the period 1 January 1996 to 31 December 1997 in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article 14 of the Regulations of UNJSPF. The audit has been conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These standards require

that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the biennium 1996-1997 had been incurred for the purposes approved by the Pension Board; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations; and whether the financial statements of UNJSPF presented fairly the position as at 31 December 1997. The audit included a general review of financial systems and internal controls, and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements. The audit was carried out at the secretariat of the Pension Fund in New York and its Geneva office and the Investment Management Service at the United Nations in New York.

3. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under regulation 12.5 of the United Nations Financial Regulations and Rules. The reviews concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNJSPF.

4. During the period under review, the Board continued its practice of reporting the results of specific audits through management letters containing detailed observations and recommendations to the Administration. This practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

5. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the Pension Board and the General Assembly. The Board’s observations and conclusions were discussed with the Administration, whose views, where appropriate, have been reflected in this report.

6. A summary of the Board’s main recommendations are reported in paragraph 9. The detailed findings are reported in paragraphs 10 to 46.

A. Previous recommendations not fully implemented

7. In accordance with paragraph 7 of section A of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the action taken by UNJSPF to implement the recommendations made in the Board’s report relating to the biennium 1992-1993 and confirms that there are no outstanding matters.

8. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made in its report for the period ended 31 December 1995. Details of the action taken and the comments of the Board are set out in the appendix below.

B. Main recommendations

9. The Board’s main recommendations are as follows:

(a) The Pension Fund secretariat should investigate all cases of overpayments to beneficiaries, and where it has established that a staff member should bear personal responsibility for loss, as a result of any negligence, the Administration should take recovery action, as appropriate (para. 18);

(b) The contracts with the Fund's custodians should be reviewed with a view to providing adequate insurance coverage for the Fund's assets held by the custodians or under their control (para. 26);

(c) The Administration should always arrange the Cashier's functions to facilitate the operation of sound internal check. Also, with the increasing volume of work at the Geneva office, duties should be segregated for more effective control over payments (para. 31);

(d) The Administration should consider the procurement of suitable equipment to assist the codifiers in the verification of signatures and thumbprints. The Board further recommends that the codifiers be provided with training to enhance their efficiency (para. 40);

(e) UNJSPF should ensure that all systems are tested for Year 2000 compliance, with sufficient lead time to address any deficiencies (para. 42).

II. Detailed findings and recommendations

A. Financial issues

1. Accounts and financial reporting

Performance of the Fund

10. The Board noted a growth in the investment portfolio of the Fund from $12.4 billion at the end of 1995 to $13.8 billion as at 31 December 1997. The market values of these assets also increased by $3.3 billion (22 per cent) as at 31 December 1997 to $18.5 billion as against $15.2 billion at the end of 1995.

11. Although the number of participants, 68,708, as at 31 December 1995 decreased over the biennium to 67,740 as at 31 December 1997, the total contributions increased by $0.10 billion (7 per cent) to $1.59 billion (1995: $1.49 billion) owing to changes in the levels of pensionable remuneration. Payment of benefits, on the other hand, which constitutes 98 per cent of the total expenditure of the Fund, rose by $0.28 billion to $1.80 billion (1995: $1.52 billion). Total expenditure for the biennium 1996-1997 of $1.84 billion increased by $0.28 billion (18 per cent) as compared to $1.56 billion for the biennium 1994-1995. However, net excess of income over expenditure during 1996-1997 of $1.40 billion declined by $0.04 billion (3 per cent) as compared to $1.44 billion declared for the biennium 1994-1995 mainly owing to the increase in expenditures on withdrawal settlements and full commutation of benefits (42 per cent), early and deferred retirement benefits (29 per cent), death benefits - other than children (18 per cent) and children's benefits (17 per cent).

12. The Board welcomes the increase in the Fund's total contribution of 7 per cent, but considers that the increase of 18 per cent in its total expenditure needs to be monitored.

Foreign tax accounts receivable

13. The Board's review disclosed that included in the foreign tax accounts receivable of $17.5 million as at 31 December 1997 was $4.2 million which had been outstanding against nine member States since December 1994 in respect of withholding tax. These member States have consistently refused to recognize the tax-exempt status of the Fund's investments under the Convention on the Privileges and Immunities of the United Nations and therefore had decided not to refund the amounts withheld by them to the Fund.

14. Although the Fund had made efforts to recover these amounts from member States, it believed that the amount of $4.2 million was uncollectible and was considering taking steps to write the amount off.

15. The Board does not consider that it would be appropriate for these amounts to be written off. The Board therefore reiterates its earlier recommendation made in its report for the biennium ended 31 December 1995 that continued efforts be made to recover the outstanding tax reimbursements.

Waiver of the recovery of overpayment

16. In 1996, the Secretary of the Pension Fund exercised his discretion under rule J.9 (b) and waived in seven cases the recovery of overpayments totalling $72,905. The Board of Auditors noted that in four cases, although the beneficiaries had notified the Fund of the change in their residence, it took the Fund periods ranging between 37 and 60 months before the necessary adjustments were made to the pension benefits of the beneficiaries, resulting in an overpayment of $146,273, of which $65,279 was waived. As an illustration, the pension benefit of a beneficiary who had notified the Fund of a change in his residence in July 1991 was not adjusted until June 1996, some 60 months later. This delay resulted in an overpayment of $81,852, of which $39,299 had been waived.

17. The Board of Auditors, in its report for the biennium 1994-1995, expressed concern about the application of the waiver clause without establishing whether any staff member should bear personal responsibility for the loss, as a result of any negligence, and for appropriate action to be taken by the Administration. Although all the seven cases were reported to the Standing Committee of the Pension Board, no such action was taken by the Fund before the waiver clause was applied. The Administration explained that five of the waivers, amounting to $70,063, resulted from oversights at a time when the Fund was experiencing an exceptionally heavy workload and was introducing its new computer system (PENSYS). The Administration added that new and tighter procedures have been implemented by the Fund's secretariat to ensure that changes in the country of residence are recorded and acted upon on a priority basis.

18. The Board recommends that the Pension Fund secretariat investigate all cases of overpayments to beneficiaries, and where it has established that a staff member should bear personal responsibility for loss, as a result of any negligence, the Administration should take recovery action, as appropriate.

Bank reconciliation statements

19. The Board's review of the Fund's bank reconciliation statements revealed that reconciling items totalling $105,182 as at 31 December 1997 had not been promptly investigated and adjusted in the accounts. These reconciling items were in respect of deposits of $68,723 and bank charges and withdrawals of

$36,459 recorded by the banks but which were not reflected in the Fund's accounts.

20. The Board recommends that the long outstanding items in the bank reconciliation statements should be promptly investigated and necessary adjustments made in the Fund's accounts.

2. Write-offs of losses of cash, receivables and property

21. The Administration informed the Board that during the financial period ended 31 December 1997 receivables amounting to $119,226 were written off. This included a waiver of overpayments totalling $72,905 made to seven beneficiaries in accordance with administrative rule J.9 (b).

3. Ex-gratia payments

22. The Administration informed the Board that no ex-gratia payments were made during the biennium 1996-1997.

B. Management issues

1. Investment management

Insurance coverage

23. 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. The threshold of the insured amounts has been fixed in the agreements with the custodians.

24. The Board noted significant inconsistencies in the amounts fixed in the agreements in relation to the assets in the custody or control of the custodians as at 31 December 1997, which ranged between 0.2 and 8.2 per cent, as shown in the table below:

Custodian	Cash holding	Value of stocks (United States dollars)	Value of cash and stocks	Insurance coverage as per contract	Percentage insurance to total assets
Bank of Tokyo	4 629 392	1 633 486 318	1 638 115 710	135 000 000	8.2
Boston Safe Deposit	172 993 640	6 335 794 836	6 508 788 476	100 000 000	1.5
Deutsche Bank main	41 235 800	5 185 698 566	5 226 934 366	10 000 000	0.2
Deutsche Bank small cap	7 873 319	106 247 571	114 120 890		
Total	226 732 151	13 261 227 291	13 487 959 442	245 000 000	1.8

25. According to the Administration, the amounts fixed in the agreements are not the same for each custodian because most large pension funds do not require their global custodians to purchase insurance in excess of the amount normally carried by the custodians. Hence, the amounts stated in the contracts are the maximum amounts these custodians normally carry. The Administration added that it is not an industry practice for the custodians to maintain insurance against the entire value of the assets they hold.

26. The Board considered that the assets of the Fund had not been adequately protected and **recommends that the contracts with the Fund's custodians be reviewed with a view to providing adequate insurance coverage for the Fund's assets held by the custodians or under their control.**

Segregation of duties

27. The Board's review of cash management at the secretariat of the Pension Fund disclosed a lack of adequate internal check in the duties performed by the Cashier in 1997. The Cashier requisitioned and kept chequebooks; wrote and signed cheques; and held custody of the cheque-signing machine.

28. The Board considered that the arrangements of the duties of the Cashier's office did not allow for the prompt detection of errors and irregularities and should be reviewed in the light of the level of the average monthly expenditure of some $15 million paid through that office.

29. The Administration attributed this situation to the transfer of the Deputy Cashier, who should have shared these duties with the incumbent, to the Accounts Unit. The Administration recognized and agreed that the Cashier's function should be segregated and was taking steps to fill the position of Deputy Cashier in early 1998.

30. In the Geneva office, the functions of certification and approval of benefit entitlement payments were not adequately segregated to enhance effective operations of internal check. As no officer had been designated as alternative to the Chief of the office, in his absence the Administrative Officer performed the functions of certifying and approving. Also, the Finance Officer certified, approved and signed cheques covering payments.

31. The Board recommends that the Administration should always arrange the Cashier's functions to facilitate the operation of sound internal check. Also, with the increasing volume of work at the Geneva office, duties should be segregated for more effective control over payments.

2. Procurement

Procurement system

32. The procurement activities of UNJSPF are carried out by the Procurement Division of the United Nations and the Fund. During the biennium ended 31 December 1997, the total combined procurement of the Fund amounted to $1.7 million, of which direct procurement by the Fund amounted to $0.108 million.

33. The Board noted, however, that no procedures were established by the Administration to ensure that procurement activities handled by the Fund were carried out with due regard to economy and efficiency. As a result, all direct

purchases by the Fund for the biennium ended 31 December 1997 were made through the miscellaneous obligating document procedure which, unlike purchase orders, does not require a competitive bidding process.

34. The Board also noted the lack of adequate consolidated procurement planning to facilitate bulk purchases so that the benefit of economies of scale may be achieved. The various sections and units of the Fund had not submitted their requirements to enable the Executive Office to consolidate the procurement plan for the Fund.

35. The Board recommends that the Administration should establish procedures to guide and monitor the procurement activities and enhance efficiency in the procurement system.

36. The Administration stated that it had not established formal procedures for direct procurement but agreed to do so in the future.

3. Benefit payments

Signatures and thumbprint verification

37. The Board noted that codifiers who are not handwriting experts used their judgement to determine the authenticity of signatures on certificates of entitlement. The Board considered that this method of judgemental verification of signatures without the use of either trained staff or the required forensic machine cannot be said to be the most reliable and effective method of determining the validity of signatures, particularly where signatures tend to change with age. Owing to the inherent risk in this method, the Fund was unable to detect three cases of forgery which continued for periods ranging between 6 and 13 years and resulted in wrongful payment of a total of $284,591.

38. In cases where pension recipients were unable to sign because of infirmity, the Administration relied on thumbprints that were certified by United Nations officers in the field offices and medical officers in the case of sick beneficiaries as sufficient proof of the authenticity of the thumbprints. The Board could not rely on the thumbprints that were witnessed by medical officers as they were not done on their official letterhead and also lacked the addresses of the medical officers. In spite of the absence of the necessary details on the medical officers, the Fund did not take steps to verify and confirm the validity of the thumbprints that were claimed to have been witnessed by medical officers. This, in the view of the Board, is a flaw which could be abused.

39. The Board noted that the Fund has taken some measures to strengthen the verification process. In order to make the verification of thumbprints more effective, the Administration intended to adopt the procedures listed below, with effect from the 1998 certificate of entitlement distribution exercise:

(a) The certificate of entitlement form will be modified so that the full address of the doctor and hospital or clinic affiliation is disclosed where a physician acts as a witness;

(b) A medical report describing the nature of the illness that prevented the beneficiary from signing the certificate of entitlement will be obtained and scanned into the folder of the beneficiary.

The Administration informed the Board that since the forensic machine has not been proved to be cost-effective and sufficiently reliable, it therefore could not make any commitment to use the technology at this time.

40. The Board recommends that the Fund consider the procurement of suitable equipment to assist the codifiers in the verification of signatures and thumbprints. The Board further recommends that the codifiers be provided with training to enhance their efficiency.

4. Year 2000 issue

41. The Board assessed the preparedness of UNJSPF to manage the year 2000 issue, and found that the Fund has put in place a project team to manage the issue; the Fund has made an inventory of the systems and drawn up a detailed project schedule. The upgrading or replacement of the hardware and software to make the systems year 2000 compliant was started in April 1998. The expected date for making all the applications in the Fund and its investments year 2000 compliant is the end of July 1999.

42. The Board recommends that UNJSPF ensure that all systems are tested for year 2000 compliance with sufficient lead time to address any deficiencies.

5. Cases of fraud and presumptive fraud

43. The Administration informed the Board of four cases of fraud that had come to its attention during the biennium ended 31 December 1997. The four cases, involving a total amount of $294,117, were perpetrated by four surviving family members, who forged the signatures of deceased beneficiaries on certificates of entitlement and succeeded in collecting the amount involved.

44. The Administration had recovered a total amount of $113,227, while $173,197 was being recovered from the monthly benefits of the survivors. However, one of the persons involved in a case of forgery had failed to respond to the Fund's request for a refund of $7,693. Since there is no benefit accruing to this survivor, the Fund has no means to recover the amount.

45. In one of the four cases, the Fund had applied the survivor's entitlement of $80,015 against a total amount of $106,678 fraudulently paid to the survivor. The balance of $26,663 was being recovered from the survivor's monthly benefits of $679. The Board considers that since the action was fraudulent the survivor should have been made to suffer a penalty more severe than the monthly deduction, to serve as a deterrent to others.

46. According to the Administration, the Regulations and Rules of the Fund did not provide for any penalty in such fraudulent cases. The Administration intended to raise the issue with the Pension Board for possible amendment to the Regulations and Rules to take care of fraudulent acts of beneficiaries and survivors.

III. Acknowledgement

47. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Secretary of the United Nations Joint Staff Pension Board, the United Nations Controller, the representative of the

Secretary-General for the investments of the Fund and their officers and members of their staff.

(Signed) Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

(Signed) Osei Tutu PREMPEH
Auditor-General of Ghana

(Signed) Sir John BOURN
Comptroller and Auditor General of
the United Kingdom of Great Britain
and Northern Ireland

15 July 1998

Appendix

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1995[a]

1. As requested by the General Assembly, in its resolution 47/211 of 23 December 1992, the Board has reviewed the actions taken by the Administration to implement the previous audit recommendations made by the Board in its report for the financial period ended 31 December 1995.

I. RECOMMENDATION 9 (a)

2. The practice of paying contributions in local currency should be brought to the attention of the Pension Board with a view to regularizing such practice in the Fund's Regulations and Rules.

Measures taken by the Administration

3. Rule D.1 of the Regulations and Rules of UNJSPF have been amended by the Pension Board at its forty-seventh session, to regularize the acceptance of contributions in currencies other than the United States dollar.

Comments of the Board

4. The recommendation has been implemented.

II. RECOMMENDATION 9 (b)

5. To further improve verification of continued eligibility of beneficiaries, consideration should be given to upgrading scanner equipment and recording addresses of pensioners directly into the database.

Measures taken by the Administration

6. According to the Administration, the existing signature verification software does not accurately account for changes in the signature of beneficiaries over time by older persons. Also, the handwriting of many beneficiaries is often barely legible and therefore would not lend itself to direct computer conversion. The Administration has therefore decided to defer the purchase of the scanning equipment and related software to such time that its introduction would be cost-effective and would result in significant improvement to the current system. However, the Administration has introduced new procedures with regard to the design and making of certificates of entitlement and the follow-up action to be taken when certificates of entitlement are not returned in a timely manner.

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[a] Official Records of the General Assembly, Fifty-first Session, Supplement No. 9 and corrigendum (A/51/9 and Corr.1), annex III.

Comments of the Board

7. This issue has been considered by the Board in paragraphs 37 to 40 of the present report. The Board will continue to monitor the matter in its future audits.

III. RECOMMENDATION 9 (c)

8. The United Nations Joint Staff Pension Fund should make a formal agreement with the Consulting Actuary which clearly sets out the terms of engagement, including the fees payable.

Measures taken by the Administration

9. The Committee of Actuaries and the Administration are satisfied with the services and the fees charged by the Consulting Actuary. The Administration secured a reduction of $106,800 in the cost of actuarial services for the biennium 1998-1999.

Comments of the Board

10. In spite of the reduction in the fees of the Consulting Actuary, the recommendation has not been implemented. The Board therefore reiterates its recommendation that a formal agreement be concluded with the Consulting Actuary.

ANNEX IV

Statement of actuarial sufficiency as at 31 December 1997 of the United Nations Joint Staff Pension Fund to meet the liabilities under article 26 of the Regulations

1. In the report of the twenty-fourth actuarial valuation of the United Nations Joint Staff Pension Fund, the Consulting Actuary has assessed the actuarial sufficiency of the Fund, for purposes of determining whether there is a requirement for deficiency payments by the member organizations under article 26 of the Regulations of the Fund. The assessment as at 31 December 1997 was based on participant and asset information submitted by the secretariat of the Fund and on the Regulations in effect on that date.

2. The demographic and decremental actuarial assumptions used were those adopted by the Standing Committee of the United Nations Joint Staff Pension Board at its 180th meeting, in 1997, except that future new entrants were not taken into account and no future salary growth was assumed. An 8.5 per cent discount rate was used.

3. The liabilities were calculated on a plan termination methodology. Under this methodology, the accrued entitlements of active participants were measured on the basis of their selecting the benefit of highest actuarial value available to them, assuming termination of employment on the valuation date. The liabilities for pensioners and their beneficiaries were valued on the basis of their accrued pension entitlements as of the valuation date. For purposes of demonstrating sufficiency under article 26 of the Regulations, no provision was made for pension adjustments subsequent to 31 December 1997.

4. All calculations were performed by the Consulting Actuary in accordance with established actuarial principles and practices.

5. The results of the calculations are set forth in the table below:

Actuarial sufficiency of the Fund as at 31 December 1997

(Millions of United States dollars)

Item	Amount
Actuarial value of assets[a]	16 459.00
Actuarial value of accrued benefit entitlements	11 637.70
Surplus	4 821.30

[a] Five-year moving average market value, as adopted by the Pension Board for determining the actuarial value of the assets.

6. As indicated in the table above, the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on our understanding of the Regulations of the Fund in effect on the valuation date. Accordingly, there is no requirement, as at 31 December 1997, for deficiency payments under article 26 of the Regulations of the Fund.

ANNEX V

Statement of actuarial position of the Fund as at 31 December 1997

Introduction

1. The actuarial valuation as at 31 December 1997 was performed on a range of economic assumptions regarding future investment earnings and inflation. In addition, three sets of participant growth assumptions were used. The remaining actuarial assumptions, which are of a demographic nature, were derived on the basis of the emerging experience of the Fund, in accordance with sound actuarial principles. All of the assumptions used in the valuation were those adopted by the Standing Committee of the United Nations Joint Staff Pension Board at its 180th meeting, in 1997, based on the recommendations of the Committee of Actuaries.

Actuarial position of the Fund as at 31 December 1997

2. At its meetings in June 1998, the Committee of Actuaries reviewed the results of the actuarial valuation as at 31 December 1997, which was carried out by the Consulting Actuary. Based on the results contained in the valuation report, and after consideration of further relevant indicators and calculations, the Committee of Actuaries and the Consulting Actuary were of the opinion that the present contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1999, and in the light of future developments.

Summary of the operation of the Fund: 1971 through 1997

Year ending	Principal of the Fund (United States dollars)	Number of participants	Cumulative number of periodic benefits	Cumulative cost of periodic benefits (United States dollars)	Annual withdrawal settlements[a]		Total posts[b]
					(United States dollars)	Number	
Sept. 1971	622 011 280	34 860	5 303	14 655 927	5 485 473	2 746	39
Sept. 1972	712 062 485	36 768	5 894	19 010 212	6 184 851	2 683	46
Dec. 1973[c]	829 475 720	38 089	7 155	35 038 609	10 595 192	4 117	47
Dec. 1974	923 444 687	39 451	8 155	35 004 202	9 277 967	3 369	49
Dec. 1975	1 089 776 538	42 592	9 070	45 395 136	8 375 721	2 762	58
Dec. 1976	1 256 118 846	42 917	10 515	59 663 179	12 660 692	3 797	68
Dec. 1977	1 417 568 515	43 176	12 067	81 075 016	13 064 798	3 450	73
Dec. 1978	1 624 475 731	33 983	13 276	100 368 107	11 628 131	2 747	76
Dec. 1979	1 885 906 941	46 904	14 486	117 674 480	13 472 340	3 090	80
Dec. 1980	2 171 470 086	49 098	15 937	160 843 568	16 327 928	3 359	85
Dec. 1981	2 479 987 598	51 048	17 357	186 101 336	17 910 323	3 254	93
Dec. 1982	2 790 412 267	50 966	19 178	228 181 202	28 723 251	4 029	93
Dec. 1983	3 129 628 492	52 432	20 899	252 591 270	26 765 762	3 565	94
Dec. 1984	3 527 190 756	53 204	22 378	290 221 921	30 091 393	3 577	95
Dec. 1985	4 168 672 825	54 013	23 965	319 624 061	28 668 212	3 365	100
Dec. 1986	5 092 134 823	54 289	25 434	345 500 824	31 075 697	3 414	101
Dec. 1987	6 123 937 518	53 967	26 920	367 682 618	33 637 140	3 522	101
Dec. 1988	6 877 603 614	54 006	28 362	390 556 680	35 883 073	3 638	107
Dec. 1989	7 626 808 601	56 222	29 566	404 586 091	31 944 228	3 009	107
Dec. 1990	8 529 311 600	58 263	30 901	474 157 321	35 260 509	3 730	115
Dec. 1991	9 349 146 243	60 183	32 294	515 588 120	37 025 389	3 467	115
Dec. 1992	10 380 471 469	61 968	33 923	579 816 190	36 351 949	3 635	122
Dec. 1993	11 250 266 475	63 329	35 435	606 559 593	40 605 148	4 165	128
Dec. 1994	11 927 849 903	63 813	37 156	680 475 301	49 313 730	4 419	128
Dec. 1995	12 658 414 333	68 708	38 914	745 980 412	40 555 022	4 055	128

Year ending	Principal of the Fund (United States dollars)	Number of participants	Cumulative number of periodic benefits	Cumulative cost of periodic benefits (United States dollars)	Annual withdrawal settlements[a]		Total posts[b]
					(United States dollars)	Number	
Dec. 1996	13 312 103 653	67 997	41 433	845 935 032	69 138 165	5 622	136
Dec. 1997	14 063 184 748	67 740	43 149	826 055 364	57 662 126	5 900	136

[a] Includes transfers under agreements.

[b] Breakdown of posts, including posts in the Investment Management Section, is set out below.

[c] Long year owing to change in fiscal year, effective 1 January 1974.

Year ending	Established posts				Temporary posts		Total established posts	Total posts
	Administrative		Investments		Administrative			
	Professional	GS	Professional	GS	Professional	GS		
Sept. 1971	10	23	0	0	1	5	33	39
Dec. 1972	10	23	3	4	1	5	40	46
Dec. 1973	11	23	3	4	1	5	41	47
Dec. 1974	11	25	3	4	1	5	43	49
Dec. 1975	15	28	3	5	0	7	51	58
Dec. 1976	13	29	5	4	5	12	51	68
Dec. 1977	16	31	5	4	4	13	56	73
Dec. 1978	18	32	5	4	4	13	59	76
Dec. 1979	22	42	5	4	2	5	73	80
Dec. 1980	23	44	5	4	2	7	76	85
Dec. 1981	25	54	5	4	1	4	88	93
Dec. 1982	25	54	5	4	1	4	88	93
Dec. 1983	25	54	5	5	1	4	89	94
Dec. 1984	26	58	5	6	0	0	95	95
Dec. 1985	26	61	6	7	0	0	100	100
Dec. 1986	27	60	6	8	0	0	101	101
Dec. 1987	27	60	6	8	0	0	101	101
Dec. 1988	28	59	7	10	1	2	104	107
Dec. 1989	28	59	7	10	1	2	104	107
Dec. 1990	30	62	9	14	0	0	115	115
Dec. 1991	30	62	9	14	0	0	115	115
Dec. 1992	32	66	9	15	0	0	122	122
Dec. 1993	33	70	9	15	0	1	127	128
Dec. 1994	33	70	9	15	0	1	127	128
Dec. 1995	33	70	9	15	0	1	127	128
Dec. 1996	34	72	12	18	0	0	136	136
Dec. 1997	34	72	12	18	0	0	136	136

ANNEX VII

Estimated annual costs of pension-related expenses of member organizations other than the United Nations

Member organization	Staffing arrangements[a]		Office space requirements	Facilities and services	Secretary travel	Total cost by organization
	Total staff-months	United States dollars	(United States dollars)			
ILO, Geneva	59.00	602 732	54 016	13 600	6 000	676 348
FAO, Rome	80.50	450 358	37 608	177 000	4 000	668 966
UNESCO, Paris	50.40	256 750	21 256	6 700	3 200	287 906
ICAO, Montreal	22.00	78 790	11 235	17 500	5 000	112 525
WHO, Geneva	108.84	888 636	67 000	62 000	8 900	1 026 536
ITU, Geneva[b]	20.50	195 228	3 908	36 505	5 920	241 561
WMO, Geneva[c]	12.00	120 498	21 000	6 500	2 500	150 498
IMO, London	7.00	35 046	4 673	3 115	3 674	46 508
WIPO, Geneva	15.24	118 915	6 345	6 200	2 540	134 000
IFAD, Rome	19.00	104 800	30 000	40 000	3 000	177 800
UNIDO, Vienna	21.54	150 648	11 895	1 381	4 400	168 324
IAEA, Vienna	22.80	147 000	18 750	6 100	4 260	176 110
ICITO, Geneva[b]	9.50	86 202	3 023	9 767	5 659	104 651
EPPO, Paris	—	3 243	103	580	0	3 926
ICCROM, Rome	—	11 250	630	2 620	750	15 250
WTO (Tourism), Madrid[d]	25.20	—	—	—	—	—
ICGEB, Trieste[d]	3.00	—	—	—	—	20 000
ITLOS, Hamburg	—	—	—	—	—	—
Totals	476.52	3 250 096	291 442	389 568	59 803	4 010 909

[a] For complete breakdown of staff-months see below.

[b] The ITU local secretariat performs its own year-end report work; ICITO provided Swiss francs only, which were converted at the December 1996 rate.

[c] The WMO estimate of office space and facilities is based on its letter dated 23 September 1997.

[d] WTO provided input that contained inconsistencies, probably owing to the low number of participants; ICGEB provided only total cost.

Estimated staff-months at specific categories and grades
by organization as of December 1996

Member organization	General Service								Professional and above							
	G-2	G-3	G-4	G-5	G-6	G-7	G-8	Subtotal	P-2	P-3	P-4	P-5	D-1	D-2	Subtotal	Total
ILO	0.00	0.00	8.50	21.00	10.50	10.50	0.00	50.50	0.00	0.00	8.50	0.00	0.00	0.00	8.50	59.00
FAO	20.50	12.00	0.00	12.00	13.00	2.50	0.00	60.00	0.00	13.00	1.50	6.00	0.00	0.00	20.50	80.50
UNESCO	0.00	2.40	14.40	18.00	12.00	0.00	0.00	46.80	0.00	0.00	0.00	3.60	0.00	0.00	3.60	50.40
ICAO	0.00	0.00	0.00	6.00	0.00	6.00	6.00	18.00	0.00	0.00	4.00	0.00	0.00	0.00	4.00	22.00
WHO	0.00	0.00	18.24	24.00	32.40	10.20	0.00	84.84	4.80	12.00	0.00	7.20	0.00	0.00	24.00	108.84
ITU	0.00	0.00	0.00	3.00	0.00	7.00	0.00	10.00	0.00	6.50	4.00	0.00	0.00	0.00	10.50	20.50
WMO	0.00	0.00	0.00	0.00	10.00	0.00	0.00	10.00	0.00	0.00	0.00	2.00	0.00	0.00	2.00	12.00
IMO	0.00	0.00	0.00	0.00	0.00	6.00	0.00	6.00	0.00	0.00	0.00	1.00	0.00	0.00	1.00	7.00
WIPO	0.00	0.00	3.00	0.00	3.84	0.00	0.00	6.84	4.80	0.00	3.60	0.00	0.00	0.00	8.40	15.24
IFAD	0.00	0.00	7.00	1.00	2.50	1.00	0.00	11.50	0.00	6.00	1.50	0.00	0.00	0.00	7.50	19.00
UNIDO	0.00	0.00	0.00	5.40	10.44	0.00	0.00	15.84	0.00	0.00	5.70	0.00	0.00	0.00	5.70	21.54
IAEA	0.00	0.00	7.20	0.00	4.80	0.00	0.00	12.00	0.00	0.00	9.60	0.00	1.20	0.00	10.80	22.80
ICITO	0.00	0.00	0.00	0.00	5.50	0.00	0.00	5.50	0.00	0.50	0.00	3.50	0.00	0.00	4.00	9.50
EPPO[a]	—	—	—	—	—	—	—	0.00	—	—	—	—	—	—	—	—
ICCROM[a]	—	—	—	—	—	—	—	0.00	—	—	—	—	—	—	—	—
WTO[b]	—	—	—	—	—	—	—	13.20	—	—	—	—	—	—	12.00	25.20
ICGEB[b]	—	—	—	—	—	—	—	2.40	—	—	—	—	—	—	0.60	3.00
ITLOS[b]	—	—	—	—	—	—	—	0.00	—	—	—	—	—	—	—	—
Totals								353.42							123.10	476.52

[a] Staff-months not provided.

[b] WTO staff-months not completely itemized but GS category = 13.2 and P category = 12; ICGEB GS category = 2.4 and P category = 0.6; ITLOS not included in survey.

ANNEX VIII

Administrative expenses

Table 1. Revised estimates for the biennium 1998-1999

(Thousands of United States dollars)

Object of expenditure	Initial appropriations (1)	Changes Increase/ decrease (2)	Revised estimates (1+2) (3)
A. Administrative costs			
Established posts	7 661.2	(100.0)	7 561.2
Common staff costs	3 071.9	(22.9)	3 049.0
Posts	10 733.1	(122.9)	10 610.2
Temporary assistance	625.4	(63.0)	562.4
Common staff costs	256.1	(26.1)	230.0
Overtime	191.5	0.0	191.5
Training	26.3	40.0	66.3
Other staff costs	1 099.3	(49.1)	1 050.2
Travel of staff	137.5	0.0	137.5
Committee of Actuaries	69.4	0.0	69.4
Travel	206.9	0.0	206.9
ICC services	741.7	618.1	1 359.8
Actuarial consulting services	360.6	0.0	360.6
Consultants	49.3	0.0	49.3
EDP contractual services	566.8	911.6	1 478.4
Contractual services	976.7	911.6	1 888.3
Communications services	10.0	0.0	10.0
Hospitality	12.6	0.0	12.6
Miscellaneous supplies and services	90.9	0.0	90.9
Rental and maintenance of equipment	648.0	(34.1)	613.9
Rental of premises	0.0	355.7	355.7
General operating expenses	761.5	321.6	1 083.1
Supplies and materials	310.6	(51.8)	258.8
Acquisition of equipment	826.1	(134.2)	691.9
Office furniture and fixtures	0.0	0.0	0.0
Equipment	826.1	(134.2)	691.9
Total administrative costs	15 655.9	1 493.3	17 149.2
B. Investment costs			
Established posts	3 717.6	6.2	3 723.8
Common staff costs	1 490.7	2.5	1 493.2
Posts	5 208.3	8.7	5 217.0

Object of expenditure	Initial appropriations (1)	Changes Increase/ decrease (2)	Revised estimates (1+2) (3)
Temporary assistance	33.3	0.0	33.3
Common staff costs	13.4	0.0	13.4
Overtime	20.6	0.0	20.6
Training	31.0	0.0	31.0
Other staff costs	98.3	0.0	98.3
Travel of staff	247.2	0.0	247.2
Investments Committee	339.9	0.0	339.9
Travel	587.1	0.0	587.1
Advisory and custodial fees	26 300.0	2 300.0	28 600.0
Investment consultants	185.4	0.0	185.4
Contractual services	26 485.4	2 300.0	28 785.4
Communications services	103.0	35.0	138.0
Hospitality	2.1	0.0	2.1
Miscellaneous supplies and services	61.8	0.0	61.8
Bank charges	515.0	0.0	515.0
Rental of premises	0.0	174.9	174.9
General operating expenses	681.9	209.9	891.8
Investment reference services	548.0	0.0	548.0
Data processing	328.6	0.0	328.6
Office furniture and fixtures	5.3	0.0	5.3
Equipment	333.9	0.0	333.9
Total investment costs	33 942.9	2 518.6	36 461.5

C. Audit costs

External audit	49.0	141.0	190.0
Internal audit	421.7	8.8	430.5
Total audit costs	470.7	149.8	620.5

Table 2. Summary by object of expenditure

(Thousands of United States dollars)

Object of expenditure	Initial appropriations (1)	Changes Increase/decrease (2)	Revised estimates (1+2) (3)
Administrative costs			
Posts	10 733.1	(122.9)	10 610.2
Other staff costs	1 099.3	(49.1)	1 050.2
Travel	206.9	0.0	206.9
ICC services	741.7	618.1	1 359.8
Contractual services	976.7	911.6	1 888.3
General operating expenses	761.5	321.6	1 083.1
Supplies and materials	310.6	(51.8)	258.8
Equipment	826.1	(134.2)	691.9
Total	15 655.9	1 493.3	17 149.2
Investment costs			
Posts	5 208.3	8.7	5 217.0
Other staff costs	98.3	0.0	98.3
Travel	587.1	0.0	587.1
Contractual services	26 485.4	2 300.0	28 785.4
General operating expenses	681.9	209.9	891.8
Supplies and materials	548.0	0.0	548.0
Equipment	333.9	0.0	333.9
Total	33 942.9	2 518.6	36 461.5
Audit costs	470.7	149.8	620.5
Total	470.7	149.8	620.5
Total administrative, investment and audit costs	50 069.5	4 161.7	54 231.2

Table 3. Post requirements

	Established posts	
	1996-1997	1998-1999
Administrative area		
Professional category and above		
Ungraded	–	1
D-2	1	–
D-1	2	2
P-5	5	5
P-4/3	25	25
P-2/1	1	1
Total	34	34
General Service category		
Principal level	4	4
Other levels	68	68
Total	72	72
Grand total	106	106
Investment Management Service		
Professional category and above		
D-2	–	1
D-1	1	–
P-5	5	5
P-4/3	6	6
P-2/1	–	–
Total	12	12
General Service category		
Principal level	2	4
Other levels	16	16
Total	18	20
Grand total	30	32

ANNEX IX

Member organizations of the Fund

The member organizations of the Fund are the United Nations and the following:

European and Mediterranean Plant Protection Organization (EPPO)

Food and Agriculture Organization of the United Nations (FAO)

Interim Commission for the International Trade Organization (ICITO)

International Atomic Energy Agency (IAEA)

International Centre for Genetic Engineering and Biotechnology (ICGEB)

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

International Civil Aviation Organization (ICAO)

International Fund for Agricultural Development (IFAD)

International Labour Organization (ILO)

International Maritime Organization (IMO)

International Seabed Authority (ISA)

International Telecommunication Union (ITU)

International Tribunal for the Law of the Sea (ITLOS)

United Nations Educational, Scientific and Cultural Organization (UNESCO)

United Nations Industrial Development Organization (UNIDO)

World Health Organization (WHO)

World Intellectual Property Organization (WIPO)

World Meteorological Organization (WMO)

World Tourism Organization (WTO)

ANNEX X

Membership of the Board and attendance at the forty-eighth session

1. The following members and alternate members were accredited by the staff pension committees of the member organizations of the Fund, in accordance with the rules of procedure:

Representing	Members	Alternates
United Nations		
General Assembly	Mr. T. Inomata (Japan)	Mr. C. Dante Riva (Argentina)
General Assembly	Mr. V. Kuznetsov (Russian Federation)	Mr. G. Kuntzle (Germany) Mr. N. Odaga-Jalomayo (Uganda)
General Assembly	Mr. P. Owade (Kenya)	Mr. M.S. Hidayat (Indonesia)[a]
General Assembly	Ms. S. Shearouse (United States of America)[b]	
Secretary-General	Mr. J.-P. Halbwachs (Mauritius)	Mr. M. Baquerot (France)
Secretary-General	Ms. R. Salim (Malaysia)	Ms. R. Mayanja (Uganda)
Secretary-General	Mr. W. Sach (United Kingdom of Great Britain and Northern Ireland)	
Secretary-General	Mr. A. Miller (Australia)	
Participants	Ms. S. Johnston (United States)[c]	Mr. J. Mathews (United States)
Participants	Mr. J.-M. Jakobowicz (France)	
Participants	Mr. C. Dahoui (Brazil)	
Participants	Mr. C. Hackett (Barbados)	
Food and Agriculture Organization of the United Nations		
Governing body	Mr. H. Molina Reyes (Chile)	
Executive head	Mr. A. Marcucci (Italy)[d]	
Participants	Mr. C. Cherubini (Italy)	Mr. G. Sneyers (Belgium)
World Health Organization		
Governing body	Dr. J. Lariviere (Canada)	Prof. H. Agboton (Benin)
Executive head	Mr. D. Aitken (United Kingdom)	Mr. A. Asamoah (Ghana)
Participants	Ms. V. Paterson (United Kingdom)	Mr. J. Campagnaro (Brazil)
International Labour Organization		
Governing body	Mr. Y. Chotard (France)	
Executive head	Mr. D. Macdonald (Australia)	Mr. A. Busca (Italy)

[a] Did not attend session.

[b] Second Vice-Chairman.

[c] First Vice-Chairman.

[d] Rapporteur.

Representing	Members	Alternates

United Nations Educational, Scientific and Cultural Organization

Executive head	Mr. J.-M. Dethoor (France)	
Participants	Mr. A. McLurg (United Kingdom)	

United Nations Industrial Development Organization

Executive head	Ms. U. Peer (Austria)	Ms. S. Antonopoulou (Greece)

International Civil Aviation Organization

Governing body	Mr. D. S. Evans (United Kingdom)	
Executive head	Mr. D. J. Goossen (Netherlands)	

International Atomic Energy Agency

Governing body	Mr. M. Pecsteen (Belgium)	Mr. R. A. A. Raja Adnan (Malaysia)
Participants	Mr. W. Scherzer (Austria)	Mr. P. Karousakis (United States)

International Telecommunication Union

Executive head	Mr. J.-P. Baré (France)	

International Maritime Organization

Governing body	Dr. E. Conte (Italy)	Ms. A. Brown (Jamaica)

Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade

Participants	Mr. N. Johnstone (Canada)	

World Meteorological Organization

Participants	Mr. S. Mbele-Mbong (Cameroon)	

World Intellectual Property Organization

Governing body	Mr. R. Roul (France)	

International Fund for Agricultural Development

Participants	Mr. J. McGhie (United Kingdom)	

2. The following attended the session of the Board as representatives, observers or secretaries of staff pension committees, in accordance with the rules of procedure:

Representatives	Organization	Representing
Mr. J.-V. Gruat	ILO	Participants
Mr. I. Santoso	UNESCO	Governing body
Mr. A. Salih Nur	UNIDO	Governing body
Mr. W. Holaday	UNIDO	Participants
Mr. R. G. Menzel	ICAO	Participants
Mr. D. Goethel[e]	IAEA	Executive head
Mrs. M. Sagna	ITU	Governing body
Mr. W. Justrich	ITU	Participants
Mr. J.-D. Rey[a]	ICITO/GATT	Governing body
Mr. P. Rolian[a]	ICITO/GATT	Executive head
Mr. R. Jones (1st week)	IMO	Executive head
Mr. D. Muthumala (2nd week)	IMO	Executive head
Mr. D. Bertaud	IMO	Participants
Mr. V. Yossifov	WIPO	Participants
Mr. D. Ripandelli	ICGEB	Executive head
Mr. A. Ali	FAFICS	Pensioners
Mr. G. Saddler	FAFICS	Pensioners
Mr. W. E. Price	FAFICS (Alternate)	Pensioners
Mr. A. Chakour (1st week)	FAFICS (Alternate)	Pensioners
Mr. W. Zyss (2nd week)	FAFICS (Alternate)	Pensioners

Observers	Organization
Ms. J. Taillefer	Federation of International Civil Servants' Associations (FICSA)
Ms. L. Losier (1st week) Ms. J. Datta (2nd week)	Coordinating Committee for Independent Staff Unions and Associations of the United Nations System (CCISUA)
Mr. S. Hanono	Inter-American Development Bank (IDB)
Mr. M. Hasenau	Comprehensive Nuclear Test-Ban Treaty Organization (CTBTO-Preparatory Commission)
Mr. J. P. Nicoson	International Monetary Fund (IMF)
Mr. R. Burston	European Bank for Reconstruction and Development (EBRD)

Secretary	Staff Pension Committee
Mr. F. Fusco	FAO
Ms. A. Van Hulle-Colbert	WHO
Ms. C. McGarry	ILO
Mrs. C. Kerlouegan	UNESCO
Mr. P. Uhl	IAEA
Ms. R. Sabat (Deputy Secretary)	IAEA
Mr. M. Rolland	ITU
Mr. L. Gunnestedt	IMO
Mr. R. Luther	ICITO/GATT
Mr. M. Peeters	WMO
Mrs. T. Dayer	WIPO
Ms. J. Sisto	IFAD
Ms. F. Misiti	ICGEB

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[e] Chairman

3. The following attended all or part of the session of the Board:

International Civil Service Commission

Mr. M. Bel Hadj Amor, Chairman
Mr. P. Ranadive, Executive Secretary

Committee of Actuaries

Mr. L. J. Martin, Rapporteur

Consulting Actuary

Mr. R. Sharp

Medical Consultant

Dr. I. Laux

Investments Committee, advisers and staff

Mr. E. N. Omaboe, Chairman
Mr. A. Abdullatif, Member
Ms. F. J. Bovich, Member
Mr. F. Chico Pardo, Member
Mr. F. Harshegyi, Ad hoc member
Mr. T. Ohta, Member
Mr. Y. Oltramare, Member
Ms. H. Ploix, Ad hoc member
Mr. P. Stormonth Darling, Member

Fiduciary Trust Company International

Ms. A. Tatlock
Mr. L. Thomas
Mr. D. Smart
Mr. W. Keyser
Mr. W. Yun

Nikko Global Asset Management, U.S.A., Inc.

Mr. S. Kirtman
Mr. M. Hikima
Mr. Y. Kuwata
Mr. NG Cheong Lip

Paribas Asset Management Inc.

Ms. C. Guinefort
Mr. D. Coulon

Pension Consulting Alliance

Ms. C. Faust

Under-Secretary-General for Management and Representative of the Secretary-General for the investments of UNJSPF

Mr. J. E. Connor

Investment Management Service

Mr. H. L. Ouma
Ms. L. Ivers
Ms. A. Jackson

4. Mr. R. Gieri and Mr. J. P. Dietz (Secretary and Deputy Secretary to the Board) served as Secretary and Deputy Secretary of the session, with the assistance of Ms. D. Bull, Mr. G. Ferrari, Mr. K. Widdows, Mr. P. Dooley and Ms. P. Ryder.

ANNEX XI

Membership of the Standing Committee

Representing	Members	Alternates
United Nations (Group I)		
General Assembly	Mr. T. Inomata	
General Assembly	Ms. S. Shearouse	Mr. V. Kuznetsov
Secretary-General	Mr. A. Miller	Mr. P. Owade
Secretary-General	Ms. R. Mayanja	Mr. J.-P. Halbwachs
Participants	Ms. S. Johnston	Ms. R. Salim
Participants	Mr. J.-M. Jakobowicz	Mr. C. Hackett Mr. C. Dahoui
Specialized agencies (Group II)		
Governing body	Mr. H. Molina Reyes (FAO)	Dr. J. Lariviere (WHO)
Executive head	Mr. A. Marcucci (FAO)	Ms. J. Works (FAO)
Participants	Ms. V. Paterson (WHO)	Mr. J. Campagnaro (WHO)
Specialized agencies (Group III)		
Governing body	Mr. I. Santoso (UNESCO)	
Participants	Mr. J. V. Gruat (ILO)	Mr. P. Sayour (ILO)
Specialized agencies (Group IV)		
Governing body	Mr. M. Pecsteen (IAEA)	Mr. A. Salih Nur (UNIDO)
Executive head	Mr. D. J. Goossen (ICAO)	Mr. J.-P. Baré (ITU)
Specialized agencies (Group V)		
Executive head	Mr. M. Husain (WMO)	Ms. T. Dayer (WIPO)
Participants	Mr. J. McGhie (IFAD)	Mr. D. Bertaud (IMO)

ANNEX XII

Membership of the Committee of Actuaries

The membership of the Committee is as follows:

Mr. A. O. Ogunshola (Nigeria)	Region I (African States)
Mr. T. Nakada (Japan)	Region II (Asian States)
Mr. E. M. Chetyrkin (Russian Federation)	Region III (Eastern European States)
Mr. H. Pérez Montas (Dominican Republic)	Region IV (Latin America)
Mr. L. J. Martin (United Kingdom)	Region V (Western European and other States)

In addition, Mr. R. J. Myers (United States) has been appointed *member emeritus*.

ANNEX XIII

Membership of the Investments Committee

The membership of the Investments Committee is as follows:

Mr. A. Abdullatif (Saudi Arabia)
Ms. F. Bovich (United States)
Mr. F. Chico Pardo (Mexico)
Mr. T. Ohta (Japan)
Mr. Y. Oltramare (Switzerland)
Mr. E. N. Omaboe (Ghana)
Mr. J. Y. Pillay (Singapore)
Mr. J. Reimnitz (Germany)
Mr. P. Stormonth Darling (United Kingdom)

Ad hoc members

Mr. F. Harshegyi (Hungary)
Ms. H. Ploix (France)

Members emeriti

Mr. J. Guyot (France)
Mr. B. K. Nehru (India)

ANNEX XIV

Amendments to the Administrative Rules of the United Nations Joint Staff Pension Fund

Existing text	Proposed text	Comments
Administrative rule B.4	Text approved by the Standing Committee in July 1997	
Information provided by or in respect of a participant or beneficiary under the Regulations or these Rules shall not be disclosed without his written consent or authorization.	Information provided by or in respect of a participant or beneficiary under the Regulations or these Rules shall not be disclosed without his written consent or authorization, except in response to a court order or a request from a judicial or civil authority in the context of divorce or family maintenance obligations. In such case the Secretary shall immediately notify the participant or beneficiary of the order or request. If after 30 days the participant or beneficiary has not acted in response to the court order or request, the Secretary may supply the following information: (i) amount of benefits received and in payment for a beneficiary; (ii) accrued entitlements for an active participant; and (iii) address of beneficiary. The information shall be provided by the Secretary in a manner that clearly reflects that it is being provided on a voluntary basis and without waiver of the privileges and immunities of the organization with respect to any such order or request from the judicial or civil authorities.	See paras. 281 to 283 of the report. The amendment was adopted by the Standing Committee, on behalf of the Board, in July 1997, effective as of 1 August 1997.

Existing text	Proposed text	Comments
<u>Administrative rule B.6 (b)</u> A participant who is separated from the service of a member organization and who again becomes a participant in the Fund in accordance with article 21(a) of the Regulations within 12 months after such separation and without a benefit having been paid to him shall continue his participation in accordance with article 21(b). In calculating the period between the dates of separation and re-entry into participation under article 21 (a) no recognition shall be given to any intervening non-contributory service even if subsequently validated under article 23.	A participant who is separated from the service of a member organization and who again becomes a participant in the Fund in accordance with article 21(a) of the Regulations within [12] <u>36</u> months after such separation and without a benefit having been paid to him shall continue his participation in accordance with article 21(b). In calculating the period between the dates of separation and re-entry into participation under article 21 (a) no recognition shall be given to any intervening non-contributory service even if subsequently validated under article 23.	Consequential amendment owing to proposed amendments of articles 21(b) and 32(a) of Regulations.

ANNEX XV

<u>Recommendations to the General Assembly for amendment of the Regulations of the United Nations Joint Staff Pension Fund*</u>

Existing text	Proposed text	Comments
<u>Article 7</u>	<u>Article 7</u>	
(a) A Secretary to the Board, and a Deputy Secretary or other officer empowered to act in the absence of the Secretary, shall be appointed by the Secretary-General on the recommendation of the Board.	(a) A<u>n</u> <u>Executive</u> Secretary to the Board, <u>who shall also serve as the Chief Executive Officer of the Fund</u>, and a Deputy <u>Executive</u> Secretary [or other officer empowered to act in the absence of the Secretary,] shall be appointed by the Secretary-General on the recommendation of the Board.	
(b) The Secretary-General shall appoint such further staff as may be required from time to time by the Board in order to give effect to these Regulations.	(b) No change.	
(c) The Secretary shall be the chief executive officer of the Fund and shall perform his functions under the authority of the Board; he, or the office empowered to act in his absence, shall certify for payment all benefits properly payable under these Regulations.	(c) The [Secretary shall be the] Chief Executive Officer of the Fund [and] shall perform [his] <u>that</u> function[s] under the authority of the Board [; he, or the officer empowered to act in his absence] and shall certify for payment all benefits properly payable under these Regulations. <u>In the absence of the Chief Executive Officer of the Fund, the Deputy Executive Secretary of the Board shall perform those functions.</u>	See paras. 234 to 237 of the report.

* Proposed additions are marked by underlining and proposed deletions by square brackets.

Existing text	Proposed text	Comments
Article 21 (b) Participation shall cease when the organization by which the participant is employed ceases to be a member organization, or when he dies or separates from such member organization, except that participation shall not be deemed to have ceased where a participant resumes his contributory service with a member organization within 12 months after separation without a benefit having been paid to him.	Article 21 (b) Participation shall cease when the organization by which the participant is employed ceases to be a member organization, or when he dies or separates from such member organization, except that participation shall not be deemed to have ceased where a participant resumes his contributory service with a member organization within [12] 36 months after separation without a benefit having been paid to him.	
Article 32 (a) The payment to a participant of a withdrawal settlement, or the exercise by a participant of a choice available to him between one benefit and another, or between a form of benefit involving payment in a lump sum and another form, may be deferred at his request at the time of separation for a period of 12 months.	Article 32 (a) The payment to a participant of a withdrawal settlement, or the exercise by a participant of a choice available to him between one benefit and another, or between a form of benefit involving payment in a lump sum and another form, may be deferred at his request at the time of separation for a period of [12] 36 months.	To extend the time period allowed to link different periods of contributory service, as from the date of approval by the General Assembly of the proposed amendments.
Article 34 (f) The benefit shall be payable at periodic intervals for life or until remarriage, provided that a benefit payable at an annual rate of less than 200 dollars may be commuted by the widow into a lump sum which is the actuarial equivalent of the benefit at the standard annual rate under (c) above, or the annual rate under (e) above, as the case may be.	Article 34 (f) The benefit shall be payable at periodic intervals for life [or until remarriage], provided that a benefit payable at an annual rate of less than 200 dollars may be commuted by the widow into a lump sum which is the actuarial equivalent of the benefit at the standard annual rate under (c) above, or the annual rate under (e) above, as the case may be.	

Existing text	Proposed text	Comments
Article 34 (g) The benefit shall, where there is more than one surviving spouse, be divided equally between the spouses, and upon the death or remarriage of each such spouse shall be equally divided among the remainder. Article 34 (h) A lump sum in the amount of twice the annual rate of the benefit shall, unless (g) above applies, be payable to a surviving spouse upon remarriage.	Article 34 (g) The benefit shall, where there is more than one surviving spouse, be divided equally between the spouses, and upon the death [or remarriage] of each such spouse shall be equally divided among the remainder. Article 34 (h) Delete in entirety.	See paras. 310 to 313 of the report. These amendments will enter into effect as from 1 April 1999.

Existing text	Proposed text	Comments
None	New article 35 bis Divorced surviving spouse's benefit (a) Any divorced spouse of a participant or former participant, separated on or after 1 April 1999, who was entitled to a retirement, early retirement, deferred retirement or disability benefit, or of a participant who died in service on or after that date, may, subject to the provisions of article 34(b), (applicable also to widowers) request a former spouse's benefit, if the conditions specified in (b) below are fulfilled. (b) Subject to paragraph (d) below, the divorced spouse is entitled to the benefit set out in paragraph (c) below, payable prospectively following receipt of the request for a divorced surviving spouse's benefits, if, in the opinion of the Secretary, all of the following conditions are fulfilled: (i) The participant had been married to the former spouse for a continuous period of at least ten years during which contributions were paid to the Fund on account of the participant or the participant was awarded a disability benefit under article 33 of the Regulations; (ii) The former spouse had not remarried; (iii) The participant's death occurred within 15 years of the date when the divorce became final, unless the former spouse proves that at the time of death the participant was under a legal obligation to pay maintenance to the former spouse; (iv) The former spouse has reached the age of 40. Otherwise the benefit entitlement shall commence on the day immediately following the day that age is reached; and	See paras. 291 to 306 of the report. This amendment will enter into effect as from 1 April 1999.

Existing text	Proposed text	Comments
	Article 35 bis (cont'd) (v) Evidence is provided by the former spouse that the participant's pension entitlement from UNJSPF was not taken into account in a divorce settlement. (c) A former spouse who, in the opinion of the Secretary, has met the conditions set out in paragraph (b) above shall be entitled to the widow's or widower's benefit under article 34 or 35 as the case may be; however, if the participant is survived by both one or more such former spouses and/or by a spouse entitled to a benefit under article 34 or 35, the benefit payable under article 34 or 35 shall be divided between the spouse and former spouse(s) in proportion to the duration of their marriages to the participant. (d) Article 34 (f) and (g) shall apply *mutatis mutandis.*	
None	New article 35 ter Spouses married after separation (a) A former participant receiving a periodic benefit may elect to provide a periodic benefit for life in a specified amount (subject to paragraph (b) below) to a spouse who was not married to him or her at the date of separation. Such election shall be made within 180 days of the date of marriage or of the entry into force of this provision, if later, and shall become effective one year after the date of marriage, or one year after the date of entry into force of this provision, as appropriate. The benefit	See paras. 307 to 309 of the report. This amendment will enter into effect as from 1 April 1999.

Existing text	Proposed text	Comments
	Article 35 ter (cont'd) shall be payable as of the first day of the month following the death of the former participant. When the election becomes effective, the benefit payable to the former participant shall be reduced in accordance with actuarial factors to be determined by the Fund's Consulting Actuary. An election under this subsection may not be revoked after it becomes effective, except by the death of the spouse, in which case it will be considered terminated as from that date. (b) Any election made under paragraph (a) shall be subject to the following: (i) the amount of the periodic benefit payable to the former participant, after reduction owing to elections made pursuant to paragraph (a) above, shall be at least one half of the benefit which would have been payable without any such elections; and (ii) the amount of the benefit payable to the spouse shall not be larger than the amount of the benefit payable to the retired participant after reduction for the elections.	

Existing text	Proposed text	Comments
Article 45 A participant or beneficiary may not assign his rights under these Regulations.	Article 45 A participant or beneficiary may not assign his rights under these Regulations. Notwithstanding the foregoing, the Fund may, upon receipt of a request from a participant or former participant made pursuant to a legal obligation arising from a marital or parental relationship and evidenced by an order of a court or by a settlement agreement incorporated into a divorce or other court order, direct that a portion of a benefit payable by the Fund to such participant for life be paid to one or more former spouses and/or a current spouse from whom the participant or former participant is living apart. Such direction or payment related thereto shall not convey to any person a benefit entitlement from the Fund or (except as provided herein) provide any rights under the Fund to such person or increase the total benefits otherwise payable by the Fund. To be acted upon, a request must be consistent with the Regulations of the Fund. The direction in any such request shall normally be irrevocable; however, a participant or former participant may request, upon satisfactory evidence based on a court order or a provision of a settlement agreement incorporated into a court decree, a new direction that would alter or discontinue the payment or payments. Furthermore, any direction shall cease to have effect following the death of the participant or former participant. If a designee under a direction predeceases the participant or former participant, the payments shall not commence, or if they have commenced, shall cease upon the designee's death. In the event that the	See paras. 284 to 290 of the report. The payment facility will be available as from the date of approval by the General Assembly of the proposed amendment of article 45.

Existing text	Proposed text	Comments
	Article 45 (cont'd) payment or payments under a direction have been diminished, discontinued, or have failed to commence or have ceased, the amount of benefit payable to the participant or former participant shall be duly adjusted.	

ANNEX XVI

Draft resolution proposed for adoption by the General Assembly

[The draft resolution covers those matters in the report of the United Nations Joint Staff Pension Board which require action by the General Assembly, as well as other matters in the report which the Assembly may wish to address in its resolution.]

The General Assembly,

Recalling its resolutions 49/224 of 23 December 1994 and 51/217 of 18 December 1996, and section V of resolution 52/222 of 22 December 1997,

Having considered the report of the United Nations Joint Staff Pension Board for 1998 to the General Assembly and to the member organizations of the United Nations Joint Staff Pension Fund,[a] the report of the Secretary-General on the investments of the Fund,[b] and the related report of the Advisory Committee on Administrative and Budgetary Questions,[c]

I

ACTUARIAL MATTERS

Recalling section I of its resolution 51/217,

Having considered the results of the valuation of the United Nations Joint Staff Pension Fund as at 31 December 1997 and the observations thereon of the Consulting Actuary of the Fund, the Committee of Actuaries and the Board,

1. Takes note with satisfaction of the improvement in the actuarial situation of the Fund, from an actuarial deficit of 1.46 per cent of pensionable remuneration as at 31 December 1995 to an actuarial surplus of 0.36 per cent of pensionable remuneration as at 31 December 1997, and in particular of the opinions provided by the Consulting Actuary and the Committee of Actuaries, as reproduced in annexes IV and V, respectively, to the report of the Board,[a] that there was no requirement, as at 31 December 1997, for deficiency payments under article 26 of the Regulations of the Fund, and that the current contribution rate of 23.7 per cent of pensionable remuneration could be maintained for funding purposes, pending a review at the time of the next valuation, as at 31 December 1999, and in the light of future developments;

2. Takes note also of the review by the Board of the interest rate used to determine lump-sum commutations, and of the decision taken by the Board, under article 11 of the Regulations of the Fund, to change the current 6.5 per cent interest rate 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, to be confirmed by the Board at its next session in 2000;

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

[b] A/C.5/53/18.

[c] A/53/___.

3. _Takes note further_ that the Board intends to review, with the assistance of the Consulting Actuary and the Committee of Actuaries, the changes that had been made in the United Nations pension system since 1983 as part of the measures approved by the General Assembly to redress the past actuarial deficit of the Fund, in the first instance by the Standing Committee in 1999 and then by the Board in 2000 in the light of the results of the actuarial valuation of the Fund as at 31 December 1999;

II

PENSION ADJUSTMENT SYSTEM

Recalling section III of its resolution 51/217,

Having considered the reviews carried out by the United Nations Joint Staff Pension Board, as set out in paragraphs 318 to 341 of its report,[a] of various aspects of the pension adjustment system,

1. _Takes note_ of the results of the monitoring of the costs/savings of recent modifications of the two-track feature of the pension adjustment system and of the intention of the United Nations Joint Staff Pension Board to continue to monitor those costs/savings every two years, on the occasion of the actuarial valuations of the Fund;

2. _Takes note also_ of the decision of the Board to recommend to the Assembly that the threshold for implementing 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, to be confirmed by the Board at its session in 2000;

III

STATUS OF THE PROPOSED AGREEMENT BETWEEN THE UNITED NATIONS JOINT STAFF PENSION BOARD AND THE GOVERNMENT OF THE RUSSIAN FEDERATION

Recalling section IV of its resolution 51/217,

Noting that the General Assembly, on the recommendation of the United Nations Joint Staff Pension Board, had given its concurrence to the proposed agreement between the Government of the Russian Federation and the Board, and had requested the Board to provide information to the Assembly at its fifty-third session on the developments in respect of the further steps envisaged under paragraph 5 of section IV of resolution 51/217,

Noting also the information provided by the Board on the developments since the adoption of resolution 51/217, as set out in paragraphs 256 to 269 of its report,[a] and, in particular, that the Government of the Russian Federation has not yet formally approved the proposed agreement, which has precluded the pursuance of any of the further steps envisaged,

Noting further that the Board has requested its Chairman and Secretary to intensify their efforts, including through a visit to the Russian Federation, if considered useful, to gain the formal approval by the Government of the proposed agreement and protocol thereto, negotiated between the Board and the Government in 1996, and that, in this connection, the Board has authorized its Chairman and Secretary, in obtaining the formal approval of the proposed agreement, to allow for certain modifications in the schedule of payments by the Government of the actuarial costs of the proposed agreement and/or in the date of entry into force of its provisions, all of which would be subject to the approval by the General Assembly,

[Operative paragraphs to be formulated in the light of developments.]

IV

FINANCIAL STATEMENTS OF THE UNITED NATIONS JOINT STAFF PENSION FUND AND REPORT OF THE BOARD OF AUDITORS

Having considered the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 1997, the audit opinion and report of the Board of Auditors thereon, and the observations of the United Nations Joint Staff Pension Board,

1. Takes note with satisfaction that the report of the Board of Auditors on the accounts of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 1997 had indicated that the financial statements presented fairly, in all respects, the financial position of the Fund, and that the transactions tested as part of the audit had, in all significant respects, been in accordance with the Financial Regulations and legislative authority;

2. Takes note also of the information provided in the respective reports of the Pension Board and the Board of Auditors,[a] on the measures taken and under consideration to improve the administration of the Fund, including in particular measures to improve the procedures for verifying continuing eligibility for benefits from the Fund;

3. Takes note further of the arrangements made for the Office of Internal Oversight Services of the United Nations Secretariat to continue to carry out the internal audits of the Fund;

V

ADMINISTRATIVE ARRANGEMENTS BETWEEN THE UNITED NATIONS JOINT STAFF PENSION FUND AND THE UNITED NATIONS AND WITH THE OTHER MEMBER ORGANIZATIONS

Recalling section VII of its resolution 51/217 and section V of resolution 52/222 concerning the administrative expenses of the United Nations Joint Staff Pension Fund,

Having considered section VI of the report of the United Nations Joint Staff Pension Board,[a] on the administrative arrangements between the Fund and the United Nations and with the other member organizations,

Noting the current cost-sharing arrangements between the Fund and the United Nations and with the other member organizations, as set out in paragraphs 120 to 124 of the report of the Board,[a]

Noting also the discussion in the Board and its conclusions on the administrative arrangements and on the proposed revised estimates for the administrative expenses of the Fund for the biennium 1998-1999, as set out in paragraphs 194 to 202 and in paragraphs 228 to 244, respectively, of the report of the Board,[a]

1. Takes note of the information, set out in paragraphs 132 to 144 of the report of the Board,[a] on the services and facilities provided by the United Nations to the United Nations Joint Staff Pension Fund, and the local pension services provided by the Fund secretariat in respect of participants employed by the United Nations and its affiliated programmes, as well as the information on the services and facilities provided by the other member organizations in respect of participants employed by them;

2. Approves the revised cost-sharing arrangements between the United Nations and the Fund, as set out in paragraphs 154 to 166 of the report of the Board;[a]

3. Takes note of the intention of the Board to continue to consider other possible arrangements for the allocation of the costs of the operations of the Fund, as between those to be charged against the assets of the Fund and those to be shared by the member organizations of the Fund, taking into account the views expressed in the Board and in the Fifth Committee;

4. Takes note also of the issues to be addressed by the Standing Committee of the Board in 1999, in the context of the proposed budget for the biennium 2000-2001, in respect of the Fund's computer services, enhancement of the role of its Geneva office, the overall staffing structure of the Fund secretariat and the need for additional office space;

5. Takes note further of the analysis and conclusions on the respective responsibilities of the Secretary of the Board as Chief Executive Officer of the Fund for the administration of the Fund and those of the Secretary-General for the investments of the Fund, as set out in paragraphs 191 to 193 of the report of the Board;[a]

6. Approves the staffing arrangements and other resources recommended by the Board, involving additional expenses amounting to $4,161,700 net for the biennium 1998-1999, chargeable directly to the Fund for the administration of the Fund;

7. Amends article 7 of the Regulations of the Fund, regarding the post and title of the Secretary of the Board, as set out in annex XV to the report of the Board;[a]

VI

ENTITLEMENT TO SURVIVORS' BENEFITS FOR SPOUSES AND FORMER SPOUSES

Recalling paragraph 4 of section VIII of its resolution 51/217,

Noting the further review undertaken by the United Nations Joint Staff Pension Board of issues related to the pension entitlements of spouses and former spouses, as set out in paragraphs 279 to 317 of its report,[a]

1. Takes note of the amendment to administrative rule B.4 made by the Standing Committee at its 180th meeting in July 1997, as set out in annex XIV to the Board's report,[a] which entered into effect as from 1 August 1997;

2. Approves, with effect from the date of its adoption by the General Assembly, the amendment of article 45 of the Regulations of the United Nations

Joint Staff Pension Fund to provide for a payment facility in respect of former spouses, as set out in annex XV to the report of the Board;[a]

3. Requests the Board to monitor the experience in implementing the payment facility and to report to the General Assembly, as necessary;

4. Approves, with effect from 1 April 1999, the inclusion of a new article in the Regulations of the Fund to provide for a divorced surviving spouse's benefit, subject to conditions regarding eligibility for the benefit and the determination of its amount, as set out in the text of the new article contained in annex XV to the report of the Board;[a]

5. Takes note that the Standing Committee of the Board has been requested to review, at its meeting in 1999, the situation of divorced spouses who would not be covered by the proposed new article for reasons related to its prospective application;

6. Approves, with effect from 1 April 1999, the arrangement recommended for the optional purchase of surviving spouses' benefits in respect of marriages after separation, in accordance with the provisions of the new article set out in annex XV to the report of the Board;[a]

7. Approves, with effect from 1 April 1999, the amendments to article 34 to eliminate the current provision which requires discontinuation of a surviving spouse's benefit upon remarriage, as set out in annex XV to the report of the Board;[a]

8. Takes note that the Standing Committee of the Board will consider at its meeting in 1999 whether the change in paragraph 7 above might be extended to surviving spouses who had remarried prior to the effective date of the amendment;

VII

OTHER MATTERS

1. Takes note of the observations of the United Nations Joint Staff Pension Board, as set out in paragraphs 348 and 352 of its report,[a] on the review and conclusions reached by the International Civil Service Commission on the changes in average tax rates at the seven headquarters countries which formed the basis for the development of the current common scale of staff assessment for pensionable remuneration, and on the impact of the possible use of national tax rates to determine pensionable remuneration for staff in the General Service and related categories;

2. Takes note of the information on the status of the possible withdrawal of the Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade from membership in the United Nations Joint Staff Pension Fund, as set out in paragraphs 353 to 355 of the report of the Board,[a] and of the intention of the Board to hold a special session should the Interim Commission submit a formal application for withdrawal, for the purpose of determining, under article 16 of the Regulations of the Fund, the proportionate share of the Fund's assets to be remitted to the Interim Commission, in accordance with the methodology recommended by the Committee of Actuaries and approved by the Board;

3. Takes note of the further review carried out by the Board, as requested in section VIII of resolution 51/217, of a possible amendment of article 40 (a) of the Regulations of the Fund in respect of the re-employment of retirees in receipt of benefits from the Fund under appointments of more than two but less than six months per calendar year;

4. Concurs that it would not be desirable to pursue a revision of article 40 (a) of the Fund's Regulations at this time, for the reasons set out by the Board in paragraphs 358 to 360 of its report,[a] leaving it to the member organizations of the Fund to determine their respective personnel policies in this regard, as has been done for the United Nations Secretariat through General Assembly decision 51/408 of 4 November 1996;

5. Approves, with effect from the date of adoption by the General Assembly, the amendments to articles 21 (b) and 32 (a) of the Regulations of the Fund, which relate to the time limit for linking periods of contributory service, if no benefit has been paid, as set out in annex XV to the report of the Board;[a]

6. Takes note of the other matters dealt with in section X of the report of the Board;[a]

VIII

INVESTMENTS OF THE UNITED NATIONS JOINT STAFF PENSION FUND

1. Takes note of the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund, as well as the observations of the United Nations Joint Staff Pension Board thereon in its report;[a]

2. Takes note also of the observations of the Board of Auditors on the outstanding tax refunds due to the Fund from some member States in respect of direct taxes imposed on the Fund's investment income, as set out in paragraphs 13 to 15 of its report, which is reproduced in annex III to the report of the Board;[a]

3. Urges those member States which have outstanding balances on foreign tax accounts receivable to provide the reimbursement due as quickly as possible;

4. Reiterates its request to those member States which do not grant tax exemptions to make all possible efforts to do so as soon as possible.