United Nations

United Nations Joint Staff Pension Fund

Report of the United Nations Joint Staff Pension Board

Fifty-first session
(10-19 July 2002)

General Assembly
Official Records
Fifty-seventh Session
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United Nations • New York, 2002

Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

ISSN 0252-1202

[22 August 2002]

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Abbreviations

CEO	Chief Executive Officer
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
ICAO	International Civil Aviation Organization
ICCROM	International Centre for the Study of the Preservation and the Restoration of Cultural Property
ICGEB	International Centre for Genetic Engineering and Biotechnology
ICSC	International Civil Service Commission
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
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
OSCE	Organization for Security and Cooperation in Europe
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UNJSPF	United Nations Joint Staff Pension Fund
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Chapter I
Introduction

1. The General Assembly established the United Nations Joint Staff Pension Fund (UNJSPF) in 1949 to provide retirement, death, disability and related benefits for staff upon the 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 currently consists of 33 members, representing the 19 member organizations that are listed in annex I to the present report. 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 of those organizations and one third by the participants in the United Nations Joint Staff Pension Fund. The Board reports to the Assembly on the operations of the Fund and on the investment of its assets. When necessary, it recommends amendments to the Regulations of the Fund and to the Fund's pension adjustment system, which govern 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 in the administration of the Fund — principally the cost of its central secretariat at United Nations Headquarters in New York and its office in Geneva and the expenses of managing its investments — are met by the Fund.

3. The present report is submitted by the Board following its fifty-first session, held from 10 to 19 July 2002 at the Food and Agriculture Organization of the United Nations (FAO) in Rome. The members, alternate members and representatives accredited to the fifty-first session of the Board, the Chairman and other officers elected by the Board and those who actually attended are listed in annex II.

4. The major items dealt with by the Board were: (a) actuarial matters, including in particular the results of the twenty-sixth actuarial valuation of the Fund, as at 31 December 2001; (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 2002; (c) the final report of the Working Group that was established to undertake a fundamental review of the Fund's benefit provisions; (d) a progress report on the framework of the longer-term vision and objectives of UNJSPF, including a whole-office review; (e) revised budget estimates for the biennium 2002-2003; (f) the size and composition of the Board and its Standing Committee; and (g) activities relating to former participants from the former Union of Soviet Socialist Republics, the Ukrainian Soviet Socialist Republic and the Byelorussian Soviet Socialist Republic.

5. The Board examined and approved the financial statements and schedules for the biennium ended 31 December 2001 and considered the report of the Board of Auditors on the accounts and operations of the Fund. It also considered a report on the internal audits of the Fund.

6. Other matters considered by the Board and included in the report were: (a) the proposed transfer agreements between the Fund and Eurocontrol and the Organization for Security and Cooperation in Europe (OSCE); (b) the review by the International Civil Service Commission (ICSC) of the common scale of staff assessment for pensionable remuneration purposes; (c) the methodology for

determining final average remuneration; (d) amendments to the Regulations of the Fund concerning the commutation of minimum benefits and extended periods of leave without pay; and (e) the possible application for membership in the Fund by the International Criminal Court.

7. The membership of the Standing Committee, which acts on behalf of the Board when it is not in session, is provided in annex III.

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

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

10. Section II below provides an overview of the decisions taken by the Board at its fifty-first session and section III provides a summary of the operations of the Fund for the biennium ended 31 December 2001. Sections IV to IX address issues 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 this report are highlighted in boldface type**. A draft resolution for the consideration of the General Assembly is contained in annex XVI.

Chapter II

Overview of decisions taken by the Board

A. Recommendations and decisions taken by the Board that require action by the General Assembly

11. The following recommendations and decisions taken by the Board at its fifty-first session require action by the General Assembly:

(a) Following its examination of the report of the Working Group established to undertake a fundamental review of the Fund's benefit provisions and with a view to promoting the human resources framework adopted by ICSC and the Assembly, the Board recommends that the Assembly approve the following changes to the Fund's pension adjustment system and Regulations (see paras. 141-166 below):

(i) Apply cost-of-living adjustments to deferred retirement benefits as from age 50;

(ii) Apply cost-of-living differential factors as from the date of separation;

(iii) Eliminate the limitations on the right to restoration for existing and future participants;

(b) The Board also recommends that the Assembly concur with the transfer agreements negotiated with Eurocontrol and OSCE (see paras. 52-55);

(c) The Board recommends an increase in resources under administrative costs from $29,943,800 to $30,123,000 for the biennium 2002-2003 (see paras. 96-97);

(d) Due to the significant growth in the number of participants from the United Nations, the Board recommends that the size of the Board be increased from 33 members to 36, with the 3 additional seats to be allocated to the United Nations (see paras. 205-220);

(e) The Board also recommends that articles 28(g) and 30(c) of the Fund's Regulations be amended to increase the ceilings applicable in the commutation of the minimum benefit and that a new paragraph be added to article 21 to provide a limit as to how long leave without pay can be extended without concurrent contributions being paid into the Fund (see paras. 172-176).

B. Information provided to the General Assembly on other action taken by the Board

12. Information on the following items is provided by the Board to the General Assembly:

(a) The Board decided to request a review of the procedures and operating methods of the Investment Management Service and of the terms of reference for an independent external review of the investments of the Fund (see paras. 56-83);

(b) The actuarial valuation of the Fund, performed as at 31 December 2001, revealed a third consecutive surplus of 2.92 per cent of pensionable remuneration (see paras. 16-48);

(c) The Board also provisionally recommended elimination of the 1.5 percentage point reduction in the first adjustment of pensions in award to apply to existing and future beneficiaries, subject to an actuarial surplus in the valuation as at 31 December 2003 (para. 158); recommended that the contribution rate be maintained but that it be kept under review and that the current contribution ratio between the participants and the employing organizations also be maintained (para. 161); agreed to maintain the current methodology used in the determination of final average remuneration but to study all possible means of redressing the existing aberrations in the levels of initial pensions and in income replacement ratios over time (paras. 167-171); and decided to continue to review proposals for the purchase of added years of contributory service (para. 159), the provisions for validation, restoration and leave without pay (para. 160) and the problems associated with the adjustment of pensions after award (para. 162);

(d) The Board noted that as the periodic review of the cost/savings of the recent modifications of the two-track feature of the pension adjustment system showed that they were consistent with the past assessments, no changes were reaquired (see paras. 177-188);

(e) The Board requested the secretariat to carry out a study giving consideration to extending the provisions for residual settlements under article 38 of the Regulations of the Fund and to review the Fund's experience with respect to requests for divorced surviving spouses' benefits following the introduction of article 35 bis of the Regulations (see paras. 196-204);

(f) In regard to the pension situation of former participants from the former USSR, the Ukrainian SSR and the Byelorussian SSR, the Board requested the Secretary-General and the Secretary/Chief Executive Officer (CEO) to continue to seek a satisfactory resolution, including a possible personal visit to Moscow by the Secretary/CEO (see paras. 125-140);

(g) The Board concurred with ICSC that the level of movement of taxes at the seven headquarters duty stations showed minimal changes since 1995 and that therefore the current common scale of staff assessment should continue to apply (see paras. 189-195);

(h) The Board decided that the Secretary/CEO be given authority to waive recovery of all or part of an indebtedness to the Fund (see paras. 221-222);

(i) The United Nations Medical Director, who was appointed as the medical consultant to the Pension Board, provided a detailed report on and analysis of disability and death benefits, including a comparative analysis of trends and the causes of such benefits; the Secretary/CEO, in coordination with the Medical Directors in the common system and the United Nations Medical Service, will conduct a study for presentation to the Standing Committee in 2003 that will examine practices in the international organizations, notably regarding pre-employment medical examinations, possible provision for partial disability and the frequency of discontinuance of disability benefits (see paras. 121-124);

(j) The Board also decided to authorize the Standing Committee to consider an application for UNJSPF membership from the International Criminal Court (see paras. 223-225);

(k) The Board took note of the whole-office review of the staffing structure and levels of both the Fund secretariat and the Investment Management Service and expressed its support for and endorsement in principle of the Secretary/CEO's efforts and plans for modernization to deal with the fast-growing activities of the Fund (see paras. 100-104); the Board also expressed its support for the Secretary/CEO's efforts to continue to search for permanent premises for the Fund in New York (see paras. 105-107);

(l) With respect to the internal audit arrangements, the Board requested that the Secretary/CEO carry out a study, for presentation to the Standing Committee in 2003, on alternative audit arrangements that may be considered, including the possible establishment of a unit within the Fund secretariat or through outsourcing to an entity other than the Office of Internal Oversight Services; the Pension Board also took note of the report of the Board of Auditors on the accounts of the Fund for the biennium ended 31 December 2001 (see annex XII), which indicated that the financial statements were in compliance with accepted standard accounting principles and that there were no major findings of problems concerning procedures and controls (see paras. 88-95).

Chapter III

Summary of the operations of the Fund for the biennium ended 31 December 2001

13. During the biennium ended 31 December 2001, the number of participants in the United Nations Joint Staff Pension Fund increased from 68,935 to 80,082, or by 16.2 per cent; the number of periodic benefits in award increased from 46,199 to 49,416, or by 7.0 per cent. On 31 December 2001, the breakdown of the periodic benefits in award was as follows: 15,558 retirement benefits, 10,726 early retirement benefits, 6,509 deferred retirement benefits, 7,687 widows' and widowers' benefits, 8,049 children's benefits, 845 disability benefits and 42 secondary dependants' benefits. In the course of the biennium, 8,630 lump-sum withdrawal and other settlements were paid. A breakdown by member organization of participants and benefits awarded is provided in annex VI.

14. During the same two-year period, the principal of the Fund increased from $15,765,388,830 to $17,631,678,812, or 11.8 per cent (see annex XI, statement II).

15. The investment income of the Fund during the period amounted to $2,233,551,857, comprising $1,422,820,282 in interest, dividends, real estate and related securities and $810,731,575 in net profit on the sale of investments. After deduction of investment management costs amounting to $38,010,173, net investment income was $2,195,541,684. A summary of the investments as at 31 December 2001 and a comparison of their cost and market values is given in annex XI, schedules 2 and 3.

Chapter IV
Actuarial matters

A. Twenty-sixth actuarial valuation of the Fund, as at 31 December 2001

16. Article 12(a) of the Regulations of the United Nations Joint Staff Pension Fund provides that the Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The primary purpose of the actuarial valuation is to determine whether the current 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.

17. The consulting actuary submitted to the Board the report on the twenty-sixth actuarial valuation of the Fund, carried out as at 31 December 2001; the previous valuation had been carried out as at 31 December 1999 and its results had been reported to the General Assembly at its fifty-fifth session in 2000.[1] 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

18. 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 2001 and in accordance with the Regulations and Administrative Rules of the Fund in effect as at the valuation date. As in past years, 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.

19. As was done in the previous seven valuations, the actuarial value of the assets as at 31 December 2001 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 2001. The five-year moving market value, before application of the limiting range of 15 per cent, was determined to be $23,630.0 million. Since this value was within the limiting range, the actuarial asset value used for the current valuation was $23,630.0 million, which is 7 per cent greater than the market value as at 31 December 2001 ($22,035.7 million, after cash-flow adjustments).

20. In determining future developments, three sets of participant growth assumptions and three sets of economic assumptions were used in various combinations. The economic assumptions were the same as those used in the previous three valuations; the participant growth assumptions involved modest growth for 20 years, zero growth and modest decline for 20 years. Those assumptions are set out in the table below.

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

	Assumption (percentage)		
	I	***II***[a]	*III*
A. Economic assumptions			
Increase 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 (percentage of pensionable remuneration)	1.9	**1.9**	1.9
B. Participant growth assumptions			
For each of the first 20 years:			
Professional staff	0.5	**0**	-0.5
General Service staff	0.5	**0**	-0.5
After 20 years:			
Professional staff	0	**0**	0
General Service staff	0	**0**	0

[a] These assumptions were used in the "regular valuations", carried out as at 31 December 1999 and 31 December 2001.

Regular valuation

21. **The Committee of Actuaries recommended, and the Board agreed, that the 5.5/8.5/5 set of assumptions (i.e., 5.5 per cent annual increase in pensionable remuneration in addition to the static scale, 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 assumptions should serve as the basis of the regular valuation.**

22. The specific combinations included in the actuarial valuations as at 31 December 2001 were as follows: A.II with B.II (1999 and 2001 regular valuations); A.I with B.II; A.II with B.I; A.III with B.II; and A.II with B.III.

23. **With regard to demographic assumptions, the following changes had been approved by the Standing Committee in 2001, acting on the recommendation of the Committee of Actuaries: (a) an increase in the tabular rates of withdrawal by 15 per cent for men and women in the General Service and for women in the Professional category; (b) (i) a moderate change in the increased rates of early retirement adopted for the 31 December 1995 actuarial valuation (those rates had been scheduled to remain operative until 2006, when the prior rates would have again become effective); (ii) an adjustment in the pattern of early retirement rates to better align with the actual rates experienced; and (iii) applying the resulting changes in the early retirement rates for all durations; and (c) a modification in the forecast assumptions for improvements in pensioner longevity by adopting a graded scale of decreases in mortality rates and applying that scale for the 20-year period subsequent to 2001. (The graded scale contains a 2.0 per cent reduction per annum for ages 60 and**

younger, which declines, on a straight-line basis, to a zero per cent reduction per annum for ages 90 and older, with the reductions in mortality rates being applied on a geometric basis.)

24. **The provision for administrative expenses was 0.34 per cent of pensionable remuneration, determined on the basis of the approved budget for the biennium 2002-2003 and the total pensionable remuneration of participants as at 31 December 2001.**

Analysis of valuation results

25. The following table provides the results of the twenty-sixth actuarial valuation and compares them with the results of the regular valuation as at 31 December 1999.

		Contribution rate (as a percentage of pensionable remuneration)		
Valuation date	*Valuation basis*	*Required rate*	*Current rate*	*Difference ((surplus)/deficit)*
31 December 2001	**5.5/8.5/5 with zero participant growth (regular valuation)**	**20.78**	**23.7**	**(2.92)**
	5.5/8.0/5 with zero participant growth	23.43	23.7	(0.27)
	5.5/9/5 with zero participant growth	18.14	23.7	(5.56)
	5.5/8.5/5 with 20-year participant growth	20.68	23.7	(3.02)
	5.5/8.5/5 with 20-year participant decline	20.89	23.7	(2.81)
31 December 1999	**5.5/8.5/5 with zero participant growth (regular valuation)**	**19.45**	**23.7**	**(4.25)**

26. **Therefore, the regular valuation as at 31 December 2001 showed an increase of 1.33 per cent in the required contribution rate from the rate disclosed as at 31 December 1999 (i.e., from 19.45 per cent to 20.78 per cent), resulting in an actuarial surplus of 2.92 per cent of pensionable remuneration.** As can be noted from the table above, under real rate of return assumptions of 3 per cent and 4 per cent with zero participant growth, the results would be, respectively, surpluses of 0.27 and 5.56 per cent of pensionable remuneration, which demonstrates the major impact of the real rate of return assumption on the valuation results.

27. The elements contributing to the increase in the required rate were as follows:

	Element	*Increase/(decrease) in required contribution rate (as a percentage of pensionable remuneration)*
(a)	Contributions at 23.70 per cent rather than at the required rate	(0.26)
(b)	Investment experience	1.71
(c)	Net effect of changes in the value of the U.S. dollar and cost-of-living adjustments for pensioners and other gains affecting pensioners	(0.58)
(d)	Net effect of changes in the value of the dollar and actual inflation on pensionable remuneration	(0.40)
(e)	Effect of greater than expected number of new entrants	(0.02)
(f)	Effect of changes in administrative expenses assumed in valuation	0.08
(g)	Effect of changes in demographic assumptions	1.00
(h)	Effect of changes in demographic composition and pensionable remuneration of future participants	0.02
(i)	Effect of increases in tabular rates of withdrawal	(0.30)
(j)	Effect of changes in the provisions of the Fund approved by the General Assembly in 2000[a]	0.20
(k)	Miscellaneous	(0.12)
	Total change in the required contribution rate	**1.33**

[a] Excludes the cost of changing the cost-of-living threshold to 2.0 per cent because the regular valuation model assumes 5 per cent annual increases in pensions.

Current value of accrued benefits

28. As in previous reports, the actuarial valuation contained another indicator of the funded position of the Fund, namely, a comparison of the current 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 current participants if their service were terminated on that date).

29. With respect to its liabilities on a “plan termination” basis, the Fund was in a strongly funded position, as it had been for the past six valuations, 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 156 to 165 per cent, with 161 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 cost-of-living adjustments were made in pensions. The funded position decreased considerably when account was taken of the current system of pension adjustments, including the cost of the two-track system (1.9 per cent of pensionable remuneration); however, the current valuation indicated a funded ratio of 100 per cent or greater (i.e., ranging from 100 to 112 per cent, with 106 per cent being applicable for the regular valuation). As shown in the following table, the funded ratios have improved substantially since 1982, both with and without the assumption of future adjustments of pensions for inflation, although the funded ratios have decreased in comparison with those indicated by the prior valuation.

Funded ratios 1982-2001

	If future pension payments are made (percentage)	
Valuation as at 31 December	*Without pension adjustments*	*With pension adjustments*
1982	90	49
1984	100	56
1986	118	67
1988	123	70
1990	131	77
1993	136	81
1995	132	81
1997	141	88
1999	180	113
2001	161	106

Results of valuation in dollar terms and other disclosure statements

30. The General Assembly had requested the Board, in its resolutions 47/203 of 22 December 1992 and 48/225 of 23 December 1993, to consider the form in which it presented the valuation results, taking into account the observations made by the Panel of External Auditors. The Auditors had requested the Board to include in its reports to the Assembly disclosures and opinions as regards the valuation results, namely presentations of: (a) the valuation results in dollar terms; (b) a statement of sufficiency under article 26 of the Regulations of the Fund; and (c) 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.

31. Accordingly, the following table summarizes the valuation results as at 31 December 2001, both as a percentage of pensionable remuneration and in dollar terms, under the five combinations of economic and participant growth assumptions.

	Valuation results	
Economic assumption	*As percentage of pensionable remuneration*	*In millions of US dollars*
5.5/8.5/5 with zero participant growth (regular valuation)	**2.92**	**4 284.4**
5.5/8.0/5 with zero participant growth	0.27	480.4
5.5/9.0/5 with zero participant growth	5.56	7 011.9
5.5/8.5/5 with 20-year participant growth	3.02	4 758.4
5.5/8.5/5 with 20-year participant decline	2.81	3 849.4

32. The following table provides the projected liabilities and assets of the Fund in dollar terms, as reflected in the regular valuation results as at 31 December 2001 and 31 December 1999 respectively (in millions of United States dollars).

	31 December 2001	*31 December 1999*
Liabilities		
Present value of benefits		
Payable to or on behalf of retired and deceased participants	13 229.3	10 791.4
Expected to become payable on behalf of active and inactive participants, including future new entrants	40 425.1	35 238.6
Total liabilities	**53 654.4**	**46 030.0**
Assets		
Actuarial asset value	23 630.0	22 186.8
Present value of future contributions	34 308.8	29 121.8
Total assets	**57 938.8**	**51 308.6**
Surplus	**4 284.4**	**5 278.6**

33. As they have done in the past, the consulting actuary and the Committee of Actuaries stressed that care must be taken when considering the dollar amounts of the valuation results. The liabilities shown in the table above include those for individuals who have yet to join the Fund; similarly, the assets included the contributions for future new participants. The surplus indicates 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 following paragraph 31 above, a much smaller surplus was indicated on the 5.5/8/5 valuation basis, namely, a real rate of return of 3 per cent. Both the consulting actuary and the Committee of Actuaries pointed out that the actuarial surplus, when expressed in dollar terms, should be considered only in relation to the magnitude of the liabilities and not in absolute terms. The surplus of $5,278.6 million under the regular valuation as at 31 December 1999 represented 11.4 per cent of the projected liabilities of the Fund. The surplus of $4,284.4 million under the current regular valuation represented 8.0 per cent of the projected liabilities.

Hypothetical projection models

34. 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 dollar terms. These models showed that the Fund balance at the end of the 30-year period would still be increasing, in both nominal and inflation-adjusted dollar terms. Additional models, in which the assumed real rate of return on investments ranged from 2 to 5 per cent above the assumed 5 per cent rate of inflation, were also prepared. The 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 $94 billion to $305 billion.

View of the Committee of Actuaries

35. In its report to the Board, the Committee of Actuaries noted that this was the third consecutive valuation that had disclosed a surplus. The two previous valuations

carried out as at 31 December 1999 and 31 December 1997, had disclosed surpluses of 4.25 and 0.36 per cent of pensionable remuneration respectively. The Committee noted further that reductions in the actuarial surplus revealed by the current valuation were attributable to the investment returns, which were lower than projected under the actuarial economic assumptions, changes in the rates of early retirement and assumptions regarding forecast improvements in pensioner longevity and changes in the provisions of the Fund approved by the General Assembly in 2001. These reductions were offset to some extent by the gains resulting from the combined effects of the continuing moderate levels of inflation and the strength of the United States dollar against certain key currencies, which had a considerable impact on the pensionable remuneration of General Service staff in dollar terms and on the value of the local currency track pensions in equivalent dollar terms.

36. The Committee noted that the funded ratios showed decreases compared with those from the prior valuation, breaking a trend since 1980 of continued improvements in the funded ratios. However, the ratios, for the second time since 31 December 1999, equalled or exceeded 100 per cent under each of the three sets of assumptions, with and without the assumptions for adjustments of pensions in award (see para. 29 above).

37. **As regards the actuarial surplus as at 31 December 2001, after considering all relevant data, the Committee of Actuaries and the consulting actuary agreed that, while a portion of the surplus might be made available to improve benefits and/or reduce contributions, prudence dictated that a portion of the surplus should be retained. The Committee and the consulting actuary were of the view that it would be prudent to set aside, for adverse contingencies, a portion of the surplus equivalent to at least 1.0 per cent but not more than 2.0 per cent of pensionable remuneration, subject to future review.**

Statements on the valuation results

38. The statement of actuarial sufficiency prepared by the consulting actuary and approved by the Committee of Actuaries is included in annex VII. **The statement indicates that the actuarial value of assets exceeds the actuarial value of all accrued benefit entitlements under the Fund, based on the Regulations of the Fund in effect on the valuation date, and that, accordingly, there is no requirement, as at 31 December 2001, for deficiency payments under article 26 of the Regulations of the Fund (para. 6).**

39. The statement of the actuarial position of the Fund adopted by the Committee of Actuaries is provided in annex VIII. **In that statement, the Committee of Actuaries indicates that it had reviewed the results of the actuarial valuation as at 31 December 2001, which had been 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 was sufficient to meet the benefit requirements under the Plan.**

40. The Committee of Actuaries also informed the Board that it would continue to review the evolving experience of the Fund. It will submit recommendations to the Standing Committee next year on the assumptions to be used in the actuarial valuation of the Fund as at 31 December 2003.

Discussions in the Board

41. Clarifications were sought from the consulting actuary and from the Rapporteur of the Committee of Actuaries on various aspects of the actuarial valuation results and on the probable evolution of future valuation results in the years ahead.

42. Several members of the Board noted that the valuation results indicated a decline in the actuarial status of the Fund and requested information as to the extent to which the current actuarial results would vary if there should be significant changes in the market value of the assets of the Fund. The Board therefore requested a "sensitivity analysis" showing the extent to which future valuation results might change under various assumptions of changes in the market value of the assets. The consulting actuary subsequently prepared an analysis of sudden changes in the value of the assets, which was reviewed by the Rapporteur of the Committee of Actuaries. This analysis is provided in annex IX.

43. In presenting the sensitivity analysis, the consulting actuary noted that, assuming all actuarial assumptions in the regular valuation model were met, the required contribution rate would be expected to increase over the next several valuations because of asset losses that were not yet fully reflected in the actuarial asset value used in the current valuation. Assuming no other sources of gain and loss, the required contribution rate would be projected to increase to 21.87 per cent over the next five years. It was further noted that it would require a decline of around 10 per cent in the market value of assets before the surplus in the Fund on the regular valuation basis would be eliminated, assuming all other actuarial assumptions were met.

44. The consulting actuary and the Rapporteur of the Committee of Actuaries noted that the required contribution rate was also sensitive to changes in the strength of the dollar relative to key currencies in which a significant number of General Service staff were remunerated and on the level of future inflation. If the dollar were to weaken and/or future inflation were to exceed the 5.0 per cent assumed in the regular valuation model, the required contribution rate would increase. However, the possibility of beneficial deviations from the regular valuation assumptions should also be borne in mind. If the assets of the Fund were to grow at a rate in excess of that assumed in the valuation (i.e., 8.5 per cent per annum) with inflation continuing to be moderate, the required contribution rate would tend to decline.

45. The Rapporteur of the Committee of Actuaries also noted that current accounting practices emphasized use of the current market value of assets, which introduces a short-term rather than a long-term perspective on the financial status of a company or organization. The assets valuation method now in use by the Fund is more appropriate for a pension fund such as UNJSPF.

46. The Board noted that improvement of the actuarial situation of a pension scheme also depended upon income and that improvements could be sought through expanding the range of contributors to the Fund. It was noted in particular that consideration might be given to the way in which exclusion from Fund participation, provided for in article 21 of the Fund's Regulations, was decided upon by the member organizations.

47. Several members of the Board stressed the need for prudence regarding any changes in the United Nations pension system, particularly in the light of the current economic climate, with falling financial market indices and the weakening of the dollar.

Conclusion

48. **The Board took note of the actuarial condition of the Fund, as reflected in the valuation as at 31 December 2001. In its deliberations on possible changes in the pension system (see paras. 141-166 below), the Board took into account the views of the Committee of Actuaries and the consulting actuary.**

B. Membership of the Committee of Actuaries

49. The Committee of Actuaries consists of five members, one from each of the five geographical regions of the United Nations, appointed by the Secretary-General on the recommendation of the Board (article 9 of the Regulations of the Fund). The current membership of the Committee is set out in annex IV.

50. Under arrangements adopted by the Board in 1986 to alternate the membership of the Committee, the terms of three of the members are scheduled to expire on 31 December 2002:

Mr. T. Nakada (Japan) — Region II (Asian States)
Mr. J. Král (Czech Republic) — Region III (Eastern European States)
Mr. H. Pérez Montas (Dominican Republic) — Region IV (States in Latin America and the Caribbean).

51. **The Board decided to recommend to the Secretary-General that Mr. T. Nakada, Mr. J. Král and Mr. H. Pérez Montas, be reappointed for three-year terms on the Committee of Actuaries, for service from 1 January 2003 to 31 December 2005.**

C. Transfer agreements between the Fund and the European Organization for the Safety of Air Navigation and the Organization for Security and Cooperation in Europe

52. The Secretary/CEO presented to the Board the draft texts of new transfer agreements that were recently negotiated with the European Organization for the Safety of Air Navigation (Eurocontrol) and the Organization for Security and Cooperation in Europe (see annex X).

53. The proposed transfer agreement with Eurocontrol was a traditional two-way agreement, modelled closely on the Fund's recently concluded agreement with the World Trade Organization. However, OSCE has a provident fund, which is essentially a defined-contribution plan, and for that reason the proposed agreement with that organization was one way only, limited to covering staff who transferred from OSCE into UNJSPF.

54. **The Board decided to approve the proposed new transfer agreements with both Eurocontrol and OSCE, subject to the concurrence of the General Assembly, as required under article 13 of the UNJSPF Regulations. At the same time, the Board requested the Fund secretariat to contact the OSCE administration with a view to discussing the possibility of extending the transfer agreement between UNJSPF and OSCE to cover transfers from UNJSPF to OSCE as well and to report on developments to the Standing Committee in 2003.**

55. The Board was also informed of the interest expressed by some national associations of international civil servants in the conclusion of transfer agreements between their Governments and the UNJSPF. The Fund secretariat confirmed its readiness to enter into discussions with any interested Government with the aim of possibly negotiating a transfer agreement.

Chapter V
Investments of the Fund

A. Management of the investments

56. 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 provided information on the management of the investments of the Fund during the two-year period ending 31 March 2002 and described how the objectives and the investment strategy were applied against the background of the conditions prevailing in the economic, political and financial environment. The report showed the investment returns achieved over various periods and reviewed the financial accounts and administration of the investments. Information was also provided on realized and unrealized gains and losses covering calendar years 2000 and 2001.

Presentation by the representative of the Secretary-General and consequent discussion

57. The representative of the Secretary-General for the investments of the Fund introduced the report of the Secretary-General, gave a detailed summary on the developments in the financial markets and provided additional statistical data on the performance of the Fund's investments. The Chairman of the Investments Committee also made comments on the investments of the Fund. The representative of the Secretary-General, the Chairman and members of the Investments Committee and the Director of the Investment Management Service responded to questions.

58. The market value of the Fund's assets had decreased to $21,789 million as at 31 March 2002 from $26,056 million as at 31 March 2000, a decline of $4,267 million, or 16.4 per cent. The total investment return was negative 15.0 per cent for the year ending 31 March 2001 and positive 0.7 per cent for the year ending 31 March 2002. After adjustment in line with the United States consumer price index, the real rates of return were negative 17.4 per cent and negative 0.8 per cent respectively. The total annualized return for the biennium was therefore negative 7.5 per cent.

59. Exposure to equities decreased during the biennium due to a decline in the markets and the decision to sell equities. The equity exposure was therefore decreased from 69 per cent on 1 April 2000 to 57 per cent on 31 March 2002. As a result, the proportion of the bond portfolio increased to 27.9 per cent on 31 March 2002, from 21.1 per cent on 1 April 2000. Exposure to real estate increased to 5.5 per cent from 3.6 per cent, while short-term investments increased to 9.6 per cent from 6.0 per cent during the period.

60. During the biennium, the main negative contribution to performance came from equities, reflecting a broad correction in global equity markets since the peak in March 2000. Stock selection across the board had a positive effect on the total return. The negative performance by equities was partially offset by positive performance in all other asset classes. The performance of the real estate portfolio was particularly strong, followed by short-term investments and bonds. The Fund's exposure to dollar-denominated bonds contributed more to the total return than did any other asset class held by the Fund. The high level of short-term holdings especially helped to preserve the value of the Fund during the period of high market volatility. The Fund was negatively affected by the persistent weakness of all major currencies against the dollar, including the euro, yen and pound sterling.

61. The rates of return, as reflected in the table below, were calculated by an outside consultant. The calculation includes actual income received from dividends and interest, as well as capital gains and losses realized. It also takes into account changes in the market value of the investments and the timing of cash flows.

Total return based on market value for the years ending 31 March

(Percentage)

	2002	*2001*	*2000*	*1999*
Equities				
United States equities	2.8	-17.2	17.5	18.4
Equities outside the United States	-6.1	-30.3	39.9	9.7
Total equities	**-1.3**	**-24.2**	**28.5**	**13.9**
Bonds				
United States dollar bonds	4.9	13.0	3.1	4.8
Non-United States dollar bonds	2.1	-4.2	-5.7	9.0
Total bonds	**3.1**	**2.0**	**-2.5**	**6.5**
Real estate	8.4	11.3	11.7	4.8
Short-term investments	3.5	4.2	3.0	9.9
Total Fund	**0.7**	**-15.0**	**18.0**	**11.3**

62. The biennium ending 31 March 2002 was characterized by a sharp negative reversal of the performance of the equity portfolio compared with the previous biennium. The equity portfolio had negative returns of 24.2 per cent and 1.3 per cent for the years ended 31 March 2001 and 31 March 2002 respectively. The weakness in the equity portfolio must be seen in the context of the abnormally high double-digit returns achieved in the five-year period from 1996 to 2000. During that period, equities had a total return of 151 per cent, or an annualized return of 20.6 per cent. United States equities outperformed equities outside the United States in 1999, 2001 and 2002, while United States dollar-denominated bonds outperformed bonds denominated in currencies other than the dollar in 2000, 2001 and 2002.

63. The representative of the Secretary-General stressed once again that short-term results have little meaning in the context of the long-term investment strategy of the Fund. The management of the Fund is geared towards maintaining a careful balance between the expectations of risk and reward over the medium to long term.

64. Over the long term, equities have outperformed other asset classes. This trend provides the rationale for a significant equity weighting in the portfolio. Over the 42-year period during which the performance of the Fund has been calculated, the Fund's United States equities have outperformed equities outside the United States 27 times. During the same period, the Fund's bonds denominated in currencies other than the United States dollar have outperformed dollar-denominated bonds 23 times. Real estate-related investments have provided stable returns for the 30 years in which the total return has been calculated, with only 3 years of negative returns. Equities have outperformed bonds during the last 42 years and the pace has

accelerated from 1982 to the present. The correction in equities that occurred during the biennium did not undermine their long-term superior performance over bonds. One dollar invested in equities in 1962 would have grown to $40.35 at 31 March 2002, while the same dollar invested in bonds would have grown to $19.51 during the same period. However, the bond portfolio has generated more income than the equity portfolio. The combination of high capital appreciation from equities and high income from bonds has been beneficial to the Fund; furthermore, these two major asset classes have not experienced negative returns at the same time since the inception of the Fund.

65. The Fund continues to be the most widely diversified pension fund that maintains its accounts in United States dollars but has liabilities in several other currencies. At the end of the period under review, UNJSPF had about 43 per cent of its assets in currencies other than the United States dollar.

66. During the year ending 31 March 2001, the Fund outperformed its benchmark, which is composed of 60 per cent Morgan Stanley Capital International World Index (MSCIWI) and 40 per cent Salomon Brothers World Government Bond Index (SBWGBI). Its total return of negative 15.0 per cent was much better than a negative total return of 16.3 per cent for the benchmark. For the year ended 31 March 2002, the Fund also outperformed the benchmark, with the total return of 0.7 per cent versus negative 2.0 per cent for the benchmark. Over the past 20 years, the benchmark had a total return of 11.7 per cent compared with the annualized total return of 11.5 per cent achieved by the total Fund; the main reason for the Fund's slight underperformance was its lower weighting in equities in the earlier years.

67. As can be noted from the table below, compared with the benchmark, the Fund has had a better risk/return profile. The Fund's average return of 12.0 per cent was slightly lower than the benchmark's average return of 12.7 per cent, but the Fund's volatility, 11.3 per cent, was substantially less than that of the benchmark, 13.9 per cent. The Fund had a better risk/return profile because it has a well-diversified portfolio that includes all major asset classes and its holdings are concentrated in blue-chip companies.

68. Within asset classes, the Fund's equity portfolio slightly underperformed (13.6 per cent) versus MSCIWI (14.0 per cent), but the equity portfolio had a much better risk profile (14.9 per cent versus 17.7 per cent). The bond portfolio (11.0 per cent) outperformed SBWGBI (10.2 per cent) but had slightly higher volatility (12.0 per cent versus 11.3 per cent). This can be explained by the fact that the Fund had some exposure to corporate bonds, which are not part of SBWGBI.

Risk/return profile based on average annual returns, March 1983 to March 2002

(Percentage)

	Risk	*20-year average return*
UNJSPF, Total	**11.3**	**12.0**
Benchmark	13.9	12.7
UNJSPF equities	14.9	13.6
MSCIWI	17.7	14.0
UNJSPF bonds	12.0	11.0
SBWGBI	11.3	10.2

69. The Fund continued its efforts, in accordance with the established investment criteria, to identify appropriate investment opportunities in developing countries. Direct and indirect investments in developing countries amounted to $1,120 million at cost on 31 March 2002, a decrease of 11.6 per cent since 31 March 2000. Most of the reduction came from sales and the maturation of bonds in Africa, which could not be replaced, and Latin America, while new investments were made in Asia.

70. During the joint meeting with the Investments Committee, members of the Board raised a wide range of concerns and questions related, among other things, to the decrease in the market value of the Fund; the high exposure of the Fund's assets in equities; the increased importance of high income as the Fund matures; the approved list of companies; the risk/return profile of the Fund; the need for review of the investment strategy for the Fund's investments in the light of the current uncertainties and volatility in the financial markets; recent breaches in accounting and corporate management integrity and the Fund's investments in the companies concerned; socially responsible investments, in particular issues related to forced and child labour; the Board's knowledge of the investment decision-making process; how decisions to purchase and sell securities were made; target prices on sales and purchases; and the Fund's benchmark.

71. Board members noted the increased information flow from management and expressed hope that the trend would continue. It was suggested that in referring to the Latin American region the report should use the United Nations terminology of "Latin America and the Caribbean".

72. The Chairman and members of the Investments Committee, the representative of the Secretary-General and the Director of the Investment Management Service responded to the questions and comments posed by the Board.

73. In response to the question of why the high exposure to equities had not been actively reduced, it was explained that the Fund required exposure to equities not only because they provided better returns over time, but also because none of the other asset classes could provide the returns required by the Fund to reach its actuarial requirements. It was further explained that during the biennium the allocation to other asset classes had been increased from 30 per cent to 45 per cent. However, over time bonds would not provide the returns required to fund benefits, cash provided no protection against inflation, and real estate investments normally provided a steady single-digit return and were not liquid enough for large exposure. If the Fund had been in bonds earlier, its market value would be lower than it is today.

74. In responding to concerns that the Fund has investments in the company that provides its master record-keeping services and about the ethics of an adviser recommending investments in the stock of its parent company, it was explained that there was no policy restricting investments in those companies. In both cases, the company's units providing master record-keeping and advisory services were separate from the banking services of the firms. The Fund had made those investments before the companies were retained as service providers to the Fund.

75. The inclusion of a company on the list of approved companies in which the Fund may invest was recommended either by the staff of the Investment Management Service or the advisers, reviewed and recommended by the Investments Committee and finally approved by the representative of the Secretary-General. Before reaching the decision, the Investments Committee and the

representative of the Secretary-General were provided with substantive data on the fundamentals and expected future prospects of the companies concerned. After a company had been included on the approved list, investments could be initiated if market conditions were considered to be favourable for such an investment immediately. Otherwise the company would be monitored before initiating a holding.

76. The Board was assured that the members of the Investments Committee were fully aware of the maturing status of the Fund and the need for income-generating investments. The Secretary/CEO participates in every meeting of the Committee and briefs the members on the status of the Fund. Also, a joint meeting of the Investments Committee with the Committee of Actuaries and the consulting actuary had taken place. The members of the Investments Committee always paid close attention to the requirements of the Fund in making recommendations.

77. The Investments Committee makes recommendations on broad asset allocation, but the decision to purchase or sell securities is made by the staff of the Investment Management Service and approved by the representative of the Secretary-General. Decisions to sell a holding are normally a result of one or more of the following factors: the overall allocation of assets to equities has been reduced; the target price for sale has been reached; there has been a major disappointment in company fundamentals; and a better alternative investment has become available. Decisions to purchase stocks are made after careful analysis of fundamentals such as earnings visibility, expected growth rate, quality and price comparisons, the level of valuations and so on. The Investment Management Service has target prices for each sale and purchase.

78. In responding to concerns about the Fund's investments in Enron and other troubled companies, the Board was informed that each investment was monitored and researched on a regular basis by the Investment Management Service staff and the advisers and that all efforts had been made to recognize early warning signs and take action accordingly, but that drawing accurate conclusions from unclear and incomplete data was difficult. Cases, such as Enron, that involved fraud were especially difficult. Enron had been considered by the investment community to have a good business model, strong fundamentals and sound management. As a matter of fact, most analysts recommended the purchase of Enron stock after the first announcement of its problems. It was also pointed out that the corporate bond market had been equally affected by these scandals and that the Fund had no investments in such bonds. In future, investors could be expected to benefit from stricter implementation of the rules and regulations, more vigorous monitoring by regulatory authorities and analysts and improved accounting standards. Exceptional performance and growth numbers should also be considered and analysed in future with more scepticism.

79. The need for the Fund to have a benchmark was stated by the General Assembly in its resolution 49/224 of 23 December 1994, in which it requested the Secretary-General to present in future reports on investments of the Fund a fuller analysis of the performance of those investments and their significant components, including, where applicable, means of comparing performance with relevant benchmarks and other pension funds. The benchmark selected by the Secretary-General, in consultation with the Investments Committee, was implemented in January 1997. The process used in selecting the benchmark was explained in detail in 1998 to both the Board and the General Assembly in the Fifth Committee (see

A/C.5/53/18, para. 33). In its subsequent resolution 53/210 of 18 December 1998, the Assembly welcomed the development of a strategic benchmark for the investment performance of the Fund, as described in the report.

80. In responding to a question on currency exposure of the Fund's investments and benefit payments, the Board was informed that the Investments Committee had reviewed and recommended a target currency distribution at each meeting. Matching currencies in investments with currency liabilities of the benefit payments was not feasible because in some countries, such as Switzerland, the Fund had large benefit payments but investment opportunities were relatively limited, whereas in Japan the situation was reversed. The effects of currency appreciation were also discussed. As the Fund is United States dollar-based, it benefited from investments in other currencies when the dollar depreciated.

Discussions in the Board

81. The Board expressed its appreciation to the representative of the Secretary-General, the Chairman and members of the Investments Committee and the staff of the Investment Management Service and the investment advisers for their work on the management of the Fund's investments. The Board also thanked the Chairman and the members of the Investments Committee for the service they were rendering to the Fund and for the open and comprehensive exchange of views during the joint meeting. It was suggested that, to the extent feasible, future Investments Committee meetings be scheduled so as to maximize the availability of Committee members for discussion and exchange of views with the Board.

82. In concluding the discussion on the management of investments, some members of the Board reiterated the points made during the joint meeting with the Investments Committee and noted that the report by the representative of the Secretary-General provided no explanation for the gains and losses. The Board expressed deep concern over the significant reduction of the market value of the Fund's investments; noted the continuing efforts by the management of the investments of the Fund to deal with market turbulence; reaffirmed that the respective roles and responsibilities of the Board, the Secretary-General, the Investments Committee and management should be maintained and not confused; invited all concerned parties to continue communicating with each other; supported the call — and appreciated the readiness expressed by the Chairman of the Investments Committee — for an improved flow of information to the Board; requested that the report to the Board on the management of the investments by the representative of the Secretary-General be much more analytical, giving a complete picture of major activities and main developments that transpired during the reporting period; and recommended that whenever a significant event occurred in the management of the Fund's portfolio, the report include an analysis of the essential elements underlying the variations from normal performance, identifying any lessons learned that could improve future performance and indicating what measures had been taken or were planned to be taken to benefit from the analysis. If the event was merely an aberration, the Board considered that the report should say so.

83. **The Board took note of the report of the Board of Auditors concerning this area and requested the secretariat to report on the implementation of the recommendations contained in the report to the next meeting of the Standing Committee. Taking into account the relevant comments of the Board of**

Auditors, the Board invited the Secretary-General to undertake a review of the procedures and operating methods of the Investment Management Service, including an evaluation of internal procedures for risk management and security, and to share with the Standing Committee at its next meeting the results and the actions taken as a consequence of this review. The Board also invited the Secretary-General to present to the Standing Committee at its next meeting the terms of reference for an independent external performance review of the investments of the Fund, together with the cost implications of such a review.

B. Membership of the Investments Committee

84. The Board noted the intention of the Secretary-General to reappoint Ms. F. Bovich and Messrs. T. Ohta and P. Stormonth Darling as members of the Investments Committee for additional three-year terms beginning 1 January 2003. The Board also took note of the intention of the Secretary-General to reappoint Mr. E. Cárdenas of Argentina, Mr. F. Hárshegyi of Hungary and Ms. H. Ploix of France to serve as ad hoc members in 2003.

85. The Board invited the Secretary-General to consider greater diversification of the Investments Committee in order to provide the requisite expertise in all major areas of investment with a view to meeting the new and greater challenges facing the Fund. The current membership of the Committee is set out in annex V.

Chapter VI

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

A. Financial statements

86. The Board examined the financial statements and related data on the operations of the Fund for the biennium ending 31 December 2001. It noted a significant increase in participation over the prior biennium, from 68,935 to 80,082 participants, or by 16.2 per cent, with increases in all but four of the member organizations. The number of benefits in payment (49,416) had also increased by 7 per cent, and the biennial payroll for benefits in payment amounted to $2.1 billion, representing an increase of 4.8 per cent over the prior biennium. The total expenditure for benefits, administration and investment costs of $2.2 billion exceeded contribution income by approximately $367 million, an annual average of $185 million compared with an annual average of $163 million in the prior biennium. Contribution income increased from $1.6 billion to $1.8 billion during the biennium 2000-2001, or an increase of approximately 10.6 per cent. The Board also noted the decline in the market value of the Fund's investments, from $25.6 billion in December 1999 to $21.5 billion at the end of December 2001, or a decline of 16.1 per cent.

87. The Board took note of the financial statements and related data submitted by the Secretary/CEO, which are provided in annex XI.

B. External audit

88. A representative of the Board of Auditors presented the main findings of the audit of the UNJSPF financial statements for the biennium ended 31 December 2001, via videoconference from New York. The report of the Board of Auditors is provided in annex XII.

89. The Board of Auditors advised the Pension Board that the Fund's financial statements were generally in compliance with accepted standard accounting principles and that there were no major findings of problems concerning procedures and controls. However, the auditors noted that the accounting applied by the Fund for recording contributions from member organizations was not in compliance with the United Nations system accounting standards. Contributions were recorded as assets instead of being posted as income during the year, and only at year's end, when they were cleared as revenue, were they credited to an income account. Thus, accrual principles were applied only at year's end, not on a monthly basis. While noting that the year-end result was not affected by this accounting method, the Board of Auditors recommended that the Fund should adapt, if necessary, its accounting procedures to allow for entering estimated contributions as revenue, endeavour to obtain better estimates of monthly contributions and consider achieving nearly real-time monthly data processing after benchmarking against other funds' best practices. Additionally, administrative expenditures incurred jointly with a United Nations service were booked as assets on a monthly basis and debited in an expenditure account only at year's end.

90. The Board of Auditors also noted that bank charges and interest income were offset in the financial statements, although they were accounted for separately in the general ledger; that the accounting methods and procedures utilized by the Fund should be reviewed with a view to improving monitoring; that further increases in benefits or decreases in contributions should be deferred until a positive trend in the surplus occurs over three consecutive bienniums; that an in-house accounting system in the Investment Management Service should be implemented as soon as possible and that monthly cash-flow projections should be introduced so that cash management can be appropriately monitored; and that a compliance officer should be appointed to ensure compliance with Staff Rules and supplementary guidelines by the staff of the Investment Management Service.

91. The Board requested clarification from the representative of the Board of Auditors on a number of items, particularly with regard to the Board's findings on the recording of contributions from the Fund's member organizations. The representative of the Board of Auditors stated that the Fund should benchmark against other funds on possible ways to collect more accurate and up-to-date data on a monthly or quarterly basis.

92. The Rapporteur of the Committee of Actuaries requested clarification of the recommendation, found in the Board's report, that the Fund disclose both "open group" and "actuarial evaluation, not considering any future member" or equivalent information. As regards the Board's recommendation related to future members' contributions and benefits, the consulting actuary's report on the latest actuarial valuation provided precisely such information. He suggested that communication between the Board of Auditors and the Committee of Actuaries be enhanced.

93. Queries were raised by Pension Board members regarding cash management. It was noted that the Board of Auditors had agreed with the Fund's internal auditors that the Fund could streamline and optimize its cash management if contributions from member organizations and disbursements for administrative and benefit payments were processed through the Fund's bank accounts. This would allow for the establishment of efficient cash-flow projections on a weekly, monthly and annual basis.

94. The Pension Board expressed its satisfaction with the presentation made by the representative of the Board of Auditors. Members of the Board noted that the Fund was unique and that it was difficult for the Board of Auditors to compare it with other entities. In particular, they considered that the auditors' recommendation that member organizations' contributions be recorded would be difficult to achieve and would provide no added value to the certified and publicized financial statements. Member organizations would have considerable difficulty in providing accurate monthly contributions, particularly for field operations, and the reconciliation required by the Fund would be labour-intensive and costly. Board members agreed that the Fund's accounting procedures should be modernized and, if necessary, adjusted to the peculiarities of the Fund's activities, with a view to providing greater clarity and decreasing possible risk and exposure.

95. As regards the proposal of the Auditors that the Fund supplement the United Nations Staff Rules by guidelines in relation to Investment Management Service activities and that a compliance officer function be introduced to that effect, the Board noted that the United Nations standards of conduct were applicable to the staff of the Investment Management Service, as were the Financial Rules and Regulations.

Chapter VII
Administrative matters of the Fund

A. Revised budget estimates for the biennium 2002-2003

96. The Board considered budget submissions made by the Secretary/CEO with regard to the biennium 2002-2003 and decided to approve additional resources for the following purposes:

(a) The recalculation of the benefits of separated General Service staff members of the United Nations Educational, Scientific and Cultural Organization and FAO, required by an International Labour Organization (ILO) Tribunal judgement and a retroactive change in the local salary scales respectively. The processing work for the revised calculations will require approximately 12 months of general temporary assistance (General Service (Other level)) and will be shared by the New York and Geneva offices of the Fund secretariat. The cost of the additional resources would amount to $62,500;

(b) The implementation of the following recommendations of the Working Group established to undertake a review of the benefit provisions of the Fund that were approved by the Board (as mentioned in para. 157 below):

(i) Cost-of-living adjustments to be applied to deferred retirement benefits as from age 50; the information technology and administrative costs would be $49,800;

(ii) Cost-of-living differential factors for deferred retirement benefits to be applicable as from the date of separation; the information technology and administrative costs would be $8,900;

(iii) Elimination of the limitation on the right to restoration for existing and future participants; the information technology and administrative costs would be $58,000.

97. The total resources under administrative costs in the Fund's budget for the biennium 2002-2003 would consequently increase from $29,943,800 to $30,123,000. This reflects a total increase of $179,200 over the initially approved budget.

B. Progress report on the framework for a longer-term vision and objectives of the Fund

98. The Board considered detailed progress reports on the following five main projects contained in the management charter submitted by the Secretary/CEO at the 2001 session of the Standing Committee: (a) the information technology re-engineering project; (b) the enhancement of the Geneva office; (c) the communications policy; (d) business continuity planning; and (e) the quality management policy. The reports by the Secretary/CEO described the action taken and progress made to date in achieving the objectives and outlined the action plans and timetables for the balance of the biennium 2002-2003.

99. **The Board expressed its appreciation for the reports, which represented a significant step towards achieving better service and efficiency. It was recognized that the documents submitted constituted policy documents that**

were strategic and transparent, facilitating communication, measurement and monitoring of performance. The Board considered that the information was extremely well-presented and noted its expectation for ongoing reporting on related achievements under the management charter to future sessions of the Standing Committee and the Board.

C. Whole-office review

100. At its meeting held in July 2001, the Standing Committee of the Pension Board had requested that a whole-office review of the staffing structure and levels of both the Fund secretariat and the Investment Management Service be carried out in the light of the new structure prepared by the Secretary/CEO and that it be presented to the Board at its session in July 2002. This request was a direct consequence of the presentation by the Fund's Secretary/CEO of a management charter that encompassed a long-term vision of the Fund's mission, followed by detailed objectives and action plans. The Charter was closely linked to the Secretary/CEO's budget proposals for the biennium 2002-2003. The Standing Committee expressed its full support for the Secretary/CEO in his overall plans for modernization and approved most of the requested resources and posts. However, although not objecting per se to the requests for reclassification, the Standing Committee decided to defer its recommendations on all requested reclassifications until the completion of the whole-office review.

101. After discussions with the Office of Human Resources Management, a consulting group was retained to carry out the whole-office review. The consultants' report addressed in depth the question of the appropriateness of and justifications for the proposed reclassifications in the context of the Fund's structure, organization and mission. The consultants had also considered it useful to conduct brief surveys of several areas of the Pension Fund that were not affected at this stage by the pending reclassification requests, and made a number of suggestions and additional recommendations.

102. The Board noted the recommendations related to the reclassification of the three posts on which the Standing Committee had deferred action in 2001, pending the whole-office review, as follows:

(a) The post of Deputy Chief Executive Officer/Deputy Secretary: the consultants' recommendation is in favour of the reclassification of the post from the D-1 to the D-2 level;

(b) The post of Relations and Liaison Officer in the Office of the Chief Executive Officer: the consultants recommended that the description of the duties and responsibilities of the existing P-4 post be changed to reflect the new and strengthened duties assigned to the post and that the post title be changed to Special Assistant to the Chief Executive Officer for Policy and Planning. The consultants recommended that the post be reclassified from the P-4 to the P-5 level;

(c) The post of Chief of the Information Management Systems Section: the consultants recommended converting the Information Management Systems Section into a separate service outside of the operations area, which would report directly to the CEO. The expanded scope of the post would give the Chief Information Officer increased responsibilities for security, business continuity planning and coordination

with the Fund's member organizations. The recommendation is to reclassify the post from the P-5 to the D-1 level.

103. In addition to the reclassification of posts, the Secretary/CEO presented requests for two new posts based on the following considerations:

(a) Programme budget analyst in the Executive Office. The consultants have proposed the creation of a post of programme budget analyst (P-3) to support the Executive Officer and to provide expertise in budget and programme analysis. In addition to working on matters related to the Fund's budget, the incumbent would provide the Board and managers with management reports, which would enable them to discharge their responsibilities more effectively. Managers would utilize such reports to take prompt action on information showing what processes and procedures work or do not work, a basic management requirement that has, in many ways, been overlooked or neglected in the past. Performance reporting would be addressed in a systematic and timely manner, with the aim of standardizing the reporting by the various areas and sections of the Fund. The new function would be an integral part of the development of a results-oriented culture in the Fund and is considered vital for implementing the improvements envisaged through the re-engineering project, namely, through monthly performance reporting and a new budget presentation that will promote the principles mentioned in the management charter;

(b) A new General Service (Other level) post for the provision of clerical support to the Chief of Operations. The Chief of Operations, with wide-ranging responsibilities for supervising and managing the largest number of staff in the Fund secretariat, currently has no clerical support whatsoever. Consequently, the D-1 Chief of Operations spends a substantial period every day performing strictly clerical functions and cannot devote all her time to the supervisory and quality management activities her job calls for. The Secretary/CEO noted that this situation constitutes a clear waste of valuable resources.

104. **During the discussion of the Secretary/CEO's proposals and the consultants' recommendations, Board members expressed their support for the Secretary/CEO's efforts and plans for modernization, found the proposed structure acceptable as a blueprint and endorsed it in principle. They indicated that the amount of additional resources requested was consistent with the fast-growing activities of the Fund and with the necessary changes outlined in the management charter, which were already supported by the Standing Committee in 2001. However, despite strong opposition from the participants' representatives, some members from the other two groups and the Federation of Associations of Former International Civil Servants, the Board decided to take no action on the requests for reclassification and for new posts. The Secretary/CEO's proposals would therefore be presented to the Standing Committee in 2003, as part of the Fund's budget proposals for the biennium 2004-2005.**

D. Office space for the Fund

105. The Board took note that a lease agreement had been signed in May 2002 for additional office space in a building owned by the State of Uganda near United Nations Headquarters. This will provide a short-term solution of the Fund's immediate space requirements related to the information technology re-engineering projects.

106. The Secretary/CEO also informed the Board that a search for permanent premises for the Pension Fund, including the Investment Management Service, had been initiated, in conformity with a recommendation made by the Standing Committee in July 2001. A suitable property was identified in the vicinity of United Nations Headquarters; however, negotiations to acquire the building for UNJSPF failed because the owners ultimately decided to sell individual floors of office space under a condominium offering plan.

107. **The Board expressed its support for the Secretary/CEO's efforts to continue to search for permanent premises for UNJSPF in New York and requested that a report thereon be submitted to the Standing Committee in 2003.**

E. Emergency Fund

108. 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 1975 it has been used to provide relief in individual cases of proven hardship owing to illness, infirmity or similar causes.

109. The Board reviewed the operations of the Emergency Fund since the previous report was submitted to the Standing Committee in July 2001 and noted that during the period from 1 May 2001 to 30 April 2002, 15 disbursements were made totalling $28,713. The amounts disbursed over the two-year period from 1 May 2000 to 30 April 2002 totalled $79,199. Total expenditures from the Emergency Fund since 1975 have reached approximately $911,893. At least half of the cases processed during the reporting period related to medical expenses not reimbursed by any other source; others related primarily to reimbursement for nursing or domestic assistance and funeral expenses.

110. The Board was provided with a copy of the guidelines for the use of the Emergency Fund, which were revised in 2001 to take into account the responsibility of the Fund's Geneva office for the processing of cases in certain regions. The guidelines also refer to cooperation with the member associations of FAFICS, many of which have "benevolent funds" that are able to provide assistance without the legal constraints of the Emergency Fund.

111. The ILO Staff Pension Committee made a proposal to amend the guidelines of the Emergency Fund, which was tabled. After discussion as to who would be eligible to apply for assistance from the Emergency Fund, the Board noted that the ILO Staff Pension Committee would submit a note on the range of possible beneficiaries; the Fund secretariat would subsequently prepare, in consultation with the United Nations Office of Legal Affairs, a study on the administrative, financial and legal implications of defining the class of beneficiaries who might be eligible to apply for assistance under the guidelines of the Emergency Fund.

F. Administrative costs: after-service health insurance

112. The Board reviewed the historical background related to the direct deduction from UNJSPF pension benefits of after-service health insurance premiums as part of

the UNJSPF monthly payroll for beneficiaries. Information was provided on the increasing effort required of the Fund secretariat to administer the deductions for approximately 20,000 beneficiaries who subscribed to the scheme, with monthly deductions amounting to approximately $2.1 million. The Board noted that when the scheme was introduced in 1984, it had been agreed that the costs involved should be shared by the participating organizations.

113. The Secretary/CEO noted that the number of participants in the after-service health insurance premium deduction programme had over time increased substantially, from 2,100 in 1989, when the administrative costs were minimal. He then indicated his intention to undertake a detailed review and analysis of the resources devoted by the Fund secretariat for this work and to submit a paper on the subject to the Standing Committee, with proposals for cost-sharing arrangements with participating organizations.

114. The Board noted the importance of this service, both for member organizations and for UNJSPF beneficiaries. The Board therefore supported the proposal of the Secretary/CEO, while indicating that prior to the finalization of the paper appropriate consultation should be undertaken with the participating organizations.

G. Internal audit arrangements

115. The Board considered a report of the Office of Internal Oversight Services on the internal auditing of UNJSPF during the period from 1 May 2000 to 30 April 2002. The Office had assumed responsibility for providing ongoing internal audit coverage for the Fund as from 1 September 1996.

116. During 2001, the Secretary/CEO had discussed extensively with the Office of Internal Oversight Services a detailed audit plan for the biennium 2002-2003, together with the resources that would be required by the Office to carry out that work, and then reached agreement with the Office. Accordingly, the Fund's budget proposals for the biennium 2002-2003 included a request for resources totalling $742,900 for internal audit costs, an amount substantially higher than the total of $550,900 that had been provided for this purpose in the budget for the preceding biennium. That request was approved without change by the Board's Standing Committee, the Advisory Committee on Administrative and Budgetary Questions, the Fifth Committee and ultimately the General Assembly.

117. However, following a risk assessment and analysis of the past internal audit coverage of UNJSPF undertaken in May 2002, the Office of Internal Oversight Services concluded that additional resources were required in the biennium 2002-2003 to audit areas of highest risk, particularly with respect to investment activities. These additional resources would consist of two new P-4 posts and a further $425,000 to cover expenses such as consultancy fees, travel and training.

118. The Secretary/CEO informed the Board that the detailed audit plan for 2002-2003, agreed to by the Fund and OIOS, already included defined audit missions and timetables that reflected risk assessment, with priority being given to the auditing of high-risk areas. He noted that the approved total resources took into account the fact that consultants with specialized expertise might be needed by the Office of Internal Oversight Services to audit certain areas of UNJSPF.

119. Board members stressed that internal audit constituted essentially a management tool, designed to ensure that resources were being used properly and that there were adequate internal controls. **After discussing the matter with the representatives of the Office of Internal Oversight Services who were present, the Board decided not to recommend that the General Assembly approve the additional resources requested by the Office for the internal auditing of UNJSPF during the biennium 2002-2003.**

120. **The Board also decided to request that the Secretary/CEO prepare a study, for the 2003 meeting of the Standing Committee, on alternative arrangements that could be considered for the performance of the internal audit function for UNJSPF, including the possible establishment of a unit within the UNJSPF secretariat or outsourcing of the function to an entity other than the Office of Internal Oversight Services. It was noted in the Board that any new arrangements would need to take into account the situation of the Investment Management Service, which administratively constituted part of UNJSPF but that was under the authority of the Secretary-General, with respect to its investment activities and decision-making.**

H. Appointment and report of the medical consultant

121. In accordance with rule D.1 of the UNJSPF Rules of Procedure and the established practice of the Board, the United Nations Medical Director, Dr. Sudershan Narula, was appointed as the medical consultant to the Pension Board.

122. The medical consultant presented a report to the Board with respect to the two-year period from 1 January 2000 to 31 December 2001. The report contained detailed information and analysis as regards the new disability benefits awarded during that period, together with data on new disabled children's benefits and on the death of participants while in service. The report also included a comparative analysis of trends and causes of disability cases and deaths in service in the past five years, which will serve as a baseline for ongoing work in this area. The Board expressed appreciation for the information and analysis provided, which over time should permit the identification of developing trends and the possible need for corrective action.

123. In a note presented jointly to the Board, the World Intellectual Property Organization and ILO Staff Pension Committees reported on the activities of an inter-agency working group that was established in January 2002 to review the work of the Joint Medical Service in Geneva, particularly as regards the conduct of medical examinations.

124. It was agreed that the Secretary/CEO, in coordination with the medical directors in the common system and the United Nations Medical Service, would conduct a survey of the practices in international organizations. The survey would then form the basis for a study of the current practices regarding, notably, pre-employment medical examinations. The study would also include an examination of related issues, such as possible provisions for partial disability and the frequency of discontinuance of disability benefits following recovery by the beneficiaries, for presentation to the Standing Committee in 2003. FAFICS indicated that its members were ready to contribute to the study, an offer that was welcomed by the Board.

I. Activities relating to former participants from the former Union of Soviet Socialist Republics, the Ukrainian Soviet Socialist Republic and the Byelorussian Soviet Socialist Republic

125. This matter concerns the former UNJSPF participants from the former USSR, the Ukrainian SSR and the Byelorussian SSR whose pension benefits were transferred to the USSR Social Security Fund by application of the Fund's transfer agreements with those countries or who took withdrawal settlements that were received by the USSR Government.

126. The Standing Committee in 2001 requested that the Fund secretariat prepare a comprehensive, action-oriented paper covering all possible avenues for the utilization of the Emergency Fund, special restoration provisions and any other remedial actions that could be considered helpful to the former participants. In his note to the Board on the subject, the Secretary/CEO presented comprehensive background information on action taken and proposals made since the Board first considered this issue in 1991. He also suggested a number of possible actions for the Board's consideration.

127. The Board had recognized at the outset that the issues were complex and sensitive, involving legal, financial and administrative considerations both between the Fund and the three Governments concerned, and between those Governments and their nationals. The Secretary had therefore been authorized to initiate discussions with the permanent missions to the United Nations of the three Member States concerned with a view to determining the extent to which the concerns that had arisen in the application of the transfer agreements could be resolved. Throughout the 1990s there were preliminary discussions between the Fund and the Government of the Russian Federation in an attempt to reach a new agreement. The proposed agreement that was approved by the Board and the General Assembly in 1996 was never implemented by the Government of the Russian Federation.

128. In 2001, the Standing Committee was advised of a decree adopted by the Government of the Russian Federation (government decree 229 of 23 March 2001) that would provide monthly supplements to the national pensions of former Fund participants (or their widows/widowers) who were nationals of the Russian Federation and had transferred their UNJSPF pension rights under the applicable transfer agreement between the Fund and the former USSR.

129. After extensive discussion, the Standing Committee acknowledged the decision of the Russian Federation to adopt the decree of 23 March 2001 as a positive first step in dealing with the underlying issues and concerns. It also appealed to the Secretary-General and the Secretary/CEO of the Fund to continue to intensify their efforts to identify lasting, satisfactory and comprehensive solutions to the problems and concerns of the former Fund participants affected.

130. In 2002, the First Deputy Permanent Representative of the Russian Federation transmitted the text of another decree (decree 27), adopted by the Government of the Russian Federation on 18 January 2002, which would grant a single retroactive payment in addition to the increased national pension to be received prospectively by Russian citizens who were former UNJSPF participants and had transferred their pension rights. This was done in apparent recognition of the fact that decree 229, adopted the previous year, provided pensions only as from 2001 and only on the basis of available funds.

131. In early June 2002, during a visit to Moscow, the Secretary-General met with the Minister for Foreign Affairs of the Russian Federation and presented to him a letter on the matter. In his letter, the Secretary-General urged most strongly that the Government of the Russian Federation consider the rapid implementation of a solution that would address appropriately the needs and concerns of the entire group of former USSR participants in UNJSPF who had not benefited from their years of participation in and contributions to the Fund. The Secretary-General added that he expected that the Pension Board's report to the General Assembly in 2002 would include a detailed progress report on the subject.

132. By a letter to the Secretary/CEO dated 26 June 2002, the Permanent Representative of the Russian Federation to the United Nations in New York provided details regarding the implementation by the Government of internal decrees 229 and 27. He advised the Secretary/CEO that 126 former participants had applied under those decrees for payments to supplement their national pensions. The national pension supplement arrears were paid in March 2002, while payments for the first six months of 2002 started as from April 2002. By a communication dated 19 June 2002, the Foreign Minister of the Russian Federation informed the Secretary-General of the Government's recent actions related to the pension situation of Russian nationals who had been staff members of international organizations within the United Nations system. The Foreign Minister indicated that his Government was considering adopting additional measures to improve the pension situation of the former UNJSPF participants in the Russian Federation.

133. Bearing in mind the legal, administrative and financial issues involved, the Secretary/CEO reviewed three possible actions that the Board might consider, which are set out below.

(a) Assistance from the Emergency Fund

134. At various times previously, the Board and the Standing Committee considered utilizing the Emergency Fund for this purpose, but ultimately did not do so because of the legal, financial and administrative implications. In 2001 the Standing Committee noted that there were legal and other limitations on its authority to adopt any such concrete remedial measures at that meeting and added that all possible measures appeared to require consideration and action in some form by the Board as well as by the General Assembly.

(b) Restoration

135. In 1991, the Secretary recommended, with Board approval, that re-entering participants who were nationals of the former USSR, the Ukrainian SSR and the Byelorussian SSR and had transferred their UNJSPF pension rights under the relevant transfer agreements should be permitted to restore their prior contributory service. Such restoration would be conditional on the restoration requirements being otherwise met, and participants were to repay, with interest, the amount that the Fund had transferred on their account to the USSR Social Security Fund. In 1992 the Board decided to reaffirm its earlier decision on restoration — that re-entering participants from the three countries concerned should be treated in the same way as other Fund participants, neither better nor worse. The Board and the Standing Committee reconsidered extending the existing regulations and rules on restoration, but in each instance the plan was rejected.

(c) Minimum pensions

136. The Board and the Standing Committee on a number of occasions also considered granting minimum pensions, but in each instance the idea was rejected. It was noted on each occasion that such an approach would have far-reaching implications for the Fund, as similar requests could be made in future to justify the granting of UNJSPF pension benefits to former Fund participants from other countries who were not receiving any UNJSPF benefits (e.g. former associate participants, beneficiaries who took withdrawal settlements, certain surviving spouses). By submitting their payment instructions, these former participants had in fact transferred their pension rights under the applicable transfer agreements concluded by the Fund, with the approval of the Board and the General Assembly.

137. **The Board noted recent developments on this issue and decided not to pursue any of the three options.**

Discussions in the Board

138. On this issue the Board noted that FAFICS had proposed to:

(a) Note that in the 11 years that the issue had been before the Pension Board, a number of former United Nations staff members had been permanently terminated from this world without having ever received the legitimate pension entitlements which they earned through their United Nations service;

(b) Express dismay that after 11 years of consideration by the Pension Board the issue had not been resolved;

(c) Deplore the fact that the United Nations Member State involved had deliberately not complied with the spirit and tone of the transfer agreements approved by the General Assembly;

(d) Request that the General Assembly bring to bear the full weight and pressure of the entire international community on the Member State involved;

(e) Call upon the Member State involved, in the light of the intent of the 1981 transfer agreement entered into after General Assembly approval, to pay immediately, to each and every former United Nations system staff member, or their heirs, from the USSR, the Ukrainian SSR and the Byelorussian SSR as a lump sum in United States dollars, the entire amount of their United Nations pension entitlement earned from their United Nations employment that had been received by the USSR from the United Nations Joint Staff Pension Fund under the 1981 transfer agreement or otherwise.

139. A view was also expressed that such statements were misguided and counterproductive to the ongoing efforts of the Secretary-General and the Secretary/CEO to achieve a satisfactory solution to the problem. It was stated that keeping this item on the Board's agenda served no useful purpose.

140. **Following discussions, the Board expressed appreciation for the efforts being made by the Secretary-General, as reflected in his 29 May 2002 letter, where he stated:**

> **"I would therefore like to urge most strongly that the Government of the Russian Federation consider the rapid implementation of a solution that addresses appropriately the needs and concerns of the entire group of ex-**

> **USSR participants who have not benefited from their years of participation in and contributions to the Pension Fund. I wish to reiterate that these former staff members transferred to the Government of the USSR the monetary value of the pension rights they had earned during their contributory service."**

Accordingly, the Secretary-General was requested by the Board to continue to seek a satisfactory and comprehensive resolution, including a personal visit to Moscow by the Secretary/CEO of the Pension Board as soon as possible, and to report to the Standing Committee at its 186th meeting, in 2003.

Chapter VIII
Benefit provisions of the Fund

A. Final report of Working Group undertaking a fundamental review of Fund's benefit provisions

Background

141. The Chairman of the Working Group established to undertake a fundamental review of the benefit provisions of the Fund introduced the final report of the Group. It was recalled that, following the positive results of the actuarial valuations of the Fund carried out as at 31 December 1997 and 31 December 1999, which revealed surpluses of 0.36 and 4.25 per cent of pensionable remuneration respectively, the Board had in 2000 confirmed two conditional decisions that it had taken in 1998: (a) to lower the interest rate for lump-sum commutations from 6.5 to 6.0 per cent; and (b) to recommend that the threshold for implementing cost-of-living adjustments of pensions be reduced from 3 to 2 per cent. During its discussions on other possible modifications, the Board decided to establish a tripartite Working Group to undertake a fundamental review of the Fund's benefit provisions, in the light of developments in staffing and remuneration policies in the member organizations of the Fund and pension arrangements at the national and international levels. The Working Group was requested to submit a preliminary report to the Standing Committee in 2001 and, after taking into account the comments of the Standing Committee and the Committee of Actuaries, to submit its final report, with precise recommendations, to the Board in 2002.

Current review

142. The final report submitted by the Working Group provided extensive information on the Group's review, considerations and analysis. It included an in-depth examination of the current provisions of the Fund as well as past economy measures and their impact on participants, beneficiaries and member organizations. It also looked at other possible changes in the benefit provisions, giving consideration to the linkage between human resources policy and pensions, with a view to providing more flexible and competitive recruitment strategies to make the Fund more attractive to non-career staff serving for the shorter or medium term.

143. Based on the discussion that had taken place in the Standing Committee in 2001, the Group focused on: (a) the previous economy measures and how they had affected certain groups; and (b) the Standing Committee's desire to improve upon the Fund's portability provisions. The Group therefore gave consideration to possible features that would make the Fund more attractive for the shorter-term, more task-oriented and mobile type of staff. Not only did the previous economy measures affect most heavily this type of staff member, but the Group also believed that this was an area in which the organizations needed to be more competitive in terms of their recruitment policies. Two previous economy measures that had a direct negative impact in this area were the decisions regarding cost-of-living adjustments in respect of deferred retirement benefits and the limitations on the number of years that could be restored.

144. After giving further consideration to the comments made at the Standing Committee, the contraction in the actuarial surplus and the views of the Committee

of Actuaries, the Working Group limited its initial list of possible modifications to those that were contained in its preliminary report, presented in 2001. During its extensive review of the Fund's benefit provisions, which also took into account current trends in human resources management, the Group identified important needs and possible shortfalls in the existing plan design that would have to be addressed when considering the long-term needs of the Fund.

145. In presenting its final proposals, the Working Group divided its recommendations into three categories: short-term recommendations; long-term recommendations; and recommendations not directly relating to the benefit provisions. The Group made six recommendations for immediate implementation that would involve changes in the benefit provisions, which are as follows:

(a) Cost-of-living adjustments should be applied to deferred retirement benefits as from age 45 (at an estimated actuarial cost of 0.48 per cent of pensionable remuneration);

(b) Cost-of-living differential factors for deferred retirement benefits should be applicable as from the date of separation (at an estimated actuarial cost of 0.01 per cent of pensionable remuneration);

(c) The limitation on the right to restoration for existing and future participants should be eliminated (at an estimated actuarial cost of 0.17 per cent of pensionable remuneration);

(d) The 1.5 per cent reduction in the first consumer price index adjustment due to existing and future beneficiaries should be eliminated (at an estimated actuarial cost of 0.46 per cent of pensionable remuneration);

(e) A provision for the purchase of additional years of contributory service should be added;

(f) A study should be conducted for the 2004 session of the Board on validation, restoration and leave without pay to determine implications and resource requirements before implementation of the Group's recommendation to eliminate the one-year time limit for electing to validate and restore prior service.

146. Recommendations (a) to (d) in paragraph 145 above would be reversals of previous economy measures, while recommendations (e) and (f) would involve new provisions. The total estimated actuarial cost of the recommendations in points (a) to (d) above would be 1.12 per cent of pensionable remuneration. The actuarial costs of points (e) and (f) were expected to be borne by the participants concerned. The total cost of the recommendations, when applied to the current surplus of 2.92 per cent of pensionable remuneration, would leave an actuarial reserve of 1.80 per cent of pensionable remuneration. This reserve would be at the higher end of the 1.00 to 2.00 per cent range recommended by the Committee of Actuaries.

147. The Chairman of the Working Group summarized the analysis, which led to the Group's final recommendations. The Working Group had decided that, as the average age of entry into the Fund was close to 40, a provision for cost-of-living adjustments as from age 45 would be reasonable. Setting the age at 45 rather than at the day of separation would also provide savings that could be available to address other possible needs and/or shortfalls in the provisions. With respect to the second recommendation, the Group noted that the provision that limited the right of restoration to periods of less than five years could be perceived as a shortfall; this

limitation was applied to former participants who were returning to the same pension fund, and very often to the same employing organization. It appeared to the Working Group that this limitation was contrary to the widespread trend in other pension schemes for providing greater portability rights between different pension plans, often within entirely different industries. The provision of greater portability rights for former participants who leave an organization and then return, often with wider skills and new experiences, would also be in line with the main characteristics of reform reflected in the ICSC framework for human resources management. The third reversal of a previous economy measure that the Group recommended was the elimination of the 1.5 per cent reduction in the first pension adjustment for inflation. In this connection, the Group agreed that the economy measures taken in the 1980s had also had quite a heavy impact on the beneficiaries. The Group welcomed the fact that the Board had already approved the reduction from 3 to 2 per cent in the threshold for effecting cost-of-living adjustments. The Group agreed that this measure did not go far enough to address the significant share of past economy measures that the beneficiaries had assumed. It was recalled that in addition to the 1.5 per cent reduction in the first cost-of-living adjustment, the changes had included payment in arrears of new periodic benefits and the move from quarterly to semi-annual and then to annual adjustments of pensions in award. The Working Group agreed that upon retirement, beneficiaries should be able to count on a pension that, in line with the income replacement principle, provided a standard of living compatible with that enjoyed in the last years of service. The Working Group agreed that to apply an arbitrary 1.5 per cent reduction in the first cost-of-living adjustment seemed to be contrary to that principle.

148. The Group also recommended that cost-of-living differential factors for deferred retirement benefits be applicable as from the day of separation. As this would be in line with a judgement of the United Nations Administrative Tribunal, the Group recommended that the decision be reflected in the pension adjustment system.

149. The Working Group made two recommendations ((e) and (f) in para. 145 above) that would involve new benefit provisions. While it was anticipated that the actuarial costs of the two new provisions would be borne by the individuals concerned, the elimination of the one-year deadline for electing to validate or restore prior service would not be implemented until after the Board had had a chance to review a study that would be presented by the Secretary/CEO in 2004.

150. It was noted that while the Committee of Actuaries concurred with recommendations (a) to (d) set out in paragraph 145 above, it was unable to support recommendations (e) and (f), which involved new provisions. In considering the Working Group's recommendation regarding a provision for the purchase of additional years of contributory service (recommendation (e)), the Committee of Actuaries considered a related note prepared by the consulting actuary as well as the design and collective nature of the Fund; those considerations led the Committee to have concerns and reservations regarding the advisability of such a provision. The Committee referred specifically to issues that could affect the actuarial costs associated with the purchase of additional years of contributory service, which would vary by age, sex, category of staff and length of contributory service. The costs do not change uniformly from age to age and can increase or decrease with advancing age, due to the particular circumstances of the individuals. To ensure that no cost would fall on the Fund itself, any calculations would need to take into account the full range of costs and recognize the highest cost within that range. The

Committee was of the view that any estimate of the actuarial cost of purchasing additional years of service at no cost to the Fund would necessitate the preparation of individualized quotations. Such calculations and quotations would be complex to administer and would not eliminate questions of equity among participants. Based on its analysis, the Committee felt unable at the time to support the recommendation to provide for the purchase of additional years of service as currently proposed.

151. The Committee noted that the actuarial costs of the proposal relating to the elimination of the one-year deadline for electing to validate and restore prior service (proposal (f) above) would also be borne by the individual concerned. The Committee indicated that it had concerns and reservations about such a proposal, similar to those with respect to the possible provision for the purchase of additional years of contributory service. In fact, it was noted that a period of one year for making such elections was already unusually long.

152. The second grouping of proposals contained four recommendations that would be reviewed in the longer term, involving: (a) the contribution rate, (b) the contribution ratio, (c) adjustment of pensions after award and (d) other elements to be kept under consideration. Those recommendations are summarized as follows:

(a) Maintain the present level of the contribution rate at 23.70 per cent of pensionable remuneration, but keep it under review;

(b) Maintain the current contribution ratio at 1:2 (i.e., one third of required contributions payable by the participant and two thirds by the employing organization);

(c) Request that a study be carried out by the Fund secretariat for the Board in 2004 on the problems associated with the adjustment of pensions after award;

(d) Establish parameters for a threshold, at which time the Board may wish to begin to consider further enhancements or economy measures, as the case may be.

153. It was noted that the Working Group had considered the recommendation concerning the contribution rate very thoroughly. The Group had noted that the surplus as at 31 December 2001 had contracted from that of 1999, that there was increased dependence on investment income, which tended to be volatile, that the actuaries and members of the Board had stressed the need for caution and that there was a need to establish an actuarial reserve. In those circumstances, and following the advice of members of the Committee of Actuaries, the Working Group decided that it would be premature to make any change in the contribution rate at this time.

154. The third set of proposals by the Working Group concerned matters not directly relating to the benefit provisions. These recommendations are summarized as follows:

(a) Full membership, including voting rights, for pensioners on the Board and the Standing Committee should be explored, preferably within the tripartite structure;

(b) The Fund secretariat and the member organizations should collaborate on the implementation of common performance (time and quality) standards and should adopt as a desirable target the goal of paying pensions within one month after the date of retirement;

(c) An asset and liability management policy should be adopted to reflect closely the long-term financial needs of the Fund as part of a broader investment strategy;

(d) Risk analysis and risk management should be viewed as integral parts of the overall management of the Fund;

(e) The Board should continue to forge a closer association with the Investments Committee and the Committee of Actuaries, notably on technical subjects;

(f) As is the case for benefits management activities, performance assessment mechanisms should be adopted for the investment side of the Fund;

(g) Information provided to new participants, existing participants and retirees should be presented in a clear, simple and attractive manner.

155. The Working Group also gave further consideration to the impact that substantial devaluation had on pensions. The Group had suggested in 2001, and the Standing Committee had agreed, to request the secretariat to carry out a study on methodologies for the calculation of final average remuneration. This study was presented to the Board in 2002 and was taken up in conjunction with the final recommendations of the Working Group.

Decisions of the Board

156. The Board carried out its discussions on the recommendations of the Working Group on the basis of the Group's final report, the comments provided by the Committee of Actuaries in its report, a related note prepared by the Secretary/CEO and the study on final average remuneration. The Board notably appreciated the fact that all the conclusions and recommendations of the Working Group had been adopted by consensus.

157. **The Board expressed strong appreciation and support for the scope and quality of the report, which many believed would become a landmark document in the decade ahead. The Board decided to recommend that the General Assembly in 2002 approve the recommendations set out below, with effect from 1 April 2003, as these measures further promoted the human resources framework adopted by ICSC and the Assembly. In particular, the measures would serve to enhance the mobility of staff and the portability of pensions. The Board recommends that:**

(a) Cost-of-living adjustments be applied to deferred retirement benefits as from age 50 (i.e., instead of from age 45, as recommended by the Working Group). The estimated actuarial cost of this modification would be 0.36 per cent of pensionable remuneration;

(b) Cost-of-living differential factors for deferred retirement benefits be applicable as from the date of separation, at an estimated actuarial cost of 0.01 per cent of pensionable remuneration;

(c) The limitation on the right to restoration be eliminated for existing and future participants, at an estimated actuarial cost of 0.17 per cent of pensionable remuneration.

Therefore, the total estimated actuarial cost of the package of modifications recommended by the Board for approval by the Assembly in 2002 is 0.54 per cent of pensionable remuneration. The appropriate amendments to the pension adjustment system (for recommendations (a) and (b) above) and to the Fund's Regulations (for recommendation (c) above) are set out in annexes XIII and XIV.

158. **The Board also approved the Working Group's recommendation to eliminate the 1.5 percentage point reduction in the first adjustment based on the consumer price index due to existing and future beneficiaries, with the understanding that the implementation of this modification would be subject to a surplus being revealed in the next actuarial valuation, to be performed as at 31 December 2003. FAFICS felt that this measure should have received the highest priority and expressed its strong disappointment that it was not recommended for implementation with effect from 1 April 2003.**

159. **The Board requested the Secretary/CEO to consult with the Committee of Actuaries and to report to the Standing Committee in 2003 on a reformulated proposal for the purchase of added years of contributory service. The provisions would need to be clearly defined and result in no actuarial cost to the Fund.**

160. **The Secretary/CEO was also requested to undertake a study on validation, restoration and leave without pay in order to provide consistency with respect to the time limit for making such elections and on the elimination of the one-year time limit for electing to validate and restore. The study is to determine resource requirements and should be presented to the Standing Committee in 2003 together with the observations thereon of the Committee of Actuaries.**

161. **Concerning the Working Group's second grouping of proposals, the Board agreed to maintain the current contribution rate but to keep it under review and to maintain the current contribution ratio at 1:2 (i.e., one third of required contributions payable by the participant and two thirds payable by the employing organization).**

162. **The Board agreed that the problems associated with the adjustment of pensions after award should continue to be studied. The secretariat was also requested to carry out a study to address the income replacement ratio aberrations over time in certain duty stations. Those concerned with the issue, including FAFICS and its member associations, were invited to submit suggestions and to provide inputs to the secretariat for the study, which should be presented to the Board as soon as feasible.**

163. The Board agreed to consider future enhancements or economy measures in the light of the evolving actuarial situation of the Fund, but concluded that no thresholds should be predetermined for such actions.

164. The Working Group provided a list of other elements to be kept under consideration in the long term, with further review being subject to a clear upward trend in the Fund's actuarial surplus, which could be identified by: (a) a series of consecutive and accelerating surpluses; (b) the discovery of additional sources of income; or (c) the introduction of measures to reduce the actuarial costs. These elements are:

(a) An increase in the interest rate for withdrawal settlements and/or acceleration of the schedule for paying additional 10 per cent increments, with a view to enhancing portability;

(b) The elimination of the 2 per cent threshold for effecting consumer price index adjustments for beneficiaries;

(c) The restoration of the contributory service accumulation rate back to 2 per cent per annum;

(d) A provision for a right to a periodic benefit after three years of contributory service;

(e) The extension of pension rights for divorced surviving spouses;

(f) A provision for child benefits for children born to or adopted by former participants after separation from service;

(g) A provision for partial retirement;

(h) Provisions that would enable flexible responses to certain social policy-type issues;

(i) The introduction of an "age plus years of service" threshold for a full pension.

165. **Such measures to introduce enhancements could be considered in the medium term if they were to be offset against the actuarial effects of increasing the normal retirement age to 65 for new participants entering the Pension Fund and allowing Fund participation as from the first day of employment. The Board requested that the Secretary/CEO, with the assistance of the consulting actuary, report to the Standing Committee in 2003 on possible measures and their actuarial implications.**

166. **The Board agreed fully with the Working Group's third set of proposals, as set out in paragraph 154.**

B. Proposed methodology for calculation of the final average remuneration

Background

167. The Board considered a note by the Secretary/CEO in follow-up to the four past reviews submitted to the Board since 1994 of the procedures for determining final average remuneration. There had been no consensus for changing the current procedures at the Board sessions in 1994, 1996 and 1998. At its 2000 session, the Board had reviewed a note prepared by the Secretary/CEO providing a further analysis of the final average remuneration issue, including in particular an analysis of the situation at Addis Ababa. The Board decided at that time that no changes should be made; however, it agreed to a suggestion that the issue be pursued by the Working Group established to review, inter alia, the Fund's benefit provisions.

Current review

168. The current review, undertaken following a proposal made by the Working Group in 2001, examined the implications of two alternative methodologies for calculating final average remuneration. One involved utilization of the best 36 months of pensionable remuneration over the last 8 years of contributory service (alternative A), and the other examined the impact of using the best 36 months of pensionable remuneration over the last 10 years (alternative B).

169. The note by the Secretary/CEO contained information provided by the consulting actuary indicating actuarial cost estimates of 0.16 per cent of pensionable remuneration for alternative A and 0.23 per cent for alternative B. It was noted that although the alternatives being considered would be applicable to both Professional

and General Service staff, Professional staff were excluded from the study since the modifications being examined were not likely to affect them. The review also provided illustrations of the effect of the two alternatives, measured in terms of the percentage increase in the final average remuneration. The Board recalled General Assembly resolution 48/225 of 23 December 1993 in which the Assembly endorsed the income replacement approach and determined the income replacement ratio. In that connection, the note indicated that the two alternative changes in the methodology would result in increases in final average remuneration, and thus pensions, in almost all duty stations (i.e., not only in those countries experiencing steep and abrupt declines in currency values). The note further highlighted the positive effect of the provision for special adjustments of small pensions contained in the pension adjustment system, a provision that was significantly improved twice, first as from 1 April 1993 and later as from 1 July 1995.

Discussions in the Board

170. The Board welcomed the extensive scope of the study, which provided background information, a wide range of data, actuarial quantification and analysis. During the consideration of the Secretary/CEO's note, concerns were expressed that pensions should be proportionate to the number of years of service and that it was inappropriate for the final average remuneration and the pension of a participant separating at the normal age of retirement to be lower than that of a participant taking early retirement. A suggestion was made that protection of the final average remuneration level should be introduced for participants as from the age of 55. At the same time, some members of the Board stated that any action undertaken should render the income replacement ratio less sensitive to the date of separation, but the two alternative approaches studied for determination of final average remuneration would enlarge the already wide range of the income replacement ratio, particularly in high-cost countries, thus making the system even more unstable. Other members of the Board stated that this concern was not substantiated by the information and data provided in the Secretary/CEO's note. Such action would also revive the income inversion the Board had attempted to mitigate in the past. Concerns were expressed that the universal methods offered in the present study were inadequate to address issues that were limited to a number of specific locations. Opinions were also expressed to the contrary, noting that duty stations all over the world could and had been affected. It was further noted that, under the current final average remuneration methodology, the special adjustment for small pensions contained in the pension adjustment system specifically applied in the low-cost countries that were presented as requiring attention, providing sizeable upward increases of the pension amount.

171. The Board decided that no changes should be made at this time in the methodology currently used for the determination of final average remuneration. However, it requested the Secretary/CEO to continue to study all possible means of redressing aberrations in the levels of initial pensions and in income replacement ratios over time in certain duty stations and to report to the Board when feasible; those concerned with the issue were invited to submit their suggestions to the Fund secretariat.

C. Proposed amendments to the Regulations

(a) Commutation of the minimum benefit

172. The Board noted that the $300 ceiling for exercising the option to commute a pension benefit into its full actuarial value, mentioned in articles 28(g) and 30(c) of the Fund's Regulations, had not been changed since 1961. With the support of the Committee of Actuaries, the Secretary/CEO proposed that the ceiling be raised to $1,000 and that a similar ceiling of $200 mentioned in article 34(f) be increased to $600.

173. **The Board agreed to recommend to the General Assembly that the changes suggested in paragraph 172 be adopted as amendments to the UNJSPF Regulations, effective 1 April 2003 (see annex XIV).** It was also suggested that consideration be given to providing for automatic indexation of the flat amounts in the UNJSPF Regulations, such as those found in articles 28(g), 30(c) and 34(f).

(b) Extended leave without pay (article 21)

174. A note by the Secretary/CEO pointed out that even where a Fund participant was placed on extended leave without pay and pension contributions were not being made, that person continued to be covered by the Fund against death or disability, at no cost to either the participant or the employing organization. Furthermore, there has been a discernible trend towards an increase in the number of Fund participants placed on extended leave without pay; as at 31 December 2001 there were more than 150 Fund participants in that situation.

175. In these circumstances, the Secretary/CEO suggested that the Board might consider establishing in the Fund's Regulations a maximum period for which a participant may remain on leave without pay while concurrent pension contributions are not being made.

176. **The Board decided to recommend to the General Assembly that the following new paragraph (c) be added to article 21 of the Fund's Regulations in order to deal with this issue (see also annex XIV):**

> **"(c) Notwithstanding the provisions of (b) above, a participant is deemed to have separated when he or she has completed (i) a consecutive period of three years on leave-without-pay without concurrent contributions having been paid in accordance with article 25(b), or (ii) four years under the conditions described in (i) above within a total period of five years. To re-enter the Fund, such former participant would have to satisfy the requirements for participation set out in (a) above."**

D. Monitoring the cost of the two-track pension adjustment system

Background

177. In 1991 and 1994, the General Assembly, acting on the recommendation of the Board, approved three changes in the pension adjustment system, which entered into effect on 1 April 1992 and 1 July 1995: (a) the 1 April 1992 modification 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; (b) the 1 April 1992 modification was applied to

staff in the General Service and related categories as from 1 July 1995; and (c) the 120 per cent cap provision was reduced to 110 per cent, also with effect from 1 July 1995. The Board and the Assembly had requested that the costs/savings related to those measures be monitored on the occasion of actuarial valuations of the Fund.

Modification of 1 April 1992

178. Over the period from 1 April 1992 to 31 December 2001 there had been 614 retirement or early retirement benefits the amounts of which 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 the 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 14 countries concerned, together with the amounts that would have been paid under the previous arrangements, was provided to the Board.

179. **On the basis of those data, the fifth and latest assessment of the emerging cost of the April 1992 modification by the consulting actuary was 0.24 per cent of pensionable remuneration, based on: (a) the methodology used in 1994, 1996, 1998 and 2000, which takes into account the actual additional payments over the period reviewed as well as changes in the geographic distribution of the recipients of benefits; and (b) the results of the actuarial valuation as at 31 December 2001.**

180. The number of additional benefits covered during the successive assessment periods has been declining, due mainly to the appreciation in value of the United States dollar, which reduced the extent to which cost-of-living differential factors became applicable. The following table indicates the evolution of the costs, by assessment period, of the 1992 modification of the pension adjustment system, as applicable to the Professional and higher categories.

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

Period assessed	*Cost as a percentage of pensionable remuneration*	*Number of benefits applicable*	*Increase in the number of benefits applicable compared with the previous assessment*
A. Estimated cost in 1991	0.30	-	-
B. 1 April 1992 to 31 March 1994	0.26	143	-
C. 1 April 1992 to 31 March 1996	0.33	390	247
D. 1 April 1992 to 31 March 1998	0.32	552	162
E. 1 April 1992 to 31 March 2000	0.26	604	52
F. 1 April 1992 to 31 December 2001	0.24	614	10

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

181. During the period from 1 July 1995 to 31 December 2001 six retirement benefits were processed in respect of General Service staff that involved proof of residence in a country where the cost-of-living differential factors applied under the revised Washington formula. The circumstances of those six cases were as follows:

Country of residence	*Country of last duty station*
United Kingdom (1 case)	Israel
France (1 case)	Senegal
Portugal (2 cases)	Cape Verde
Switzerland (1 case)	Germany
Sweden (1 case)	Tunisia

182. **Based on the very limited number of applicable cases, no meaningful assessment could be made at this time of the emerging cost of the extension of the 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

183. As at December 2001 there were 41,225 main benefits in award (excluding children's benefits), of which 29,771, or 72.2 per cent, related to beneficiaries with only a dollar pension entitlement and 11,454, or 27.8 per cent, related 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 as at December 2001 was 4,231 out of 11,454 (36.9 per cent), as compared with 2,820 out of 11,983 (23.5 per cent) as at March 2000.

184. The breakdown for beneficiaries separating after the introduction of the 110 per cent cap provision, that is, between 1 July 1995 and 31 December 2001, was as follows: of the 11,328 main benefits established, 10,346, or 91.3 per cent, related to beneficiaries with only a dollar pension entitlement and 982, or 8.7 per cent, related to beneficiaries who were on the two-track adjustment system. With respect to the 982 two-track cases, 162 beneficiaries (16.5 per cent) were actually paid, during the last quarter of 2001, the amount corresponding to 110 per cent of the local track amount for that quarter. The data for the entire period of six years and six months reflected a reduction in the overall utilization rate of the two-track option from 35.6 per cent as at March 1996 to 33.7 per cent as at March 1998, 31.1 per cent as at March 2000 and 27.8 per cent as at 31 December 2001. The utilization rate since the introduction of the 110 per cent cap has been 8.7 per cent, reflecting the impact of the strengthening of the United States dollar and the lowered cap.

185. 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 1.56 per cent of pensionable remuneration; the actuarial

assumption used in the latest valuation was 1.90 per cent of pensionable remuneration. In order to make an 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 the emerging long-term costs of the two-track system, assuming that the reduction in the cap from 120 per cent to 110 per cent as from 1 July 1995 did not apply, based on an evaluation and projection of the data since 1990, which was 1.83 per cent of pensionable remuneration, with the emerging long-term costs of the two-track system as a whole, also based on data since 1990, which was 1.56 per cent of pensionable remuneration.

186. **On this basis and as a very preliminary estimate, the emerging long-term savings due to the introduction of the 110 per cent cap provision were estimated to be on 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.**

187. Since the current assessment of the emerging savings was based on very limited data, it will still require more years of experience, including an analysis of 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 can be made.

Discussions in the Board

188. **The Board took note of the assessments provided on the actual emerging costs/savings of the recent modifications of the two-track features of the pension adjustment system and concluded that no changes needed to be made at this time, either as regards the actuarial assumption for the cost of the two-track system or the current parameters of the revised Washington formula and of the cap provision. The Board also agreed that future consideration of the costs and/or savings of the modifications of the two-track system be taken up in conjunction with the actuarial valuations.**

E. Common scale of staff assessment for pensionable remuneration purposes

189. The Chairman of the International Civil Service Commission provided the Board with an update on the Commission's ongoing review of the pay and benefit system. He recalled that the initial pay and benefit system was designed to benefit career staff, whereas there is now a perceived need for human resources policies to address a younger and more mobile work force. It was noted that the Working Group set up by the Pension Board had addressed those issues.

Background

190. The Executive Secretary of ICSC introduced a note on the periodic updates and reviews of the common scale of staff assessment for pensionable remuneration purposes. In 1996, ICSC, in close cooperation with the Board, recommended a common staff assessment scale for both the Professional and higher categories and the General Service and related categories for the determination of pensionable remuneration levels. The General Assembly, in its resolution 51/216 of 18 December 1996, approved the recommended scale with effect from 1 January 1997.

191. At that time the Board and the Commission agreed that the common staff assessment scale should be reviewed and updated as necessary every two years on the basis of tax changes at the seven headquarters duty stations. During its reviews in 1998 and 2000, the ICSC secretariat found that only minimal changes had occurred in the average taxes of the seven headquarters duty stations between 1995, 1997 and 1999. The Board took the position that consideration should be given in future reviews to the use of retiree tax deductions, to some extent, in deriving the staff assessment rates.

Review of the common staff assessment scale in 2002

192. As in the previous reviews, the data provided by ICSC indicated that only minimal changes had occurred between 1995 and 2001 for both married and single taxpayers. On that basis, the ICSC secretariat recommended that the common scale of staff assessment, which has been in effect since 1 January 1997, continue to apply and that it be reviewed at the time of the next comprehensive review of pensionable remuneration in 2004. The ICSC secretariat also recommended that at that time, the issue of the use of tax deductions as they relate to employees/retirees would be addressed.

193. As shown in the following table, the tax changes between 1995 and 2001 for both married and single taxpayers still remain minimal, with increases or decreases at relevant income levels within a range of 1.85 and negative 0.75 per cent of gross salary.

Movement of average taxes at the seven headquarters duty stations from 1995 to 2001 at selected income levels

(United States dollars)

	Married taxpayers			*Single taxpayers*		
Gross salary	*1995 tax*	*2001 tax*	*Movement (percentage)*	*1995 tax*	*2001 tax*	*Movement (percentage)*
20 000	1 452	1 628	0.88	2 159	2 422	1.32
30 000	3 435	3 743	1.03	4 645	4 785	0.47
40 000	5 650	6 333	1.71	7 460	7 552	0.23
50 000	8 379	9 306	1.85	10 686	10 722	0.07
60 000	11 599	12 422	1.37	14 349	14 073	-0.46
70 000	15 003	15 954	1.36	18 040	17 648	-0.56
80 000	18 461	19 701	1.55	21 972	21 373	-0.75
90 000	22 052	23 511	1.62	25 813	25 222	-0.66
100 000	25 823	27 381	1.56	29 836	29 163	-0.67

Discussions in the Board

194. Following the introduction of the item by the ICSC representative, the Board noted that the current review was the third assessment. Since 1997 there had been small incremental movements in average taxes at the seven headquarters duty stations, but when taken together the movement ranged from a positive 1.85 per cent to a negative 0.75 per cent. Under the income replacement methodology, pensionable remuneration for Professional staff was to be set at levels that would yield net pensions equal to 46.25

per cent of net remuneration, corresponding to 25 years of contributory service. It was noted that, based on the accumulation of six years of incremental movements as reflected in the ICSC tables, the 46.25 per cent level was no longer being met.

195. **The Board concurred with the Commission that the level of movement of taxes at the seven selected duty stations since 1995 showed minimal changes and that therefore the current common scale of staff assessment should continue to apply. The Board agreed that it should be reviewed again at the time of the next comprehensive review of pensionable remuneration, in 2004, with a view to ensuring appropriate adherence to the income replacement methodology. It also noted that on the occasion of the next comprehensive review of pensionable remuneration, the issue of using retiree tax deduction factors would be considered.**

F. Survivors' benefits in pension plans of international organizations

196. In July 2000, the Board requested the Secretary/CEO to prepare a study for presentation to the Board in 2002 that would provide information, at the national and international levels, on current societal trends with regard to survivors' benefits, including domestic partnerships. While the study would review the underlying issues, it would not contain any formal proposals. The General Assembly, by its resolution 55/224 of 23 December 2000, requested that the study envisaged by the Board be replaced with one that would only review existing rules and practices governing entitlements to survivors' pension benefits in international organizations, and that the Board report thereon to the Assembly at its fifty-seventh session, in 2002. The Secretary/CEO accordingly presented a note to the Board containing a compilation of the results of a survey that was carried out in response to that request.

197. Of the 21 international organizations that were contacted, 14 responded. One organization indicated that it did not provide for statutory survivors' benefits, so it was discounted in the analysis of the replies. The remaining 13 organizations that responded were the African Development Bank, the Asian Development Bank, the Bank for International Settlements, the International Bureau of Weights and Measures, the European Bank for Reconstruction and Development, the European Communities, the European Investment Bank, the Inter-American Development Bank, the International Monetary Fund, the Joint Pension Administration System (on behalf of the Council of Europe, the European Centre for Medium-range Weather Forecasts, the European Space Agency, the North Atlantic Treaty Organization, the Organisation for Economic Cooperation and Development and the Western European Union), the Organization of American States, the World Bank and the World Trade Organization.

198. The Board noted that all 13 organizations provided a benefit for a minor child of a deceased beneficiary, irrespective of the latter's marital status. They also provided an entitlement to survivor's benefits for a surviving spouse of the opposite sex who was legally married to the beneficiary during years of active participation and remained married at the time of death. One organization recognized multiple surviving spouses from a polygamous marriage, corresponding to the legally recognized practice in some countries, while at least three allowed for a divorced surviving spouse to have an automatic benefit. One organization recognized a marriage between two persons of the same sex that took place in the Netherlands.

199. Some pension systems have expanded the definition of spouse to include relationships outside of marriage. In one organization, the designation of spouse includes a person of the opposite sex who is in a common-law marriage. Another organization will consider as a spouse a partner of the same or the opposite sex, provided that the staff member can substantiate that the common-law relationship or domestic partnership is legally recognized in the staff member's home country.

200. One organization recently amended its rules to provide for a survivor's benefit on the basis of a registered partnership, whether of the same sex or the opposite sex. The pension scheme of one organization allows a retiree to reduce his or her pension entitlements in order to designate any individual as the beneficiary of a possible survivor's benefit.

201. As regards possible future developments, one organization is considering the possibility of introducing survivors' benefits for domestic partnerships of the same as well as the opposite sex. Another organization is considering allocating 50 per cent of the pension that had been received by a retiree either to the surviving spouse, if the participant was married, or to a designated beneficiary, if the retiree was unmarried.

202. **The Board took note of the information provided in the note by the Secretary/CEO with respect to survivors' benefits available in the pension plans of other international organizations. The Board also decided to support consideration of extending the provisions under article 38 of the Fund's Regulations for a designated sole beneficiary to receive an additional benefit beyond what is currently provided under the article. The Fund secretariat was requested to present to the Standing Committee options in that regard for consideration. It was noted that the administrative and financial implications for any possible options would need to be analysed before a final decision could be taken.**

203. **In response to a proposal by FAFICS for a review of article 35 bis of the Fund's Regulations at the next session of the Board, the Board requested that the Fund secretariat report on its experience with regard to actual requests received for divorced surviving spouses' benefits pursuant to article 35 bis. The Fund secretariat is to report thereon to the Board at its next session.**

204. In addition to discussing the issue of survivors' benefits, the Board noted an ILO Staff Pension Committee paper that dealt with the issue of survivors' benefits in the context of domestic partnerships and described the initiatives taken by ILO, as reported at the April 2002 meeting of the Human Resources Network.

Chapter IX
Other matters

A. Size and composition of the Board and the Standing Committee

205. Pursuant to prior decisions taken by the Board and the General Assembly in 1987, the Board has periodically reviewed questions regarding the size and composition of the Board and its Standing Committee, as well as the rotation schedule for the member seats on the Board and the Committee. At the last review, carried out in 1998, the Board agreed to maintain unchanged the size and composition of the 33-member Board and the 15-member Standing Committee and to allocate the seats of both bodies for the period covered by the four regular Board sessions held after 1998.

206. Following the withdrawal on 31 December 1998 of the Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade from membership in the Fund, one seat became vacant on the Board, with implications also for the composition of the Standing Committee. At its session in 2000, the Board agreed to provisional arrangements for both the Board and the Standing Committee and requested the Secretary/CEO to prepare a study of the size and composition of the Board and the Standing Committee for review in the first instance by the Standing Committee in 2001 and subsequently by the Board in 2002.

Current review

207. The Secretary/CEO was requested to address: (a) the principles agreed upon in 1987 concerning the allocation of seats on the Board, including in particular the proportional distribution of seats based on the number of active Fund participants from each organization; (b) the changes in participants from member organizations since 1987; (c) the criteria to be used for the future allocation of seats on the Board and the Standing Committee; and (d) the number of representatives and alternates to be authorized for FAFICS.

208. In a note submitted to the Standing Committee in 2001, the Secretary/CEO invited comments on four issues:

(a) A possible increase in the size of the Board from 33 members to 36, with the allocation of the 3 additional seats to the United Nations;

(b) The possible consideration of in future establishing a requirement for a minimum number of participants in order for an organization to retain a seat on the Board;

(c) Maintaining the size and composition of the Standing Committee in accordance with the provisional arrangements agreed to by the Board at its 2000 session;

(d) Possible changes in the UNJSPF Rules of Procedure so as to authorize FAFICS to send four representatives and two alternates to Board sessions and two representatives and two alternates to Standing Committee meetings.

209. During extensive discussion in the Standing Committee with respect to the size of the Board and the Standing Committee, the United Nations Staff Pension Committee indicated that it could accept the thrust of the Secretary/CEO's proposals. However, the other members of the Standing Committee considered that

the provisional arrangements approved in 2000 provided a careful balance in representation and that any increase in size at this point would be neither desirable nor useful. Divergent views were expressed with respect to the possibility of requiring a minimum number of participants in order for an organization to retain a seat on the Board.

210. Following discussions concerning the requests of FAFICS for increased representation, the Standing Committee decided to amend the Fund's Rules of Procedure to authorize FAFICS to send four representatives and two alternates to the Pension Board and two representatives and two alternates to the Standing Committee.

211. In view of the decision taken by the Standing Committee in 2001 concerning the representation of FAFICS, the Board was invited to address the issues listed in points (a) to (c) in paragraph 208 above. In a note presented to the Board, the Secretary/CEO provided background information and analysis of the issues, together with the relevant statistical data. In proposing an increase in the size of the Board from 33 members to 36, the Secretary/CEO highlighted the significant growth in the number of participants and beneficiaries since 1989, when the size of the Board was last increased, as indicated in the following table.

As at 1 January	*Member organizations*	*Participants and beneficiaries*	*Member seats on the Pension Board*
1963	11	19 554	21
1989	16	82 368	33
2002	19	129 498	33

212. The note also included updated data, which reflected the steady increase in both the number and the percentage of participants employed by the United Nations. A comparison revealed that in 1986 the United Nations had employed 50.3 per cent of the active participants and held 36.4 per cent of the seats on the Board. As at 31 December 2001 the United Nations was the employing organization for 68.6 per cent of the active participants, yet it still held the same 36.4 per cent of the seats. By increasing its representation by 3 seats on a 36-member Board, the United Nations would hold 41.7 per cent of the seats.

213. Concerning the possibility of requiring in future a minimum number of participants in order for an organization to retain a seat on the Board, the Secretary/CEO suggested a limit that could be set at 200, for example, if and when the size of the Board began to be perceived as overly large and cumbersome. Moreover, as the "grouping methodology" of allocating seats has been working well, there would seem to be no reason at this time for changing the system used for allocating seats.

214. With respect to the size and composition of the Standing Committee, the Secretary/CEO recalled that in 1989 the Board decided to enlarge the size of the Standing Committee from 9 to 15 members. Since that time there had been no changes in the size and composition of the Standing Committee. The Secretary/CEO suggested that the size of the Standing Committee should be kept at the current number of 15 members. To make the Standing Committee larger would defeat the purpose behind establishing a smaller group that meets between plenary sessions of the full Pension Board. In addition, the United Nations currently holds 40 per cent of the seats on the Standing Committee (6 out of 15).

215. During the first round of discussions on this issue, several members objected to the proposal to change the size and composition of the Board on the grounds that it was founded on only one criterion for representativeness, namely, the number of active participants, while other approaches might also be considered, that could lead to different results.

Discussion in the Board

216. **After extensive discussion during which considerable opposition and reservations were expressed to any change in the size and composition of the Board, it was ultimately agreed that the Board be enlarged, while at the same time a request was made that a study of further proposals be undertaken by the Secretary/CEO in order to make the representation among the member organizations of the Fund clear and more balanced.**

217. **The Board ultimately decided:**

(a) To increase the size of the Board from 33 members to 36, with the allocation of the 3 additional seats to the United Nations, without additional alternates;

(b) To consider in future requiring a minimum number of participants in order for an organization to retain a seat on the Board;

(c) To maintain the size and composition of the Standing Committee in accordance with the provisional arrangements agreed to by the Board in 2000.

218. The above conclusions of the Board were approved subject to further consideration being given to the following criteria, which had been the principles agreed to by the Board in 1987 to guide the determination of its size and composition:

(a) Each member organization should be represented;

(b) The number of representatives of each organization should take into account the number of participants in the organization;

(c) Ideally, all three groups in each organization should be represented;

(d) Whatever numbers emerged from items (a) to (c) above, they would have to be adjusted in the light of a decision on the optimum size of the Board;

(e) The optimum size of the Board should be determined by reference to two essential objectives: (i) that it be truly representative of the membership of the Fund; and (ii) that it function with maximum effectiveness in discharging its responsibility to administer the Fund and respond to requests from the General Assembly, governing bodies, executive heads and participants.

219. The Board agreed that, in particular, the principle that the Board should be truly representative of the membership of the Fund should be further examined, taking into account present and future trends in Fund participation, in order to recognize the changing nature of the Fund's member organizations, and that the Secretary/CEO should report thereon to the Standing Committee in 2003.

220. **It was recognized that the increase in the size of the Board would require the amendment of articles 5 and 6 of the UNJSPF Regulations, as well as of appendix 1 to the UNJSPF Rules of Procedure (see annex XIV).**

B. Waivers under rule J.9(b) of the Fund's Administrative Rules

221. Pursuant to rule J.9(b) of the UNJSPF Administrative Rules, the Secretary/CEO of the Fund has the discretionary authority to waive, where appropriate, all or part of an indebtedness to the Fund. The Board noted that this authority had been exercised very rarely over the years and that, furthermore, all such waivers would in any event be subject to auditing and would be reflected in the Fund's financial statements.

222. The Board therefore decided to delete the second sentence of administrative rule J.9(b), which reads: "Such waivers shall be reported to the Standing Committee annually". The rule will now read as follows: "The Chief Executive Officer may, where appropriate, waive recovery of all or part of an indebtedness to the Fund".

C. Possible application for Pension Fund membership: International Criminal Court

223. The Board considered the possible application by the International Criminal Court to become a member organization of the Pension Fund. Because the first meeting of the Assembly of the States Parties of the Court was to be held after the July 2002 Board session, authorization was sought from the Board that the Standing Committee consider in the summer of 2003 a formal application for UNJSPF membership that might be submitted before June 2003 on behalf of the International Criminal Court. The Court then could become a UNJSPF member organization effective 1 January 2004.

224. This process would require: (a) an affirmative recommendation from the Standing Committee (acting on behalf of the Board) after confirmation that all the conditions for admission to Fund membership, as established in article 3 of the Fund's Regulations, had been duly met; and (b) a subsequent favourable decision on the admission of the International Criminal Court by the General Assembly.

225. **The Board decided to authorize the Standing Committee to consider, in the summer of 2003, an application for UNJSPF membership from the International Criminal Court that is received before June 2003.**

D. Date and place of the fifty-second session of the Board

226. At its forty-third session, in 1991, the Board decided to adopt a two-year cycle for its regular sessions. The Secretary/CEO noted that, in accordance with rule A.1 of the UNJSPF Rules of Procedure, "the Board shall meet in regular session not less frequently than once in every two years at a time and place to be decided by the Board or its Standing Committee". Furthermore, pursuant to the decision of the General Assembly to biennialize its programme of work, the agenda item entitled "United Nations pension system" is considered by the Assembly only in even-numbered years. **The next regular session of the Board will therefore be convened in 2004, with the Standing Committee meeting in place of the Board in 2003. The next regular Board session will be held in the summer of 2004 at the headquarters of the International Civil Aviation Organization in Montreal. The Board agreed to delegate to the Standing Committee the determination of the dates of the next session of the Board.**

Meeting of the Standing Committee in 2003

227. **The Board agreed that, subject to confirmation, the Standing Committee would meet at United Nations Headquarters in New York, with the dates being subject to the availability of conference facilities and the other meeting obligations of the members of the Standing Committee. Depending on the agenda, the Standing Committee would meet for a period of three to five days; the precise dates and duration of the meeting would be established by the Secretary/CEO, in consultation with the Chairmen of the Board and the Standing Committee.**

Annex I

Member organizations of the Fund

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

European and Mediterranean Plant Protection Organization

Food and Agriculture Organization of the United Nations

International Atomic Energy Agency

International Centre for Genetic Engineering and Biotechnology

International Centre for the Study of the Preservation and the Restoration of Cultural Property

International Civil Aviation Organization

International Fund for Agricultural Development

International Labour Organization

International Maritime Organization

International Seabed Authority

International Telecommunication Union

International Tribunal for the Law of the Sea

United Nations Educational, Scientific and Cultural Organization

United Nations Industrial Development Organization

World Health Organization

World Intellectual Property Organization

World Meteorological Organization

World Tourism Organization

Annex II

Membership of the Board and attendance at the fifty-first 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. K. Akimoto (Japan)	Ms. V. M. González Posse (Argentina)
General Assembly	Ms. S. McLurg (United States of America)	Mr. M. R. Hamidullah (Bangladesh)
General Assembly	Mr. P. Owade (Kenya)	Mr. G. Kuntzle (Germany)
General Assembly	Mr. V. Vislykh (Russian Federation)	Mr. L. Mazemo (Zimbabwe)
Secretary-General	Mr. J.-P. Halbwachs (Mauritius)[a]	Mr. A. Barabanov (Russian Federation)
Secretary-General	Ms. R. Salim (Malaysia)	Mr. K. Walton (United Kingdom of Great Britain and Northern Ireland)
Secretary-General	Mr. W. Sach (United Kingdom)	
Secretary-General	Mr. J. Pozenel (United States)	
Participants	Mr. J.-M. Jakobowicz (France)[b]	Mr. C. Dahoui (Brazil)
Participants	Mr. J. Bravo (Chile)	Mr. F. Lyn (Jamaica)
Participants	Mr. J. Mathews (United States)	
Participants	Mr. C. Hackett (Barbados)	
World Heath Organization		
Governing body	Dr. J. Larivière (Canada)[c]	Mr. L. Rokovada (Fiji)
Executive head	Mr. M. Baquerot (France)	Ms. H. Wild (United Kingdom)
Participants	Miss C. Pichon (France)	Dr. P. McCarey (United Kingdom)
Food and Agriculture Organization of the United Nations		
Governing body	Ms. K. Ratanakomut (Thailand)	Mr. K. K. Mateva (Angola)
Executive head	Ms. R. Mayanja (Uganda)	Mr. S. Giwa (Zimbabwe)
Participants	Mr. C. Cherubini (Italy)[d]	Mr. M. Pace (Italy)

Representing	*Members*	*Alternates*
International Labour Organization		
Governing body	Mr. W. Ringkamp (Germany)	
Participants	Mr. P. Sayour (Switzerland)	Mr. J.-V. Gruat (France)
United Nations Educational, Scientific and Cultural Organization		
Governing body	Mr. A. Picasso de Oyagüe (Peru)	Mr. Y. M. O. Nwafor (Nigeria)
Executive head	Mr. M. Ait Si-Selmi (Algeria)	
International Civil Aviation Organization		
Governing body	Mr. D. S. Evans (United Kingdom)	
Participants	Mr. R. G. Menzel (Germany)	
International Telecommunication Union		
Executive head	Mr. D. J. Goossen (Netherlands)	
World Meteorological Organization		
Executive head	Ms. V. H. Guerrero (Chile) (10-15 July)	
Executive head	Ms. Susan Hansen-Vargas (United States) (16-19 July)	
International Maritime Organization		
Participants	Mr. D. Bertaud (France)	Mr. M. Tun (Myanmar)
International Fund for Agricultural Development		
Governing body	Mr. Y. Tensue (Eritrea)	
International Atomic Energy Agency		
Executive head	Ms. A. Jackson (United Kingdom)	
Participants	Mr. D. Neal (United States)	
World Intellectual Property Organization		
Executive head	Mrs. T. Dayer (Sweden)	
Participants	Mr. V. Yossifov (Bulgaria)	

[a] First Vice-Chairman.
[b] Rapporteur.
[c] Chairman.
[d] Second Vice-Chairman.

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. D. Macdonald	ILO	Executive head (10-17 July)
Mr. A. Busca	ILO	Executive head (18-19 July)
Mrs. J. Taillefer	UNESCO	Participants
Ms. S. Antonopoulou	UNIDO	Executive head
Mr. A. Spina	UNIDO	Participants
Mr. J. Ocampo	ICAO	Executive head
Mr. P. Kolarov	ITU	Governing body
Mr. J. Desbiolles	ITU	Participants
Mr. J. Aguilar-Salazar	IMO	Governing body (1st week)
Ms. U. Moetzel	IMO	Governing body (2nd week)
Mr. R. Jones	IMO	Executive head (1st week)
Mr. D. Muthumala	IMO	Executive head (2nd week)
Ms. T. Panuccio	IFAD	Executive head
Mr. M. P. Thema	IAEA	Governing body
Mr. R. Roul	WIPO	Governing body
Mr. M. Moriconi	ICCROM	Executive head
Mr. D. Ripandelli	ICGEB	Executive head
Mr. G. Saddler	FAFICS	Pensioners
Mr. A. Marcucci	FAFICS	Pensioners
Mr. A. Tholle	FAFICS	Pensioners
Mr. W. Zyss	FAFICS	Pensioners
Mr. K. Feldmann (Alt.)	FAFICS	Pensioners
Dr. O. P. Larghi (Alt.)	FAFICS	Pensioners

Observers	*Organization*
Ms. C. Panetta	Federation of International Civil Servants' Associations
Mr. S. Hanono	Inter-American Development Bank
Mr. S. Hand	Organization for Security and Cooperation in Europe
Mr. R. Luther	World Trade Organization

Secretaries	*Staff Pension Committee*
Mrs. A. Van Hulle-Colbert	WHO
Ms. C. McGarry	ILO
Mr. M. Ghelaw	UNESCO
Mr. N. Gangi	FAO
Mrs. C. Gallagher-Croxen	ICAO
Ms. M. Wilson	ITU
Ms. S. Hansen-Vargas, Secretary	WMO
Mr. L. Gunnestedt, Secretary (1st week)	IMO
Mr. A. Nathoo, Deputy Secretary (2nd week)	IMO
Ms. J. Sisto	IFAD
Ms. R. Sabat	IAEA
Mrs. T. Dayer	WIPO
Ms. F. Misiti	ICGEB

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

International Civil Service Commission

Mr. M. Bel Hadj Amor, Chairman
Mr. K. Rhodes, Executive Secretary

Office of Internal Oversight Services

Mr. D. Knutsen
Mr. U. Hain

Committee of Actuaries

Mr. L. J. Martin, Rapporteur

Consulting actuary

Mr. J. McGrath

Medical consultant

Dr. S. Narula

Members of the United Nations Joint Staff Pension Fund Working Group

Mr. W. P. Scherzer
Mr. A. Busca

Investments Committee

Mr. E. N. Omaboe (Chairman)
Mr. A. Abdullatif
Ms. F. Bovich
Mr. E. Cárdenas
Mr. T. Ohta
Mr. Y. Oltramare
Mr. J. Y. Pillay
Ms. H. Ploix
Mr. J. Reimnitz
Mr. P. Stormonth Darling

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

Mr. J. E. Connor

Investment Management Service

Mr. H. L. Ouma, Director, Investment Management Service
Ms. L. Ivers, Senior Investment Officer
Ms. P. Sinikallio, Investment Officer, Secretary of the Committee

4. Mr. B. Cochemé and Mr. J. P. Dietz (Secretary/CEO and Deputy Secretary/CEO of the Board) served as Secretary and Deputy Secretary of the session, with the assistance of Ms. D. Bull, Mr. G. Ferrari, Ms. D. Benbaruk, Mr. P. Dooley, Mr. F. DeTurris and Ms. P. Ryder.

Annex III

Membership of the Standing Committee

Representing	*Members*	*Alternates*
United Nations (Group I)		
General Assembly	Mrs. S. McLurg	Mr. K. Akimoto
	Mr. V. Vislykh	Mr. P. Owade
Secretary-General	Mr. J.-P. Halbwachs	Mr. K. Walton
	Mr. J. Pozenel	Mr. W. Sach
Participants	Mr. J.-M. Jakobowicz	Mr. J. Mathews
	Mr. J. Bravo	Mr. C. Hackett
Specialized agencies (Group II)		
Governing body	Ms. K. Ratanakomut (FAO)	Mr. K. K. Mateva (FAO)
Executive head	Mr. M. Baquerot (WHO)	Ms. H. Wild (WHO)
Participants	Mr. M. Pace (FAO)	Miss C. Pichon (WHO)
Specialized agencies (Group III)		
Governing body	Mr. M. P. Thema (IAEA)	
Executive head	Mr. D. Macdonald (ILO)	Mr. A. Busca (ILO)
Participants	Mrs. J. Taillefer (UNESCO)	
Specialized agencies (Group IV)		
Governing body	Mr. D. S. Evans (ICAO)	
Participants	Mr. A. Spina (UNIDO)	Mr. V. Yossifov (WIPO)
Specialized agencies (Group V)		
Executive head	Ms. T. Panuccio (IFAD)	Mr. D. Muthumala (IMO)

Note: The representation of FAFICS is as follows:
Representatives:
Mr. G. Saddler
Mr. W. Zyss
Alternate representatives:
Mr. A. Marcucci
Mr. A. Tholle

Annex IV

Membership of the Committee of Actuaries

The membership of the Committee is as follows:

Member	*Representing*
Mr. A. O. Ogunshola (Nigeria)	Region I (African States)
Mr. T. Nakada (Japan)	Region II (Asian States)
Mr. J. Král (Czech Republic)	Region III (Eastern European States)
Mr. H. Pérez Montas (Dominican Republic)	Region IV (Latin America and the Caribbean)
Mr. L. J. Martin (United Kingdom of Great Britain and Northern Ireland)	Region V (Western European and other States

In addition, Mr. R. J. Myers (United States of America) has been appointed as a member emeritus.

Annex V

Membership of the Investments Committee

The membership of the Investments Committee is as follows:

Members

Mr. A. Abdullatif (Saudi Arabia)
Ms. F. Bovich (United States of America)
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 of Great Britain and Northern Ireland)

Ad hoc members

Mr. E. J. Cárdenas (Argentina)
Mr. F. Harshegyi (Hungary)
Ms. H. Ploix (France)

Members emeritus

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

Annex VI

Statistics on the operations of the Fund for the biennium 2000-2001

Table VI.1
Number of participants as at 31 December 2001

Member organization	*Participants as at 31 December 1999*	*New entrants*	*Transfers*		*Separations*	*Participants as at 31 December 2001*	*Increase/ (decrease) (Percentage)*
			In	*Out*			
United Nations	44 958	18 689	255	(275)	(8 674)	**54 953**	22.2
ILO	2 612	631	39	(23)	(512)	**2 747**	5.2
FAO	5 340	906	87	(83)	(906)	**5 344**	0.1
UNESCO	2 629	243	13	(15)	(456)	**2 414**	(8.2)
WHO	6 409	2 302	111	(106)	(1 341)	**7 375**	15.1
ICAO	841	145	6	(10)	(109)	**873**	3.8
WMO	327	53	10	(11)	(57)	**322**	(1.5)
GATT	7[a]	0	0	(1)	(3)	**3**[a]	(57.1)
IAEA	2 068	380	22	(26)	(319)	**2 125**	2.8
IMO	315	55	5	(2)	(43)	**330**	4.8
ITU	965	150	10	(11)	(147)	**967**	0.2
WIPO	955	238	32	(18)	(101)	**1 106**	15.8
IFAD	338	63	5	(2)	(21)	**383**	13.3
ICCROM	35	4	0	0	(6)	**33**	(5.7)
EPPO	12	0	0	0	0	**12**	0.0
ICGEB	142	18	0	(1)	(14)	**145**	2.1
World Tourism Organization	78	12	0	0	(11)	**79**	1.3
ITLOS	25	9	2	(2)	(4)	**30**	20.0
ISA	28	7	1	(2)	(6)	**28**	0.0
UNIDO	851	154	13	(23)	(182)	**813**	(4.5)
Total	**68 935**	**24 059**	**611**	**(611)**	**(12 912)**	**80 082**	**16.2**

[a] These participants separated from GATT on 31 December 1998. However, pursuant to article 32, they have not yet made a benefit election as at 31 December 2001 (which would be made within 36 months of separation).

Table VI.2
Benefits awarded to participants or their beneficiaries during the biennium 2000-2001

Member organization	*Retirement benefit*	*Early retirement benefit*	*Deferred retirement benefit*	*Withdrawal settlement*		*Child's benefit*	*Widow's/ widower's benefit*	*Other death benefit*	*Disability benefit*	*Secondary dependant's benefit*	*Transfer under agreements*	*Total*
				Under 5 years	*Over 5 years*							
United Nations	813	716	114	4 994	1 433	1 415	166	36	67	0	6	9 760
ILO	102	111	12	224	47	79	6	1	2	0	2	586
FAO	177	203	27	351	109	157	9	5	12	1	4	1 055
UNESCO	187	145	6	69	25	112	13	3	4	0	1	565
WHO	230	212	33	689	142	353	16	1	5	1	2	1 684
ICAO	39	13	2	45	7	25	2	0	0	0	0	133
WMO	15	18	5	16	1	13	1	0	1	0	0	70
GATT	0	0	2	0	1	0	0	0	0	0	0	3
IAEA	83	69	7	107	42	41	0	0	8	0	2	359
IMO	13	7	2	13	5	6	2	0	0	0	0	48
ITU	47	30	2	59	4	24	2	1	2	0	0	171
WIPO	16	11	3	57	9	4	2	2	1	0	0	105
IFAD	9	3	1	5	2	4	0	1	0	0	0	25
ICCROM	2	0	0	0	3	0	0	0	0	0	0	5
EPPO	0	0	0	0	0	0	0	0	0	0	0	0
ICGEB	2	1	0	5	5	0	0	0	1	0	0	14
World Tourism Organization	6	1	0	3	0	0	0	0	1	0	0	11
ITLOS	1	0	0	3	0	0	0	0	0	0	0	4
ISA	0	0	0	4	2	0	0	0	0	0	0	6
UNIDO	37	47	8	55	26	28	2	0	6	0	1	210
Total	**1 779**	**1 587**	**224**	**6 699**	**1 863**	**2 261**	**221**	**50**	**110**	**2**	**18**	**14 814**

Table VI.3
Analysis of periodic benefits for the biennium 2000-2001 (participants or their beneficiaries)

Type of benefit	*Total as at 31 December 1999*	*New*	*Benefits discontinued, resulting in award of survivor's benefit*	*All other benefits discontinued*	*Total as at 31 December 2001*
Retirement	14 599	1 779	(469)	(351)	15 558
Early retirement	9 499	1 587	(243)	(117)	10 726
Deferred retirement	6 501	224	(84)	(132)	6 509
Widow	6 564	199*	777	(299)	7 241
Widower	393	41**	51	(39)	446
Disability	803	110	(34)	(34)	845
Child	7 796	2 263***	1	(2 011)	8 049
Secondary dependant	44	2	1	(5)	42
Total	**46 199**	**6 205**	**0**	**(2 988)**	**49 416**

* 12 reinstatements.
** 6 reinstatements.
*** 2 reinstatements.

Annex VII

Statement of the actuarial sufficiency as at 31 December 2001 of the United Nations Joint Staff Pension Fund to meet the liabilities under article 26 of the Regulations of the Fund

1. In the report on the twenty-sixth actuarial valuation of the United Nations Joint Staff Pension Fund, the consulting actuary assessed the actuarial sufficiency of the Fund for purposes of determining whether there was a requirement for deficiency payments by the member organizations under article 26 of the Regulations of the Fund. The assessment as at 31 December 2001 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 184th meeting, 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 using 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 at 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 2001.

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 following table.**

Actuarial sufficiency of the Fund as at 31 December 2001

(Millions of United States dollars)

Item	*Amount*
Actuarial value of assets[a]	23 630.00
Actuarial value of accrued benefit entitlements	14 709.40
Surplus	**8 920.60**

[a] Five-year moving average market value methodology, 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 the Regulations of the Fund in effect on the valuation date. **Accordingly, there is no requirement, as at 31 December 2001, for deficiency payments under article 26 of the Regulations of the Fund.**

Annex VIII

Statement of the actuarial position of the United Nations Joint Staff Pension Fund as at 31 December 2001

Introduction

1. The actuarial valuation as at 31 December 2001 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. The assumptions used in the valuation were those adopted by the Standing Committee of the United Nations Joint Staff Pension Board at its 184th meeting, in 2001, based on the recommendations of the Committee of Actuaries.

Actuarial position of the Fund as at 31 December 2001

2. At its meetings in June 2002, the Committee of Actuaries reviewed the results of the actuarial valuation as at 31 December 2001, 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 was sufficient to meet the benefit requirements under the plan, and would be reviewed at the time of the next actuarial valuation, as at 31 December 2003.

Annex IX

Sensitivity analysis

Impact of a sudden change in market value assets on the results of subsequent actuarial valuations

(Prepared by the consulting actuary and reviewed by the Rapporteur of the Committee of Actuaries)

Percentage change[a] in market value of assets	*Eventual required [b] contribution rate (percentage)*
+40	15.86
+30	17.36
+20	18.86
+10	20.36
+7.2	**20.78**
0	21.87
-10	23.37
-20	24.87
-30	26.37
-40	27.87

[a] Assumes that the market value of assets will experience a sudden change as shown above and thereafter will earn the assumed rate of 8.5 per cent per annum.

[b] This is the eventual required contribution rate after five years as a result of the change in market value and assuming no other sources of gain or loss. It will take five years before the full impact emerges because of the asset averaging methodology.

Calculations assume no other sources of gain/loss.

Annex X

Agreements on the transfer of pension rights of participants

A. Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of participants in the Pension Plan of the European Organization for the Safety of Air Navigation (Eurocontrol)

Article 1

In the present agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "Fund participant" means a participant in the Pension Fund;

(c) "Eurocontrol Organization" means the European Organization for the Safety of Air Navigation;

(d) "Pension Plan" means the Pension Plan of the Eurocontrol Organization;

(e) "Plan participant" means a participant in the Pension Plan;

(f) "Staff Regulations" means the Staff Regulations governing officials of the Eurocontrol Organization or the general conditions of employment governing servants of the Eurocontrol Maastricht Centre.

Article 2

1. A former Fund participant who has not received a benefit under the Regulations of the Pension Fund may elect to be covered by the provisions of the present agreement upon entering the service of the Eurocontrol Organization within six months after participation in the Pension Fund has ceased by electing within a further period of six months to transfer the accrued entitlements from the Pension Fund to the Pension Plan.

2. Upon so electing, the former Fund participant shall cease to be entitled to any benefit under the Regulations of the Pension Fund.

3. Upon the former Fund participant's becoming a Plan participant, the Pension Fund shall pay to the Pension Plan an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund, of the retirement benefit which the Fund participant had accrued in the Pension Fund based on the contributory service and final average remuneration up to the date participation in the Pension Fund ceased; or

(b) The withdrawal settlement to which the former Fund participant would have been entitled under article 31 of the Regulations of the Pension Fund upon separation from the service of a member organization of the Pension Fund.

4. The former Fund participant shall be credited with contributory service with the Pension Plan as calculated in accordance with article 12 of annex IV and rule of application No. 28 of the Staff Regulations of the Pension Plan.

Article 3

1. A former Plan participant who has not received a benefit under the Regulations of the Pension Plan may elect to be covered by the provisions of the present agreement upon entering the service of a member organization of the Pension Fund and becoming a Fund participant within six months after participation in the Pension Plan has ceased by electing within a further period of six months to transfer the accrued entitlements from the Pension Plan to the Pension Fund.

2. Upon so electing, the former Plan participant shall cease to be entitled to receive benefits under the Regulations of the Pension Plan.

3. Upon the former Plan participant's becoming a Fund participant, the Pension Plan shall pay to the Pension Fund an amount equal to the larger of:

(a) The equivalent actuarial value, calculated in accordance with articles 7, 8, 39 and 11, paragraph 1, of annex IV to the Staff Regulations of the Pension Plan, of the retirement benefit which the former Plan participant had accrued in the Pension Plan based on the contributory service and final remuneration up to the date on which participation ceased;

(b) The withdrawal settlement to which the former Plan participant would have been entitled under article 86 or 85 of the Staff Regulations of the Pension Plan, upon separation from the service of the Eurocontrol Organization.

4. The former Plan participant shall be credited for purposes of the Pension Fund with contributory service equal to such period as the actuarial advisers to the Pension Fund shall determine as of the date of the election and in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund to be equal in value to the amount paid by the Pension Plan.

Article 4

Plan participants who entered the service of the Eurocontrol Organization and staff members who entered the service of a member organization of the Pension Fund before the effective date of this agreement and who have not received any payments from the Pension Fund or from the Pension Plan, as the case may be, resulting from their participation, may elect to avail themselves of the provisions of this agreement by so informing the Pension Fund and the Pension Plan in writing before 1 July 2003. Upon so electing, the provisions of article 2, paragraphs 2, 3 and 4, and article 3, paragraphs 2, 3 and 4, above shall apply.

Article 5

This agreement shall take effect from 1 January 2003. It shall continue in effect thereafter until modified or cancelled by written mutual consent of the parties thereto or cancelled upon not less than one year's prior notice given in writing by either of them.

B. Agreement on the transfer of pension rights of participants in the United Nations Joint Staff Pension Fund and of participants in the Provident Fund of the Organization for Security and Cooperation in Europe

Article 1

In the present agreement:

(a) "Pension Fund" means the United Nations Joint Staff Pension Fund;

(b) "Fund participant" means a participant in the Pension Fund;

(c) "OSCE" means the Organization for Security and Cooperation in Europe;

(d) "Provident Fund" means the Provident Fund of OSCE;

(e) "Provident Fund participant" means a participant in the Provident Fund of OSCE.

Article 2

1. A former Provident Fund participant may elect to be covered by the provisions of the present agreement upon entering the service of a member organization of the Pension Fund and becoming a Pension Fund participant within six months after separation from the service of OSCE by electing within a further period of six months to transfer all the accrued entitlements in the Provident Fund to the Pension Fund.

2. Upon so electing, the former Provident Fund participant shall cease to be entitled to receive any benefits from the Provident Fund.

3. Upon the former Provident Fund participant's having made the election to transfer, the Provident Fund or OSCE shall pay to the Pension Fund the full account balance of that individual in the Provident Fund, including any interest and investment gains attributable to the account.

4. The former Provident Fund participant shall be credited for purposes of the Pension Fund with contributory service equal to such period as the actuarial advisers to the Pension Fund shall determine as at the date of the election and in accordance with articles 1, paragraph (a), and 11 of the Regulations of the Pension Fund to be equal in value to the amount paid by the Provident Fund.

Article 3

Former Provident Fund participants who separated from the service of OSCE on or after 1 January 2001 and became Fund participants before the date of entry into force of the present agreement, provided they have not received any payments from the Provident Fund, may elect to avail themselves of the provisions of this agreement by so informing the Pension Fund in writing before 1 July 2003. Upon so electing, the provisions of article 2 above shall apply.

Article 4

This agreement shall take effect from 1 January 2003. It shall continue in effect thereafter until modified or cancelled by written mutual consent of the parties thereto or cancelled upon not less than one year's prior notice given in writing by either of them.

Annex XI

Audit opinion and financial statements and schedules for the biennium 2000-2001

A. Audit opinion

We have audited the accompanying financial statements, comprising statements 1 to 3, schedules 1 to 6 and the supporting notes of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2001. These financial statements are the responsibility of the Chief Executive Officer 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, the 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, 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 Chief Executive Officer, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position at 31 December 2001 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, as set out in note 1 to the financial statements, which were applied on a basis consistent with that of the previous financial period.

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

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the Pension Fund's financial statements.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Caragueue**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

27 June 2002

C. Notes to the financial statements

Note 1
Statement of objectives and activities of the United Nations Joint Staff Pension Fund

The United Nations Joint Staff Pension Fund (UNJSPF) was established by the General Assembly of the United Nations to provide retirement, death, disability and related benefits to the staff of the United Nations and other United Nations organizations and agencies admitted to membership.

UNJSPF currently has more than 80,000 active contributors (participants) belonging to 19 United Nations system organizations/agencies (which include the United Nations Secretariat, the United Nations Children's Fund, the United Nations Development Programme and the Office of the United Nations High Commissioner for Refugees, as well as the various specialized agencies such as the World Health Organization in Geneva, the International Atomic Energy Agency in Vienna, the International Civil Aviation Organization in Montreal, the United Nations Educational, Scientific and Cultural Organization in Paris, etc.). There are currently about 49,000 retirees (beneficiaries) spread out over 180 countries. The total annual pension payments total about $1.1 billion, which is paid in 27 different currencies. Participants and beneficiaries are handled by the operations area of the Fund. There is a separate Investment Management Service, which manages the Fund's investment portfolio, totalling $21.5 billion (at 31 December 2001). The Service also manages the banking (and investment) of monthly contributions from member organizations and funding of the monthly pension payroll.

The operations area of the Fund is focused in New York, with a subsidiary office in Geneva dealing mainly with the United Nations agencies headquartered there. Many of the benefit payment functions undertaken in New York are replicated in Geneva for European- and African-based beneficiaries. All the accounting for operations is handled in New York, with a centralized Financial Services Section.

Note 2
Summary of significant accounting policies

Some of the significant accounting policies of the United Nations Joint Staff Pension Fund are set out below. They take fully into account the common accounting standards of the United Nations system (except as noted below) and are in accordance with the Regulations of the Fund as adopted by the General Assembly.

(a) Unit of account

The accounts are presented in United States dollars, with foreign currency bank balances being converted to United States dollars at the United Nations rate of exchange effective in December 2001.

(b) 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's end and a gain or loss on exchange is recognized.

(c) Contributions

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

(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

The appropriation is recorded when the authorization is approved by the General Assembly. Payments are charged directly against the appropriation account, and any unexpended balance reverts to the 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 3
Non-expendable property

In line with United Nations practice, non-expendable property is not included in the fixed assets of the Fund but is charged against the appropriations for the year of purchase.

The following table shows the inventory value of non-expendable property, at cost, according to the cumulative inventory records of the Fund as at 31 December 2001 (in millions of United States dollars):

Pension Fund secretariat	6.58
Investment Management Service	0.85
Total	**7.43**

Note 4
Status of appropriations (schedule 1)

In accordance with General Assembly resolution 54/251 of 23 December 1999, the budget appropriations for the biennium 2000-2001 are as follows (in United States dollars):

Initial appropriation	
(resolution 54/251)	62 301 100
Reduction in appropriation	
(resolution 56/255)	(3 098 900)
Revised appropriation	59 202 200

Annex XII

Report of the Board of Auditors on the accounts of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2001

Summary

The Board of Auditors reviewed the operations and audited the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2001. The audit was carried out at the secretariat of the Pension Fund in New York, at its Geneva office and at the Investment Management Service in New York.

The Board's main findings are as follows:

(a) The daily accounting procedures are generally in compliance with general accounting principles. Accrual principles are not, however, applied to financial transfers between the Fund and the United Nations general services;

(b) Bank charges and interest income are offset in the financial statements, although they are accounted for separately as debits and credits in the general ledger. Consequently, those expenditures and income are not fully disclosed in the financial statements, which albeit does not alter the final balance;

(c) The accounting method applied by the Fund for contributions from member organizations is not in compliance with the United Nations system accounting standards. Contributions are accounted for on an accrual basis, as set out in note 2 (c) to the financial statements, only at the end of the fiscal year, owing to delays in computing them on the basis of the actual payrolls. They are accounted for in the general ledger as assets, instead of income, during the year and debited at year's end as accounts receivable and credited in an income account. Expenses are also booked as assets in the general ledger, instead of as expenditure, and debited in an expenditure account at year's end;

(d) The Accounting Section of the Fund has been affected by unfilled vacant posts for long periods and its procedures are not always well monitored;

(e) In its previous report the Board expressed its concerns regarding the absence of a proper in-house accounting system at the Investment Management Service. The Service still relies on an outside system developed by a supplier (the master record keeper)[a] as an alternative. Monthly master record keeper statements are manually reconciled with custodian bank statements. This situation raises potentially significant financial risks and makes reporting time-consuming. The conclusions of studies on this matter requested in 2001 by the Standing Committee should be implemented urgently;

(f) There is no monthly cash-flow projection, as noted by the Office of Internal Oversight Services. The daily cash projection report prepared by the

[a] The master record keeper is a private company providing record-keeping services for the investment activities of the Fund and delivering monthly financial and accounting reports.

Investment Management Service is based on cash requested by Fund operations for the payment of benefits or expenditures. Income earned from contributions is not offset by income earned nor by charges from operations, which leads to less than reliable assessments of cash management;

(g) The Fund relies on many contractors for its information and communication systems. Contracts have been extended repeatedly without formal competitive tendering. Oversight has recently been improved;

(h) The Fund's management indicates that the contract with the actuarial consultant will now stipulate the Fund's ownership of the data used to make the actuarial valuation, as recommended during our audit.

The audit has focused on compliance with the United Nations system accounting standards, such as those on reliable monthly balances, accounting organization and supervision, cash and investment management and information and communication technology.

The list of the Board's main recommendations is included in paragraph 10.

I. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Joint Staff Pension Fund (UNJSPF) for the biennium ended 31 December 2001 in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article 14(b) of the Regulations of UNJSPF. The audit was conducted in conformity with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those 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 2000-2001 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 financial position as at 31 December 2001. The audit included a general review of financial systems and internal controls, a test examination of accounting records and other supporting evidence to the extent the Board considered it necessary to form an opinion on the financial statements. The audit was carried out at the secretariat of the Pension Fund in New York, at its Geneva office and at the Investment Management Service in New York.

3. In addition to the audit of the accounts and financial transactions, the Board carried out a review under financial regulation 12.5 of the United Nations Financial Regulation and Rules. The review concerned the efficiency and the fairness of accounting procedures 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. The practice helped to maintain an ongoing dialogue with the Administration on audit issues.

5. The present report covers matters that, 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 on all matters contained in the present report were discussed with the Administration, whose views, where appropriate, have been reflected in the report.

6. A summary of the Board's main recommendations is contained in paragraph 10. The detailed findings are reported in paragraphs 12 to 105.

A. Previous recommendations not fully implemented

7. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the action taken by the Administration to implement the recommendations made in its report for the

biennium ended 31 December 1997[b] and confirms that there are no outstanding recommendations.

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 biennium ended 31 December 1999.[c] A summary of the status of implementation of the recommendations and the comments of the Board are set out in the appendix to the present report.

9. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving implementation of its recommendations approved by the Assembly subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the Assembly in a note by the Secretary-General (A/52/753, annex), included the following main elements:

(a) The need for the specification of timetables for the implementation of recommendations;

(b) The disclosure of office holders to be held accountable;

(c) The establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

The Board noted that the Administration had generally complied with those requirements.

B. Main recommendations

10. **The Board recommends that UNJSPF**:

(a) In order to comply with accrual principles: (i) post the participating organizations' monthly instalments towards contributions as revenue (class 4) in its general ledger, and not directly as class 1 assets; (ii) adapt accordingly its accounting procedures; (iii) endeavour to obtain a better estimate of the level of the initial instalments; (iv) consider achieving in the longer term nearly real-time monthly data processing, after benchmarking against other funds' best practices (para. 23);

(b) Ensure that the accounting of expenditures is in compliance with the United Nations system accounting standards, including those incurred jointly with another United Nations service (para. 28);

(c) (i) Improve staffing and day-to-day supervision; and (ii) review its accounting organization (para. 30);

(d) Consider all assumptions over a reasonable period of time prior to deciding on adjustments to the level of contributions or benefits under constant resources (para. 49);

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

[c] Ibid., *Fifty-fifth Session, Supplement No. 9* (A/55/9), annex III.

(e) Complete, as a matter of urgency, the interface between the Lawson system and PENSYS, while accelerating for operations and the Investment Management Service alike the process of implementing a coherent information and communication technology strategic plan and the procurement of a proper accounting system (para. 87).

11. The Board's other recommendations are shown in paragraphs 16, 26, 36, 39, 42, 46, 51, 58, 65, 67, 71, 75, 80, 83, 91, 97 and 101.

II. Detailed findings and recommendations

A. Financial issues

1. Accounts and financial reporting

United Nations system accounting standards

12. The Board assessed the extent to which the financial statements of the United Nations Joint Staff Pension Fund for the biennium ended 31 December 2001 conformed to the United Nations system accounting standards. The review indicated that the presentation of the financial statements for the biennium ended 31 December 2001 was generally consistent with the standards.

13. Accrual principles are not respected, however, for financial transfers between UNJSPF and United Nations general services. Unliquidated obligations are accounted for by the total amount of invoices ($1,087,411) instead of only the appropriated two-thirds share of UNJSPF; the share of one third of administrative expenditures to be reimbursed by United Nations general services is not accounted for in an account receivable. Total assets as at 31 December 2001 are accordingly undervalued by $362,470, the amount which United Nations general services must pay.

14. Bank charges and interest income on administrative and banking operations are offset in the financial statements, although they are accounted for separately as debits and credits in the general ledger. As a consequence, income and expenditures in the financial statements are misstated. Both income and charges should be disclosed instead of being offset.

15. Contributions, which are of an operational nature, are directly deposited in investment custodian bank accounts. Interest earned on operating the contribution revenue is therefore posted as investment income, although it is the result of the operations of the Fund, not of its investments. Therefore, both bank interest and charges that result from contribution operations are not accounted for as administrative income and expenditure. This affects the proper financial monitoring and reporting, in schedule 1, of the Fund's operations, although the year-end net result as presented in the financial statements is not compromised by this procedure.

16. **The Board recommended that UNJSPF not offset interest income and bank charges related to operations as cash management and disclose them separately in schedule 1 of the financial statements, as from 2002; UNJSPF agreed**.

17. The financial statements are in one respect not consistent with general accounting principles, partly because of the lack of a set of accounting and financial rules adjusted to the peculiarities of the Fund's activities. The international accounting standards would, in some aspects, be more relevant than the United Nations system accounting standards, which have not been designed for such specific activities as managing very large investments, pension contributions and payments. This is true for accrual principles during the year; contributions paid to the Fund are directly accounted for as income received in advance and therefore as an asset for the Fund, instead of being posted first as cash income (late payments and, mostly, underpayments are considered to the contrary, and are rightly considered by the Fund as loss of income). Monthly balances therefore do not reliably reflect the economic situation until after the end of the year.

18. For revenue from contributions, the Fund considers that under generally accepted accounting principles, revenue is recognized when it is realized and earned, and revenue is earned when the earnings process is complete or virtually complete. It is the Fund's view that the earning process for the contribution is completed only when the detailed year-end schedules are processed. The monthly contributions from participating organizations are not based on any proper calculations of their pension liabilities; they are mere estimates until the contributions for the year are verified at year's end. The Board is of the opinion that the following improvements should be considered:

(a) The estimated monthly contribution instalments from participating organizations are not always based on accurate or documented calculations of their pension liabilities, as will be illustrated below. There is room for improving their accuracy during the year;

(b) During the year, these instalments are not accrued when paid in, but are treated as cash advances until they can be reconciled with the actual yearly payroll and adjusted in terms of actual and certain income. Note 2 (c) to the financial statements indicates that contributions received from participants, member organizations and other funds are recorded on an accrual basis. In practice, this is true only for the end-of-year financial statements. Contributions should be recorded during the year, and not only once at year's end, in compliance with accrual principles;

(c) The fact that the monthly income remains based on estimates until the contributions are verified after year's end does not prevent the posting of income as revenue in the general ledger, considering that the usual accounting standards are based on a "reasonable" estimate. The reasonableness of the estimates is confirmed by the fact that the 2000-2001 financial statements reflect only $39 million in receivables, compared with $0.9 billion in yearly contributions invoiced;

(d) To this end, new accounting procedures should, if necessary, be designed in the short term to allow for entering the instalments as revenue (class 4) instead of assets until they are cleared as revenue (class 1);

(e) In the longer term, the Fund should benchmark against the experience of social security and pension systems, which obtain during the year nearly real-time final assessments of contributions to be invoiced, under similar staff rotation circumstances.

19. The Fund confirmed that, under current accounting practices, it credits contributions receivable for monthly contribution remittances received from participating organizations during a year and records contribution income at year's end based on the detailed schedules regarding their pension contributions that the participating organizations send to the Fund.

20. Approximately 55 per cent of all monthly contribution remittances to the Fund in United States dollar amounts (United Nations, United Nations Children's Fund local and United Nations Development Programme local) are estimates that are not supported by documentation. The Fund reports that this is due to a large number of field offices in various countries and high turnover rates of staff members under the control of those organizations, which find it difficult to compile accurate pension contribution information on a timely basis each month. Accordingly, recording contribution income each month as the Fund receives remittances from the participating organizations would not secure accrual-basis accounting, nor would the practice strengthen the control of the contribution cycle.

21. The Board notes, however, that similar pension schemes obtain on a larger scale adequate data and account for it properly, and is of the opinion that the United Nations system might endeavour to attain greater accuracy in the long term.

22. The Fund notes that the relatively small balance of contributions receivable at year's end compared with regular contributions for the year (approximately 4.3 per cent) does not necessarily indicate the reasonableness of the monthly estimates because, for example, the United Nations periodically adjusts the estimates by settling the quarterly differences subsequent to the end of each quarter.

23. **The Board recommends that, in order to comply with international accounting standards, the Fund: (a) post the participating organizations' monthly instalments towards contributions as revenue (class 4) in its general ledger, and not directly as class 1 assets; (b) adapt accordingly its accounting procedures; (c) endeavour to obtain a better estimate of the level of the initial instalments; and (d) consider achieving in the longer term nearly real-time monthly data processing, after benchmarking against other funds' best practices and launching a United Nations system-wide initiative to that effect and the Fund agreed.**

24. Participating organizations are requested to make their regular monthly remittances on the second working day of each month. Interest on late or, mostly, insufficient remittances is computed only when the detailed year-end schedules are reconciled with payrolls, with a delay of several months. Interest is then billed to the member organizations, generally in July of the following year, at a monthly rate based on that of three-month Treasury bonds. Since the amount of interest income is finalized only late in the following year, receivables are underestimated in the financial statements, accrual principles not being fully implemented, contrary to what is implied in note 2 (c). The Fund has yet to complete the procedure in time for its financial statements to reflect fully the year-end receivables and for the participating organizations to reflect them as deferred charges in their own financial statements.

25. The Fund stated that, due to the short time elapsed between obtaining year-end schedules from participating organizations and completing the financial statements, an accurate computation and accruing of interest on late payments for the same year

would be impractical. Reconciliation of contributions would normally be conducted for a few months after the financial statements are issued. The Fund informed the Board that it also offers non-monetary options, such as early payment of subsequent remittances, for compensation of delayed payments. The Board is of the opinion that this is not, in the long range, satisfactory.

26. **The Board recommended, and the Fund agreed, that underpayments or late payments should be acted upon as soon as the reconciliation of contributions is completed**.

27. For expenditures related to services jointly sourced with United Nations general services, the Fund's current accounting practice is that accounts 1770 to 1787 (assets) are debited and accounts 2410 to 2412 (liabilities) are credited for payments to United Nations general services each month. It is only at year's end, when the two-thirds share of the Fund's expenses is established, that the amount is booked as expense, although the respective shares of the Fund and of the United Nations general services are computed either monthly for salaries, or at the time of payment for other expenses. The Fund considers the allocation of monthly obligations and disbursements to administrative, investment and audit costs to be unfeasible, and that its present accounting practices do not contribute to misstatements in the annual or biennial financial statements. Financial transfers between UNJSPF and United Nations general services are therefore posted monthly as liabilities instead of registering as actual payments or deferred charges. These accounting practices do not affect the annual or biennial financial statements, but they are not at the level of day-to-day accounting best practices. The Board recognizes the limited means of the Fund in terms of staffing (5 posts in the accounts unit, with recent vacancies as mentioned below), but considers that appropriate means should be applied to ensure compliance with the United Nations system accounting standards. The Board does not agree with the opinion expressed by the Fund that "it is neither feasible nor value-added". There are no particular reasons for not applying the accounting standards.

28. **The Board recommends that UNJSPF account for expenditures in compliance with the United Nations system accounting standards, including joint expenditure with another United Nations service**.

29. The Fund had contribution income of $1.8 billion for the biennium and paid $2.1 billion in benefits. Its accounting has been handicapped by staffing problems out of proportion with those financial stakes. The post of Chief of Financial Services has been vacant for several months. It is one of only two Professional posts in the accounts unit, along with 10 general service posts. This may explain some accounting errors, of minor import to the financial statements, which were detected and corrected during the audit. The Fund is actively seeking to fill the post and believes that level of supervision will be enhanced with the recruitment of a Chief of Financial Services and Deputy Chief of Accounts.

30. **While noting again the recurrent difficulties in staffing key United Nations operational posts, the Board recommended the Fund: (a) enhance supervision of accounting; and (b) review its accounting organization; the Fund agreed**.

Operational results

31. The investment portfolio of the Fund had increased from $15.2 billion at the end of 1999 to $17.1 billion as at 31 December 2001, an increase of 12.4 per cent, as against 10 per cent for the previous biennium. The market value of those assets had decreased by $4 billion (15.8 per cent) to $21.5 billion, as against $25.5 billion for the biennium ended 31 December 1999.[d]

32. Total investment income for the biennium rose by $39 million to $2.234 billion, against $2.195 billion in 1998-1999. This is due to a $73 million increase in interest earned ($90 million) and a $21 million increase in income from real estate and related securities ($143 million), offset by a decrease of $27 million in dividends and $28 million in profits on the sale of investments ($810 million).

33. Total biennial contribution revenue increased by $164 million to $1.78 billion ($1.6 billion in 1999), due mainly to the significant increase of 16.2 per cent in the number of participants, from 68,935 in 1999 to 80,082 in 2001. Benefits paid, which constitute 97 per cent of total expenditure of the Fund, increased by $96 million (4.8 per cent) to $2.09 billion ($1.99 billion in 1999).

34. Total income reached $4.017 billion for the biennium 2000-2001, against $3.813 billion for 1998-1999, and expenditures totalled $2.151 billion against $1.998 billion. The net excess of income over expenditure during 2000-2001 was $1.866 billion, an increase of $104 million (5.9 per cent), which was much lower than for the previous biennium (26 per cent). The Fund relies on two resources: contributions from employing organizations and employees and investment income. Since 1994, contributions have not covered all benefits paid in the year. In 2001, total contributions represented 85 per cent of benefits, versus 116 per cent 10 years before.

35. Investment income has become an increasingly necessary source of additional income to cover benefits and all administrative and investment expenditures. Total contributions and income, excluding profits on the sale of investments, cover about one and a half times the benefits paid. The ratios are not fully detailed in the report to the Pension Board. In the short term, interest earned, dividends, real estate and other income bring sufficient additional resources. The Fund has to be cautious for the future.

36. **The Board recommends that income data be detailed in reports to the Pension Board and the General Assembly.**

[d] The Investment Management Service also manages, off the balance sheet and financial statements of the Fund, the United Nations University Fund and the Geneva Library Endowment Fund, both of which have a balance above $2 million and are entrusted to private asset management companies.

Table XII.1
Income, 1991-2001
(Millions of United States dollars)

	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Contributions (1)	641.9	676.6	686.2	711.7	777.5	800.7	787.4	801.7	816.6	854.5	928.6
Interest + dividends + real estate income (2)	557.5	545.2	576.7	581.2	597.4	608.8	619.0	673.3	682.5	729.2	693.6
Direct cash (3)=(1)+(2)	1 199.4	1 221.8	1 254.0	1 292.9	1 375.0	1 409.5	1 406.4	1 475.0	1 499.2	1 583.7	1 622
Payment of benefits (4)	552.6	616.2	646.1	729.8	788.8	915.1	883.7	928.0	1 069.6	1 029.1	1 064
Percentage (1/4)	116.2	109.8	106.2	97.5	98.6	87.5	89.1	86.4	76.4	83.0	87.2
Percentage (3/4)	217.0	198.3	194.1	177.2	174.3	154.0	159.1	158.9	140.2	153.9	152.4

Emergency Fund

37. The Emergency Fund is financed from the assets of the Fund and voluntary contributions and is used to provide financial assistance to UNJSPF beneficiaries. It is intended to provide relief in individual cases of proven hardship, such as illness, infirmity and similar cases, including funeral arrangements. The allocation to the Fund was $200,000. The expenditure for the biennium 2000-2001 was $71,792, as against $66,516 for the preceding biennium, an increase of 7.9 per cent.

Foreign tax accounts receivable and tax-exempt status

38. Tax-exempt status is provided to the Fund in almost three-quarters of the Member States. The foreign tax accounts receivable balance of $22.4 million as at 31 December 1999 had increased to $25.1 million as at 31 December 2001, an increase of 12 per cent, compared with 22 per cent for the prior biennium. Schedule 6 gives the aged summary of the foreign tax accounts receivable from Member States as at 31 December 2001. Four new countries granted UNJSPF tax exemption during the biennium, and the Fund is still actively attempting to gain tax-exempt status in others. Out of the 189 Member States, 49 had yet to grant this status to the Fund by May 2002.

39. **The Board reiterates its previous recommendation that the Fund continue its efforts to recover outstanding tax reimbursements from Member States and further appeal to countries that have not yet done so to grant it tax-exempt status.**

2. Actuarial valuations

40. Actuarial valuations are calculated and provided to the Pension Board according to two basic methods, the “open group” and the method formerly referred to as “closed group”. In the open group method, participants retiring or dying are replaced by new active entrants. Results are provided to the General Assembly only for the open group method.

41. The second method relies on a summarized demographic, “actuarial valuation, not considering any future member”, or equivalent information in terms of “minimum benefit liability, result with pension adjustment”; this last item, however, is being debated. The results of this method are not disclosed by the report, although

the information would be relevant to all contributing organizations, insofar as it would enable them to disclose a bracket of the results of both valuations in their own reports.

42. **The Board recommends that the Fund disclose in its report both "open group" and "actuarial evaluation, not considering any future member", or equivalent information in terms of "minimum benefit liability, result with pension adjustment".**

43. At the Pension Fund Governing Board session of 2000, the consulting actuary and the Committee of Actuaries determined in principle that of the surplus of 4.25 per cent of pensionable remuneration existing at the end of 1999,[e] up to 2.25 per cent could be applied towards increasing benefits or reducing contributions, with the remaining 2.0 per cent retained as a reserve for contingencies. The decision was to be submitted to the Governing Board at its session in July 2002, but by May 2002 the surplus had fallen below 3 per cent. The Board has therefore examined the available estimates.

44. In November 2001 the Fund's consulting actuary provided a preliminary actuarial valuation as at 31 December 2001 to the Working Group undertaking a fundamental review of the Fund's benefit provisions. That estimate, made under the "open group aggregate" method assumptions used in 1999, showed a surplus reduced from $5.3 billion to $2.9 billion at the end of 2001, before the value of the assets at their market value was reduced at year's end.[f]

[e] The Fund compares the contribution rate required for equilibrium with the rate in use (i.e., 23.7 per cent of pensionable remuneration since 1990). Using the figures of table XII.1, equilibrium required a rate of 19.45 per cent (i.e., 4.25 per cent below the rate of 23.7 per cent in use) at the end of 1999, and a rate of 21.7 per cent (i.e., 2.03 per cent below the rate of 23.7 per cent in use).

[f] The asset side of this estimate is valued with a five-year average method, using market value as at November 2001. Market value as at 31 December 2001 is close to the above November figure and would not change the figures cited. Market value as at 31 December 2001 has been audited, not the preliminary estimate of the liabilities side. This preliminary estimate is based on standard roll-forward techniques applied to the results of the actuarial valuation as at 31 December 1999. The progression of the liabilities during the biennium 2000-2001 is not abnormal, considering the increase in the number of participants (from 68,935 to 80,082, or 16.2 per cent) and of the periodic benefits in award (from 46,199 to 49,416, or 7.0 per cent).

Table XII.2
Assets and liabilities estimates, 2001
(Billions of United States dollars)

"Open group aggregate" method	*2001**	*1999*
Present assets	23.2	22.2
Future contributions on behalf of present participants	8.4	7.4
Future contributions on behalf of future participants	25.5	21.7
Total assets	**57.1**	**51.3**
Benefits payable on behalf of retired and deceased participants	31.9	10.8
Benefits expected to be paid on behalf of present participants		17.5
Benefits expected to be paid on behalf of future participants	22.3	17.7
Total liabilities	**54.2**	**46.3**
Surplus	**2.9**	**5.3**

* Estimate.

45. The Board considers that the estimated $2.9 billion surplus is not very substantial, considering three distinct cumulative risks that lead to a deficit:

(a) As the financial markets have plummeted, for the first time the five-year average is above the market value, but when assets are estimated at the December 2001 market value, the figure is $21.7 billion instead of the five-year average value of $23.2 billion: the surplus is then reduced to $1.4 billion;

(b) In any method "not considering any future member", as international accounting standard 19 on employees' benefits would warrant, neither the $25.5 billion of future members' contributions nor the $22.3 billion of benefits on behalf of those future members are considered, and the December 2001 surplus becomes a deficit of $0.3 billion;

(c) The Fund assumes annual future increases in pensionable remuneration of 5.5 per cent, annual future return on investment of 8.5 per cent and annual future increase in pensions of 5 per cent ("5.5/8.5/5.0"). The essential assumption is an annual return on investment of between 3 and 3.5 per cent, net of inflation on remuneration or pension increases. An alternative assumption reducing by 0.5 per cent this net annual return is likely to reduce the 2001 surplus by the same margin by which it reduced 1999 surplus, that is by $2.3 billion for retired and present participants and by $1.3 billion for future participants. Changes in demographic assumptions (longevity and early retirement) have more impact than the modification of benefits.

46. **The Board is therefore of the opinion that, while presenting no short-term risk, the actuarial valuations indicate that the Fund should exercise caution before changing the levels of contributions or benefits.**

47. The only significant increase in benefits, which was decided during the review, has an impact of 0.35 per cent of pensionable remuneration. Changes in

demographic assumptions (longevity and early retirement) have more impact (1 per cent of pensionable remuneration) than the modification of benefits.

48. At the end of 2001 the reported surplus of $2.9 billion corresponded in theory to a required contribution rate of 2.03 percentage points below the current rate of 23.7 per cent. The Board notes, however, that assumption (a) in paragraph 45 above would lead to a contribution rate almost at the level of the current rate, while assumption (b) or (c) would bring it higher. This should lead the Fund to apply added caution against premature decisions under still positive short-term perspectives, while longer-term perspectives remain uncertain.

49. **The Board is of the opinion that the Fund should consider all assumptions over a reasonable period of time, prior to deciding on adjustments to the level of contributions or benefits under constant resources.**

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

50. During the biennium ended 31 December 2001, the recovery of receivables from 20 beneficiaries, totalling $53,022 and SwF 4,042 (against $66,571 for the previous biennium), was waived and written off in accordance with administrative rule J.9. The amounts written off were in respect of overpayments to beneficiaries that occurred when deaths were not promptly reported to the Fund and the family members continued to receive the monthly benefit payments. One case involves $25,230 erroneously received by the beneficiary's heir who had refused to return the funds despite the actions of the Fund. The Administration informed the Board that it had only taken one write-off action after an exhaustive follow-up process.

51. **The Board recommended that the Fund strengthen action to prevent such a situation, and the Fund agreed.**

4. Ex gratia payments

52. The Administration informed the Board that no ex gratia payments had been made during the biennium 2000-2001.

B. Management issues

1. Investment management

Performance of the Fund

53. In its resolution 49/224 of 23 December 1994, the General Assembly requested the Secretary-General to present in future reports on the investments of the Fund a fuller analysis of the performance of those investments and their significant components, including, where applicable, means of comparing performance with relevant benchmarks and other pension funds. The Assembly adopted a benchmark for the total investment of the Fund consisting of two components: the Morgan Stanley Capital International World Index (MSCIWI) for equities and the Salomon Brothers World Government Bond Index (SBWGBI) for bonds.

54. The Board's analysis of the Fund's performance against those benchmarks is shown in table XII.3 (parentheses indicate a negative change).

Table XII.3
Performance of the Fund in 2000-2001 (annual rates)

	2000-2001				*1998-1999*			
Investments	*Year*	*Benchmark*	*Fund performance*	*Difference*	*Year*	*Benchmark*	*Fund performance*	*Difference*
Equities	2000	(13.2)	(11.8)	2.4	1998	29.7	22.6	(7.1)
	2001	(16.8)	(15.2)	1.6	1999	25.3	33.5	8.2
Bonds	2000	1.6	4.1	2.5	1998	15.3	12.0	3.4
	2001	(1.0)	2.4	3.4	1999	(6.3)	(4.3)	2.0
Total	2000	(7.2)	(6.2)	1.2	1998	21.6	18.7	(2.9)
	2001	(10.4)	(8.4)	2.0	1999	12.8	19.9	7.1

55. During the biennium, the Fund's total investment performance has been negative, but above the benchmark: minus 6.2 per cent for 2000 and minus 8.4 per cent for 2001. Bond performance was 4.1 per cent and 2.4 per cent better than SBWGBI in 2000 and 2001 respectively. As the market plummeted, the performance of equities was significantly negative, at minus 11.8 per cent and minus 15.2 per cent for 2000 and 2001 respectively, but they still performed better than the MSCIWI.

56. Despite the reversal of the financial markets, the Investment Management Service kept its medium-term investment guidelines unchanged: 60 to 75 per cent in equities, 20 to 35 per cent in bonds, 4 to 6 per cent in real estate and 3 to 10 per cent in short-term investments and reserves. Short-term guidelines have been adjusted according to the economic analysis and the market outlook presented to the Investment Committee by the staff and advisers. In the recent period, the shift in the structure of assets has been more affected by market decline than by the selling of assets. The Investment Management Service recognized that, in practice, the Fund had no medium-term asset allocation.

57. The Board notes that no target prices for buying or selling are provided to or by the Investment Committee. At the time of the purchase and sale of any security, target prices are recommended and either confirmed or approved by the Director and/or the representative of the Secretary-General, depending on the amount of the transaction. External advisers usually supply such targets only when an Investment Management Service investment officer requests them in considering whether to enter or to get out of the market.

58. **The Board recommends that the Fund establish a more proactive strategy, with asset management tools such as formalized target prices to be reported to the Investment Committee.**

Cash management

59. Member organizations are asked to deposit most of their contributions not into the "operations" bank accounts, from which benefits and expenditures are paid, but in the Investment Management Service accounts in custodian banks, from which investments are paid for. The Fund requests, several days in advance, cash for the payment of benefits and expenditures from the Investment Management Service,

which transfers the amount from “assets” accounts to “operations” accounts. As the Office of Oversight Services mentioned in connection with its audit of November 2000, the Fund could streamline and optimize its cash management if its day-to-day disbursements were made not through “assets” accounts in custodian banks, but directly through the “operations” accounts. The Fund had not yet acted on the suggestion.

60. As a result, operational interest income earned on incoming contributions is accounted for in investment income instead of being disclosed separately.

61. The Office of Internal Oversight Services also rightly questioned the lack of proper instructions concerning the cash account balances, recommended increased monitoring over currency purchases and observed that there was no cash-flow projection on monthly and annual bases. The Fund confirmed to the Board, on the one hand, that due to technical problems related to daily benefit payment projections and scheduling and insufficient information sharing between the Investment Management Service and cashiers related to interest payments and maturities, cash-flow projections were not being systematically carried out by the cashier. On the other hand, the Fund indicated that the Investment Management Service had active, well-organized and adequate cash-flow projections, which were needed for investment purposes. They were prepared on a daily basis by the operations section and reviewed by the investment managers, who decided on the movements of the currencies depending on pending orders and benefit payments. The projections took into account contributions, expected dividends, interest income, maturities from fixed income, benefit payments and all other expected receipts and payment transactions.

62. The Investment Management Service considers that cash projections for 1 to 90 days are adequate. The Board observes that cash projections for 1 to 90 days were not available at the time of its audit, and that both sides of the Fund might consider operating a reconciled or unified cash-flow projection system. Forecasts of contributions, benefit payments, income from dividend and interest payments, expected redemptions and maturities of fixed-income securities and payment of salaries represent 98 per cent of income and expenditure, and are all easily predictable. The Fund added that when a sweep account agreement is entered into under the umbrella of the new banking contract or contracts expected to be completed before the end of 2002, with enhanced Lawson reports and coordination between the Investment Management Service and the cashier, the cashier will be in a better position to implement cash-flow projections in a satisfactory manner.

63. Under the circumstances, the Fund considers that contribution funds left with the Investment Management Service bank accounts have the potential to earn higher interest on the excess balances than with the operations bank accounts. The Board observed that this had not been documented.

64. The Fund has maintained its operational bank accounts without any formal banking contracts. Cash account balances and currency purchase procedures have not been formally documented because of the lack of formal contracts. The Fund agreed with this finding and stated that it would be addressed in the context of the implementation of the new banking contract or contracts late in 2002.

65. **The Board supports the recommendations of the Office of Internal Oversight Services that the Fund:**

(a) Carry out day-to-day disbursements primarily by receiving contributions directly into the "operations" bank accounts, which are used for paying benefits;

(b) Establish cash-flow projections on a weekly, a monthly and an annual basis;

(c) Enact proper instructions for the cash account balances and the monitoring of currency purchases in new banking contracts, which the Fund agreed to for audit trail and management control purposes.

Professional obligations and ethics

66. The Fund has no specific set of guidelines on ethics, despite the amounts at stake. It considers that the United Nations Staff Rules on general rights and obligations adequately cover a wide range of factors that are associated with professional obligations and ethics. The management of the Fund's Investment Management Service has stated that it understands the role of the compliance officer in the investment industry, but it has made no move to benchmark, in the light of the latest problems encountered in the private sector, against the best practices recommended or approved by regulatory authorities, nor to proactively promote and verify compliance with existing rules.

67. **The Board strongly recommends that UNJSPF supplement the United Nations Staff Rules with guidelines related to specific Fund activities and that a compliance officer function be introduced to ensure compliance at all levels with both existing Staff Rules and supplementary guidelines.**

Submission of investment reports

68. In its report on the biennium 1998-1999, the Board recommended that the Fund introduce a penalty clause in future agreements with the master record keeper to ensure timely delivery of the relevant financial and accounting system reports.[g] The previous master record keeper had produced reports not only with delays, but also with frequent discrepancies, including mathematical, logical and exchange rate errors. Furthermore, its software was not year-2000 compliant. The Fund did not extend the contract, which ended in December 1999, and appointed a new master record keeper.

69. Delays in transferring the account's balances ensued because of a dispute between the Investment Management Service and the former master record keeper about the monthly historical data to be provided to the new master record keeper. Furthermore, the new company was requested, under a separate contract, to take over the investment accounting operations on a temporary basis, pending the development by the Service of its year-2000-compliant accounting system.

70. The main contract with the master record keeper includes a clause on "term and termination of the agreement". The Investment Management Service considers that the clause is clear enough, but that it does not cover the accounting operations, which come under a separate contract. Contracts between the Organization and advisers or consultants include an arbitration clause. In the master record keeper's

[g] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 9* (A/55/9), annex III, para. 10.

contract, such arbitration is to be conducted under the auspices of the International Chamber of Commerce, and parties agree to be bound by any arbitration award rendered in accordance with the contract as the final adjudication of any controversy or claim. However, delays in processing discrepancy letters were experienced without consequences for the contractor; for example, the Investment Management Service received the January 2000 ledger only in October 2000, and the January 2001 ledger was delivered at the end of May. Since June 2001, balances have been produced by the master record keeper on an ongoing basis in about two months.

71. **To ensure the timely delivery of the relevant financial and accounting reports, the Board recommended that the Fund enforce a termination clause for non-performance or late delivery and the Fund agreed.**

72. The Board is pleased to note that upon its recommendation, the contract with the actuarial consultant will now stipulate the Fund's ownership of the data used to make the actuarial valuation.

73. In biennium 2000-2001, $29.2 million was paid to 14 companies providing custody of assets as well as advisory and record-keeping services, compared with $30.1 million in the previous biennium. The master record keeper received $3 million, the three investment advisers received a total of $7 million and the four custodians received $4 million. As noted by the Board in its previous report, the Investment Management Service's manual of procedures and the various contract agreements with the service providers do not require the evaluation of performance. Consequently, there has been no evaluation of the quality of the work performed.

74. The Board notes that the Fund has implemented its previous recommendation on this matter. The Investment Management Service has reiterated that there was no explicit procedure for evaluating the performance of service providers. The Service states that its interaction with them on a regular basis, sometimes daily, provided a means of exchanging views, including informing them as to whether their performance was satisfactory. An internal audit has been recently conducted that might open the way to more professional monitoring in this field.

75. **The Board reiterates its recommendation that the Fund take immediate action to introduce and monitor evaluation criteria of the performance of the advisory and custodial services.**

2. Fund administration

Administrative expenditures

76. Administrative expenditures amounted to $56.8 million for the biennium 2000-2001, as against $53.9 million for the previous biennium, an increase of 5.2 per cent. The revised appropriations were $59.2 million. Overexpenditures for overtime and temporary assistance and for electronic data-processing contractual services have been incurred, although less than during the previous biennium, at 18.6 per cent and 15.3 per cent respectively.

Contributions of member organizations

77. Contributions of member organizations are cashed in the Investment Management Service and monitored manually by the Fund's accounts unit, which have no computerized links between them. In the case of late payments, the Fund

reminds participating organizations that contributions have to be paid the second day of each month and that late payments are costly for the Fund. But Fund invoices and the amounts actually paid by member organizations are matched only at the end of the year. For debts borne in 2000, the Fund mailed new invoices only in May 2001. For 2001, it had not yet been done by early May 2002. This leads to significant discrepancies between the financial statements of the Fund and of participating organizations, some of which, out of caution, will have paid more by the end of the year than was due.

78. As an example, the United Nations Children's Fund (UNICEF) financial statements as at 31 December 2001 show $2.5 million as accounts payable to UNJSPF, while the UNJSPF financial statements show $8.1 million as accounts receivable from UNICEF. UNICEF in fact paid $5.8 million in January 2002, which relates to the December 2001 payroll. This payment has been recorded in UNICEF books for December 2001, but in and for 2002 by UNJSPF.

79. The remaining difference of $0.2 million between the above figures will be subject to the annual reconciliation exercise, which will be carried out with some delay during the following year. The amounts UNICEF had paid for 1999 and 2000 were reconciled with UNJSPF only in June 2001. UNICEF adjusted its $4.1 million overpayment together with appropriate interest from its July 2001 contribution. This overpayment was due to local staff pensions, for which a monthly estimated amount is paid on a basis that is currently being reviewed. Until the conclusions of the review are implemented, there will be no assurance of the amount that is payable to UNJSPF.

80. **The Board recommends that UNJSPF, in conjunction with participating organizations, ascertain that contributions are accounted for on accrual basis in the same fiscal year by both parties.**

81. The interest charges on late or insufficient remittances are therefore also computed late and only once a year. For instance, the Fund did not compute the interest charges on late-2000 remittances of the United Nations and the United Nations Development Programme until 30 July 2001, as already mentioned. Had the computation been made and accrued in a more timely fashion on the principal and interest, the financial statements might disclose more accurate figures on the part of the Fund and of the participating organizations.

82. The Board notes with concern that the Department of Management of the Secretariat does not implement an appropriate payment level schedule, leading to additional charges for the Secretariat in interest paid to the Fund.

83. **The Board recommends that the Fund monitor more closely the monthly payments it receives against their likely level and proceed in a more timely fashion with the invoicing of late-payment charges.**

3. Information and communication technology

84. The Fund is considering a new information and communication technology strategic plan for operations. Most of the problems with the Lawson data-processing system, which was installed in 1998 to replace the old general accounting system, have been solved. The Fund relies on the Lawson system and PENSYS to process certain types of payments. Controls are in place to ensure that the systems are properly reconciled at various points in the process. But some interfaces between the

Lawson system and PENSYS, the benefits payment system, should be further improved, except for payroll. The linkage between the accounting system and the payments unit is deficient. Non-payroll payments are manually checked, although an automated summary of all Lawson entries of manual payments and its reconciliation with manual entries would be more appropriate. The Fund acknowledges that the summary of transactions has been somewhat cumbersome. It has subsequently taken measures to further automate this process and has contracted with a firm specializing in Lawson programming to undertake the work. The Fund informed the Board that a systematic report would summarize the affected transactions, thereby eliminating the need to reference several PENSYS reports for the same purpose.

85. The Investment Management Service does not have a long-term strategic plan for information technology. The previous investment control and accounting systems and the Investment Management Service's system were not year-2000 compliant and have not been replaced. The Service no longer has a proper in-house accounting system. For the time being, it relies on the master record keeper accounting system. Data from the master record keeper system is transmitted through an electronic file to the Service, which then forwards it to the Pension Fund. Every month, master record keeper statements are manually matched with the custodian bank's statements. All discrepancies are reported to the master record keeper, and amendments are handled by the master record keeper the following month. Such a procedure is cumbersome, outdated and does not provide state-of-the-art security. The lack of an Investment Management Service accounting system has introduced a potential financial risk since 2000.

86. Instead of taking the quicker course that the risk warranted at the end of the 1990s, it was only in July 2001 that the Pension Fund Standing Committee launched a feasibility study on information and communication technology to determine the way forward. Conclusions were scheduled to be examined by the Standing Committee at its session in July 2002, but the deadline has been postponed until 2003. UNJSPF anticipates that the new system could be operational at the very earliest for 2004. The Board is of the view that more prompt action would have been and would still be appropriate.

87. **The Board recommends that the Fund complete, as a matter of urgency, the interface between the Lawson system and PENSYS, while accelerating for operations and the Investment Management Service alike the process of implementing a coherent information and communication technology strategic plan and the procurement of a proper accounting system.**

Experts, consultants and institutional contractors

88. The Fund has been required by United Nations Headquarters to carry out permanent information and communication technology functions with temporary assistance contracts. While this is standard practice for contractors carrying out short-term development assignments, which the Fund also has to call upon, it has proved to be counterproductive for the level and stability of the staff in this highly crucial field over the long term, and therefore detrimental to the quality of the Fund's operations in a difficult market for employers in search of professionals in the field of information and communication technology.

89. The Fund spent $549,000 for six experts and individual consultants and $1.263 million for consultants through nine institutional contractors. Two consultants

worked for the Fund at the beginning of the biennium, and their contracts were extended every six months during the entire period. They replaced two staff at the P-4 and P-3 levels (a senior system analyst and a system analyst), posts that the Fund could not fill. The extensions were always approved by the Office of Human Resources Management. At times contractors could not be found, and the Fund has relied on the United Nations Procurement Division to find qualified individuals through a formal procurement process.

90. The Board is concerned that the difficulties in filling positions in information and communication technology in New York may reflect an inadequacy in the recruitment strategy, the excessive reliance on temporary assistance contracts and the level of the proposed pay scale.

91. **The Board reiterates its recommendation that the difficulties in staffing Fund positions in information and communication technology be further reviewed and that a long-term staffing strategy be designed and implemented.**

92. Most of the Fund's contractors provide assistance in information and communication technology. In its previous report the Board recommended that the Fund intensify its efforts to plan its requirements in advance and reduce its reliance on consultants hired under the exception clause. This recommendation was not fully implemented. Contracts to ease staff shortages in the computer and data information systems were still extended several times during the biennium and without a new, formal bidding process. The Fund overspent the appropriation on this item by 15.3 per cent, and at the end of the biennium the amount of unliquidated obligations in this field was $375,675 on a total amount of $1,298,817 in allotments for information and communication technology.

Information and communication technology environment

93. The Board has extensively reviewed the Information Management Systems Section of the Fund, which provides a reliable short-term environment for the information systems. The Project management framework is adequate. However, security, notably of access to the server room, is inadequate considering the sensitivity of the individual and financial data to be processed. There are neither smoke detectors nor fire extinguishers in the computer room, and the lack of office space has had negative implications. With no security officer position, there is no specialist in charge of defining and implementing a security strategy with appropriate requirements for each environment. The Fund acknowledges that the Investment Management Service computer room is inadequate to accommodate long-term objectives and that a security officer should be employed before certain systems are made available to users.

94. The present disaster recovery plan has not been updated and extended, while the Geneva site could benefit more from the experience of the United Nations International Computing Centre. The logical access control is not state of the art, although the stakes are high.

95. Regarding the separate Investment Management Service information system, the Board noted the lack of a formalized process involving users to produce such a plan and a detailed annual budget, as well as the lack of an adequate project management framework and of physical security of the highly sensitive financial data on asset management. There is no adequate and tested disaster recovery plan.

96. The Investment Management Service has informed the Board that it had always backed up all the data in the servers on a weekly basis and had recently started to copy important information onto CD-ROMs to be taken home by key personnel. The latter practice may not be sufficient, or perhaps even desirable, to ensure the security and confidentiality of the Fund's databases.

97. **The Board recommended that the Fund create a permanent information and communication technology security officer function, develop a new security and disaster recovery plan and implement other relevant physical and logical security steps to ensure continuity of the business, and the Fund agreed. It also recommended that the Fund promptly improve the control of access to the server room.**

98. The Fund informed the Board that it had located additional office space, which would make it possible to continue to make progress on the re-engineering projects and would permit the expansion of the computer room; that, as part of the expansion, the Investment Management Service would ensure that smoke detectors were installed in the appropriate locations and that access to computer equipment would be limited to authorized staff. The Fund commented that a security officer would play a major role in the development and implementation of the Fund's security policy and procedures, and that it was in the process of developing a security plan, which would take into consideration disaster recovery and business continuity services. The plan would follow ISO Standard 17799 for security and would leverage the processing potential of the Fund's Geneva office in the event of a disaster. The plan would also identify actions to be taken should a disaster strike the Geneva office.

Information and communication technology projects

99. At its session in July 2001, the Standing Committee agreed to new strategic planning on long-term re-engineering and computer systems, to be funded in the budget for the biennium 2002-2003. Eight projects were selected, three classified under future direction and five under infrastructure enhancement.

100. A constant reporting procedure was introduced early in 2002, but there may still be a risk of less-than-adequate operational performance because of a delay in the design and implementation of the new information and communication technology environment.

101. **While taking note that the Fund has already begun implementing its recommendations, the Board recommends that the Fund increase the priority level of the development and staffing of its new information and communication technology security environment.**

4. Internal audit

102. A unit within the Internal Audit Division of the Office of Internal Oversight Services provides internal audit services to the Fund. The Unit has been reorganized and merged with the Office of the Iraq Programme to give the staff of four auditors and two General Service employees greater flexibility.

Coverage of the Fund's activities

103. During the biennium, the Office of Internal Oversight Services covered six areas in audits which the Board has been careful not to duplicate: cash management, procurement operations, financial services accounts and bank reconciliation, pension contributions, processing of benefits for surviving spouses and former surviving spouses, and the Fund's office in Geneva. Three audits were ongoing in early 2002 on the submission to UNJSPF of separation and other documents required by member organizations, contractual services, and investment management. Cash management (UNJSPF and the Investment Management Service and the budget were also to be audited.

Follow-up of audit recommendations

104. Out of 27 recommendations made in 1999, 2000 and 2001 included in a list provided by the Office of Internal Oversight Services to the Fund in March 2002, 25 have been accepted and 2, although initially accepted, were under review. Most of the accepted recommendations were at some stage of implementation. The Board is therefore pleased to acknowledge the valuable work done by the Office of Internal Oversight Services in providing sound internal audit services to the Fund and to the Investment Management Service.

5. Cases of fraud and presumptive fraud

105. The Administration informed the Board of one case of fraud or presumptive fraud involving a total of $33,137 for the biennium ended 31 December 2001. The case was a forgery of the signature of a certificate of existence after the death of the beneficiary. The beneficiary was blind and had shared an account with her caregiver, who apparently had been signing her certificates while she was alive. A 1995 note stated that the signature had to be notarized in order to verify it, but this was not done. The caregiver died before the Fund detected the fraud. His name was written under "secondary dependant", but this was never investigated. The amount involved was $37,711. The entire balance of a checking account was retrieved by the Fund ($4,574), leaving a loss of $33,137. New procedures have highlighted the special attention to be given to detecting changes in signatures. The Board will keep this matter under review in its future audits.

III. Acknowledgement

106. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Chief Executive Officer and Secretary of the United Nations Joint Staff Pension Board, the representative of the Secretary-General for the investments of the Fund and the Director of the Investment Management Service and members of their staff.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Caragué**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

27 June 2002

Appendix

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999[a]

The Board has followed up on the action taken by the United Nations Joint Staff Pension Fund (UNJSPF) to implement the Board's recommendations made in the context of its report for the biennium ended 31 December 1999. Table A.1 summarizes the status of implementation of all the previous recommendations, while table A.2 details specifically those recommendations not implemented and those recommendations under implementation that require further comment.

A total of 10 recommendations were made in the audit for the biennium 1998-1999. Of the 10 recommendations, 3 (30 per cent) were implemented, 6 (60 per cent) were under implementation and 1 (10 per cent) was not implemented.

Table A.1
Summary of status of implementation of recommendations for the biennium 1998-1999

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*
A. Financial issues				
Accounts and financial reporting	paras. 10 (c) and 19	para. 10 (b)	para. 10 (a)	
Consultants		para. 10 (d)		
Financial management		para. 24		
Subtotal				
Number	**2**	**3**	**1**	**6**
Percentage	**33.3**	**50**	**16.7**	**100**
B. Management issues				
Procurement	para. 50	paras. 38 and 53		
Internal audit		para. 67		
Subtotal				
Number	**1**	**3**	**0**	**4**
Percentage	**25**	**75**	**0**	**100**
Total				
Number	**3**	**6**	**1**	**10**
Percentage	**30**	**60**	**10**	**100**

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

Table A.2
Details on previous recommendations under implementation or not implemented for the biennium 1998-1999

Management			
Component/area of concern	*Recommendation*	*Specific management action/comments (as at 30 April 2002)*	*Comments of the Board*
Accounts and financial reporting, para. 10 (a)	The Fund should include a penalty clause in future agreements with the master record keeper to ensure timely delivery of reports.	It is not normal practice in the investment industry and could result in higher fees with no corresponding benefits to the Fund.	Not implemented. Addressed in paras. 68-71 of the present report.
para. 10 (b)	The Fund should upgrade or replace the investment control and accounting system as a matter of urgency.	The Standing Committee of the United Nations Joint Staff Pension Board decided at its last meeting, in July 2001, that a feasibility study was necessary before introducing a new or revised investment accounting system. The study was to be reviewed by the Pension Board at its session in July 2002.	Under implementation. The Board will continue to monitor the matter in its future audit. Refer to paras. 84-87 of the present report.
para. 10 (c)	The Fund should address all outstanding problems in the Lawson system, and in particular develop appropriate software.	The IMIS interface is in place to record the Fund's administrative expenses via Excel spreadsheets. There are still problems of interface between Lawson and PENSYS.	Implemented. Addressed in paras. 84 and 87 of the present report.
Consultants, para. 10 (d)	The Fund should intensify its efforts to fill its vacant post and to train a staff member to reduce reliance on consultants.	The Fund is experiencing difficulties in human resources management.	Under implementation. UNJSPF needs to improve the monitoring of its consultants. Refer to paras. 88-91 of the present report.
Tax exemption, para. 24	The Administration should recover the outstanding tax reimbursements and further appeal to the Governments to accept the tax-exempt status of the Fund.	Four new countries granted UNJSPF tax exemption during the biennium 2000-2001. The Fund is still actively attempting to gain tax-exempt status in other countries.	Under implementation. Addressed in para. 38 of the present report.

Management			
Component/area of concern	*Recommendation*	*Specific management action/comments (as at 30 April 2002)*	*Comments of the Board*
Procurement, para. 38	Management of the Investment Management Service should expedite action in formalizing the evaluation criteria of performance for advisory and custody services.	The Investment Management Service will be using the United Nations contractor performance report (PD.3 (10-00)). These forms will be processed once a year for the duration of the contracts, starting in 2002.	Under implementation. The Board will continue to monitor the matter in its future audits.
para. 50	The Administration should update the Procurement Manual to include guidelines on bidding and evaluation of the performance of vendors.	While the Fund lacks the machinery of capacity to conduct full competitive bidding, it follows the relevant Procurement Division rules, which are incorporated in the Fund's general procedure and its attachment.	Implemented. The Board will keep this matter under review.
para. 53	The Fund should plan its requirements for programmes in advance to allow adequate lead time for processing institutional contractual agreements.	The Fund retains institutional contractors under the exception clause primarily in cases where immediate action is required to meet an urgent critical situation. Reliance on the exception clause is kept to the absolute minimum and the justification is documented in each case.	Under implementation. There are still many contracts that are concluded or extended under the exception clause.

Annex XIII

Recommendations to the General Assembly for changes in the pension adjustment system of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*[b]	*Comments*
Section B. Benefits involved		
4. Except as otherwise noted (e.g., in paragraphs 5 (d), 10 and 27 below with regard to deferred retirement benefits), the Pension Adjustment System applies to retirement, early retirement, deferred retirement, disability, widow's, widower's, child's and secondary dependant's periodic benefits. It does not apply to withdrawal or other lump-sum payments, including those derived from the partial or total commutation of a periodic benefit, nor does it apply to any benefit arising from voluntary deposits. Adjustments operate on benefits based on standard, minimum and maximum formulae, including those that are based on flat dollar amounts.	4. Except as otherwise noted **[(e.g. in paragraphs 5 (d), 10 and 27 with regard to deferred retirement benefits)]**, the Pension Adjustment System applies to retirement, early retirement, deferred retirement, disability, widow's, widower's, child's and secondary dependant's periodic benefits. It does not apply to withdrawal or other lump-sum payments, including those derived from the partial or total commutation of a periodic benefit, nor does it apply to any benefit arising from voluntary deposits. Adjustments operate on benefits based on standard, minimum and maximum formulae, including those that are based on flat dollar amounts.	
Section C. Determination of base amounts		
5. The two base amounts for beneficiaries are determined as follows: ... (d) The cost-of-living differential factor in subparagraph 5 (b) (i) above shall not apply to deferred retirement benefits.	5. The two base amounts for beneficiaries are determined as follows: ... **[(d) The cost-of-living differential factor in subparagraph 5 (b) (i) above shall not apply to deferred retirement benefits.]**	To apply cost-of-living differential factors as from the date of separation, delete subparagraph (d) in its entirety.
Section J. Deferred retirement benefit		
	(c) For participants separating from service on or after 31 March 2003, adjustments shall be applied commencing at age 50 or the date of separation, if later. As from the foregoing date, the adjustment procedures set out in (a) above shall be applied to the deferred retirement benefits. (d) Notwithstanding the provisions of (a) and (b) above, for participants who separated from service before 31 March 2003, adjustment to deferred retirement benefits shall be applied, prospectively as from 1 April 2003, no later than as from age 50.	Add new subparagraphs (c) and (d) to paragraph 27.

[a] JSPB/G.4/Rev.16, annex III.
[b] Proposed additions are indicated by underlining and proposed deletions appear in boldface type within square brackets.

Annex XIV

Recommendations to the General Assembly for amendment of the Regulations of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*[b]	*Comments*
Article 5. United Nations Joint Staff Pension Board		
(a) The United Nations Joint Staff Pension Board shall consist of: (i) Twelve members appointed by the United Nations Staff Pension Committee, four of whom shall be from the members and alternate members elected by the General Assembly, four from those appointed by the Secretary-General, and four from those elected by the participants in service in the United Nations; and ...	(a) The United Nations Joint Staff Pension Board shall consist of: (i) [**Twelve**] Fifteen members appointed by the United Nations Staff Pension Committee, [**four**] five of whom shall be from the members and alternate members elected by the General Assembly, [**four**] five from those appointed by the Secretary-General and [**four**] five from those elected by the participants in service in the United Nations; and ...	To increase the United Nations seats on the Board to 15.
Article 6. Staff pension committees		
(a) The United Nations Staff Pension Committee shall consist of four members and four alternate members elected by the General Assembly, four members and two alternate members appointed by the Secretary-General, and four members and two alternate members, who shall be participants in the Fund and on the staff of the United Nations, elected by the participants in service in the United Nations by secret ballot.	(a) The United Nations Staff Pension Committee shall consist of [**four**] five members and four alternate members elected by the General Assembly, [**four**] five members and two alternate members appointed by the Secretary-General, and [**four**] five members and two alternate members, who shall be participants in the Fund and on the staff of the United Nations, elected by the participants in service in the United Nations by secret ballot.	To increase the Staff Pension Committee membership, in line with the change in the size and composition of the Board.

Existing text	*Proposed text*[b]	*Comments*
Article 21. Participation		
	(c) Notwithstanding the provisions of (b) above, a participant is deemed to have separated when he or she has completed (i) a consecutive period of three years on leave without pay without concurrent contributions having been paid in accordance with article 25(b), or (ii) four years under the conditions described in (i) above within a total period of five years. To re-enter the Fund, such former participant would have to satisfy the requirements for participation set out in (a) above.	To limit the financial exposure of Fund due to extended leave without pay, add a new subparagraph (c).
Article 24. Restoration of prior contributory service		
(a) A participant re-entering the Fund after 1 January 1983 may, within one year of the re-commencement of participation, elect to restore his or her prior contributory service, provided that on separation the participant became entitled to a withdrawal settlement under article 31 (b) (i), and provided further that the service was the most recent prior to the re-entry.	(a) A participant re-entering the Fund [**after 1 January 1983**] on or after 1 April 2003, who had not previously opted for a periodic retirement benefit following his or her separation from service, may, within one year of the re-commencement of participation, elect to restore his or her most recent period of prior contributory service. **[, provided that on separation the participant became entitled to a withdrawal settlement under article 31 (b) (i), and provided further that the service was the most recent prior to the re-entry.]** Any participant in active service who re-entered the Fund before 1 April 2003 and was previously ineligible to elect to restore prior contributory service, may now do so by an election to that effect made before 1 April 2004.	To eliminate the limitation on the right to restoration.
Article 28. Retirement benefit		
(g) A benefit payable at the standard annual rate may be commuted by the participant into a lump sum subject to the following limitations and to supplementary article D, where applicable: ...	(g) A benefit payable at the standard annual rate may be commuted by the participant into a lump sum subject to the following limitations and to supplementary article D, where applicable: ...	To increase the ceiling on commutation of minimum benefit from $300 to $1,000.

Existing text	*Proposed text*[b]	*Comments*
(iii) If the rate is less than 300 dollars, the benefit may be commuted to the extent of its full actuarial equivalent; if a participant is married, the prospective benefit payable to his or her spouse may also be commuted at the standard annual rate of such benefit.	(iii) If the rate is less than [**300**] 1,000 dollars, the benefit may be commuted to the extent of its full actuarial equivalent; if a participant is married, the prospective benefit payable to his or her spouse may also be commuted at the standard annual rate of such benefit.	
Article 30. Deferred retirement benefit		
(c) The benefit may be commuted by the participant into a lump sum if the rate of the benefit at the normal retirement age is less than 300 dollars. Such commutation shall be equivalent to the full actuarial value of the benefit.	(c) The benefit may be commuted by the participant into a lump sum if the rate of the benefit at the normal retirement age is less than [**300**] 1,000 dollars. Such commutation shall be equivalent to the full actuarial value of the benefit.	To increase the ceiling on commutation of minimum benefit.
Article 34. Widow's benefit		
(f) The benefit shall be payable at periodic intervals for life, 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.	(f) The benefit shall be payable at periodic intervals for life, provided that a benefit payable at an annual rate of less than [**200**] 600 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.	To increase the ceiling on commutation of minimum benefit.

[a] JSPB/G.4/Rev.16.

[b] Proposed additions are indicated by underlining and proposed deletions appear in boldface type within square brackets.

Annex XV

Amendment to the Administrative Rules of the United Nations Joint Staff Pension Fund[a]

Existing text	*Proposed text*[b]	*Comments*
Section J. Computation and payment of benefits		
Rule J.9		
(b) The Chief Executive Officer may, where appropriate, waive recovery of all or part of an indebtedness to the Fund. Such waivers shall be reported to the Standing Committee annually;	(b) The Chief Executive Officer may, where appropriate, waive recovery of all or part of an indebtedness to the Fund. [**Such waivers shall be reported to the Standing Committee annually**];	To eliminate the reporting requirement to the Standing Committee.

[a] JSPB/G.4/Rev.16, annex I.
[b] Proposed deletions appear in boldface type within square brackets.

Annex XVI

Draft resolution proposed for adoption by the General Assembly

[This draft resolution covers those matters discussed 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 51/217 of 18 December 1996, 53/210 of 18 December 1998 and 55/224 of 23 December 2000 and section V of resolution 54/251 of 23 December 1999 and section V of resolution 56/255 of 24 December 2001,

Having considered the report of the United Nations Joint Staff Pension Board for 2002 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 55/224,

Having considered the results of the valuation of the United Nations Joint Staff Pension Fund as at 31 December 2001 and the observations thereon by the consulting actuary of the Fund, the Committee of Actuaries and the United Nations Joint Staff Pension Board,

1. *Takes note* of the actuarial situation of the United Nations Joint Staff Pension Fund, which went from an actuarial surplus of 0.36 per cent of pensionable remuneration as at 31 December 1997 to an actuarial surplus of 4.25 per cent of pensionable remuneration as at 31 December 1999 and to an actuarial surplus of 2.92 per cent of pensionable remuneration as at 31 December 2001, and, in particular, of the opinions provided by the consulting actuary and the Committee of Actuaries, as reproduced in annexes VII and VIII, respectively, to the report of the United Nations Joint Staff Pension Board;[a]

2. *Also takes note* of the Board's general support of the report of the Working Group established by the Board to undertake a fundamental review of the benefit provisions of the Fund, taking into account developments in staffing and remuneration policies in the member organizations and in pension arrangements at the national and international levels, and notes in particular that the Board approved the Working Group's recommendations, set out in paragraphs 157 and 158 of the Board's report, as further promoting the human resources framework adopted by the International Civil Service Commission and the Assembly and serving to enhance the mobility of staff and the portability of pensions;

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[a] *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 9* (A/57/9).
[b] A/C.5/57/___.
[c] A/57/___.

3. *Further takes note* of the Board's recommendation to maintain the current contribution rate but to keep it under review;

4. *Approves* the changes in the benefit provisions of the Regulations of the Fund, as set out in annex XIV of the report of the Board, to eliminate the limitation on the right to restoration for existing and future participants;

5. *Notes* that the Board agreed to make no changes in the methodology currently used in the determination of final average remuneration, but agreed to study all possible means of redressing the existing aberrations in the levels of initial pensions and in income replacement ratios over time;

6. *Concurs* with the transfer agreements with Eurocontrol and the Organization for Security and Cooperation in Europe, as approved by the Board under article 13 of the Regulations of the Fund, with a view to securing continuity of pension rights between the Fund and Eurocontrol and the Organization for Security and Cooperation in Europe, as set out in annex X to the report of the Board;

II
Pension adjustment system

Recalling section II of its resolution 55/224,

Having considered the reviews carried out by the Working Group of the United Nations Joint Staff Pension Board and then by the Board, as set out in its report,[a] of various aspects of the pension adjustment system,

1. *Recalls* the aim of enhancing the mobility of staff and the portability of pensions;

2. *Approves* changes in the pension adjustment system, as set out in annex XIII to the present resolution:

(a) To apply cost-of-living adjustments to deferred retirement benefits as from age 50;

(b) To apply cost-of-living differential factors to deferred retirement benefits as from the date of separation;

3. *Notes* that the United Nations Joint Staff Pension Board approved of the Working Group's recommendation to eliminate the 1.5 percentage point reduction in the first consumer price index adjustment due to existing and future beneficiaries, subject to an actuarial surplus being revealed in the actuarial valuation to be performed as at 31 December 2003;

4. *Takes note* of the Board's decision to continue to study the problems associated with the adjustment of pensions after award;

5. *Also 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 Board to continue to monitor those costs/savings every two years, on the occasion of the actuarial valuations of the United Nations Joint Staff Pension Fund;

III
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 2001, the audit opinion and report of the Board of Auditors thereon, the information provided on the internal audits of the Fund and the observations of the United Nations Joint Staff Pension Board,[a]

Notes 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 2001 indicated that the financial statements were in compliance with accepted standard accounting principles and that there were no major findings of problems concerning procedures and controls,

IV
Administrative arrangements and longer-term objectives of the United Nations Joint Staff Pension Fund

Recalling section VII of its resolution 51/217, section V of its resolution 52/222, section V of its resolution 53/210, section V of its resolution 54/251, section IV of its resolution 55/224 and section V of its resolution 56/255 concerning the administrative arrangements and expenses of the United Nations Joint Staff Pension Fund,

Having considered section VII of the report of the United Nations Joint Staff Pension Board[a] on the administrative arrangements of the Fund,

1. *Takes note* of the information set out in paragraphs 96 and 97 of the report of the United Nations Joint Staff Pension Board on the revised budget estimates for the biennium 2002-2003;

2. *Approves* the increase in resources under administrative costs for the biennium 2002-2003 from 29,943,800 dollars to 30,123,000 dollars for:

(a) The recalculation of benefits due to a judgement of the International Labour Organization Tribunal and a retroactive change in local salary scales;

(b) The implementation of the recommendations of the Working Group;

3. *Takes note* of the information set out in paragraphs 100 to 104 of the report of the Board on the whole-office review of the staffing structure and levels of both the United Nations Joint Staff Pension Fund secretariat and the Investment Management Service, and also takes note of the Board's support and endorsement in principle for the Secretary/Chief Executive Officer's efforts and plans for modernization in order to deal with the fast-growing activities of the Fund;

4. *Also takes note* of the Board's support for the Secretary/Chief Executive Officer's efforts to continue to search for permanent premises for the Fund in New York;

V
Survivors' benefits

Recalling section V of its resolution 55/224,

1. *Takes note* of the further review undertaken by the United Nations Joint Staff Pension Board of issues related to the pension entitlements of survivors, as set out in paragraphs 196 to 204 of its report;[a]

2. *Notes* that the Board intended to review the experience of the United Nations Joint Staff Pension Fund with regard to actual requests received for divorced surviving spouses' benefits pursuant to the introduction of article 35 bis of the Regulations of the Fund;

VI
Activities related to former participants from the Union of Soviet Socialist Republics, the Ukrainian Soviet Socialist Republic and the Byelorussian Soviet Socialist Republic

Recalling section IV of its resolution 51/217, section III of resolution 53/210 and section VI of resolution 55/224,

Noting the information provided by the United Nations Joint Staff Pension Board in paragraphs 125 to 140 of its report,[a]

1. *Takes note* of the appreciation expressed by the United Nations Joint Staff Pension Board for the efforts undertaken by the Secretary-General to find a satisfactory solution;

2. *Also takes note* of the Board's request that the Secretary-General and the Chief Executive Officer of the Fund continue to seek a satisfactory and comprehensive resolution, including a possible personal visit to Moscow by the Secretary/Chief Executive Officer of the Board;

VII
Size and composition of the United Nations Joint Staff Pension Board and its Standing Committee

1. *Takes note* of the information set out in paragraphs 205 to 220 of the report of the United Nations Joint Staff Pension Board[a] on the review of the size and composition of the Board and its Standing Committee, particularly the significant growth in the number of participants from the United Nations since 1989, when the size of the Board was last increased;

2. *Approves* the changes in the Regulations of the United Nations Joint Staff Pension Fund as set out in annex XIV to the report of the Board, which increases the size of the Board from thirty-three members to thirty-six, with the allocation of the three additional seats to the United Nations;

VIII
Other matters

1. *Takes note* of the observations of the United Nations Joint Staff Pension Board, as set out in paragraphs 194 and 195 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 duty stations, which formed the basis for the development of the current common scale of staff assessment for pensionable remuneration;

2. *Approves*, with effect from 1 April 2003, amendments to articles 28 (g) and 30 (c), as set out in annex XIV to the report of the Board, to increase the ceilings applicable in the commutation of the minimum benefit;

3. *Also approves*, with effect from 1 April 2003, the addition of a new paragraph to article 21 of the Regulations of the United Nations Joint Staff Pension Fund, as set out in annex XIV to the report of the Board, stating that a participant is deemed to have separated when he or she is on leave without pay for an extended period of time without concurrent contributions having been paid to the Fund;

4. *Notes* that the Board considered the possible application by the International Criminal Court to become a member organization of the Fund and that a formal application would be submitted to the Standing Committee in 2003, with membership possibly to take effect 1 January 2004;

5. *Also notes* that the Board considered a detailed report of the medical consultant covering the period from 1 January 2000 to 31 December 2001;

6. *Takes note* of the other matters dealt with in the report of the Board;

IX
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[b] as well as the observations of the United Nations Joint Staff Pension Board, as set out in paragraphs 81 to 83 of its report;[a]

2. *Notes* the concern expressed by the Board over the reduction in the market value of the Fund's investments and the continuing efforts by the management of the investments to deal with market turbulence;

3. *Takes note* of the intention of the Board of Auditors and the Pension Board:

(a) To follow up on the audit recommendations;

(b) To review the procedures and operating methods of the Investment Management Service;

(c) To review terms of reference for an independent external performance review of the investments of the Fund.

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