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Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board,[1] including the report of the Board of Auditors on the accounts of the Fund for the biennium ended 31 December 2003.[2] The Committee also had before it the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund (A/C.5/59/11). During its consideration of those reports, the Committee met with the Chairman of the Pension Board, representatives of the Secretary-General and the Chief Executive Officer of the Pension Fund and his colleagues.

2. Recommendations and decisions of the Board at its fifty-second session that required action by the General Assembly are listed in paragraph 11 of the report of the Pension Board.[1] Information provided by the Board for information are listed in paragraph 12 of the report. The Committee notes from paragraphs 4-6 of the report that the Pension Board dealt comprehensively with a large number of issues, some of which require further analysis and which are to be considered by the Standing Committee next year. **In the opinion of the Advisory Committee, the report could be streamlined by presenting certain details and statistics in annexes; this would apply especially to a number of the issues presented in chapter IV on actuarial matters, chapter V on investments of the Fund, chapter VI on the biennial financial statements and chapter VIII on benefit provisions of the Fund.**

II. Actuarial matters

3. Paragraphs 16-67 of the report of the Pension Board[1] deal with actuarial matters, including the results of the twenty-seventh actuarial valuation of the Fund as at 31 December 2003. The previous valuation had been prepared as at

31 December 2001, and its results were reported to the General Assembly at its fifty-seventh session in 2002.[3] The actuarial valuation determines whether the present and estimated future assets of the Pension Fund will be sufficient to meet its liabilities. For the twenty-seventh regular valuation, the Committee of Actuaries proposed and the Pension Board approved the 4.5/7.5/4 set of assumptions (i.e., a 4.5 per cent annual increase in pensionable remuneration, a 7.5 per cent nominal interest rate and a 4 per cent annual inflation rate with respect to increases in pensions after award) (see report of the Pension Board,[1] para. 21).

4. The results of the twenty-seventh valuation showed an actuarial surplus of 1.14 per cent of pensionable remuneration, or $1,949.6 million in dollar terms, showing the fourth consecutive positive actuarial result over the past decade (ibid., table 5). Based on the results of the regular valuation, the Pension Board agreed with the view of the Committee of Actuaries that the present contribution rate of 23.7 per cent of pensionable remuneration was sufficient to meet the benefit requirements under the plan (ibid., para. 39). The Advisory Committee was provided with a table showing the evolution of the actuarial valuation of the Fund since 1976 in both absolute terms and as a percentage of projected liabilities (see annex below). **The Advisory Committee reiterates its previous view and agrees with the Committee of Actuaries that the present contribution rate of 23.7 per cent should be retained. In this connection, the Committee again recalls the provisions of General Assembly resolution 53/210 of 18 December 1998 that the Pension Board should continue to monitor closely the evolution of the actuarial valuation of the Pension Fund and that no attempt should be made to reduce the present rate of contributions to the Fund or change any other features unless and until a pattern of surpluses emerges in future valuations (see A/57/490, para. 4).**

III. Investments of the Pension Fund

5. For the reporting period, the market value of the Fund's assets increased to $26,589 million on 31 March 2004 from $21,789 million on 31 March 2002, an increase of $4,800 million, or 22.0 per cent. The total annualized rate of return for the period was 8.7 per cent (see report of the Pension Board,[1] para. 77). The Advisory Committee was informed that as at 1 September 2004, the market value of the Fund was approximately $26.2 billion. The Committee notes the positive investment performance over the reporting period. Over the past 20 years, the Fund has achieved a cumulative return of 10.7 per cent, slightly outperforming the benchmark (10.6 per cent) (see ibid., para. 80). **Moreover, being aware that the market value of the Fund is subject to fluctuation,[4] the Committee continues to emphasize that all investments of the Fund must meet the criteria of safety, profitability, liquidity and convertibility. This investment policy has been advocated repeatedly by the Committee, the Pension Board and the General Assembly.**

6. Taking into account the investment principles mentioned above, pursuant to General Assembly resolution 36/119 of 10 December 1981, the Fund increased its investments in developing countries, which totalled $1.7 billion on 31 March 2004 as compared with $1.1 billion as at 31 March 2002, an increase of 55 per cent (see report of the Pension Board,[1] para. 84, and A/C.5/59/11, paras. 24-25). The Fund's policy of broad diversification in terms of asset class, currency and region

contributed to the goal of reducing risk in the portfolio across currencies and markets (see A/C.5/59/11, paras. 11-14).

7. Investment in real estate contributed to the Fund's diversification, with 7 per cent of its assets targeted for such investments (see report of the Pension Board,[1] para. 90). In this connection, the Committee notes that the direct real estate investment in a building at 222 East 41st Street in New York City is discussed in paragraphs 81-86 of the report of the Board of Auditors on the accounts of the Fund.[2] The Fund sold the property at a profit of approximately $30.6 million, with an annualized return of about 10 per cent on the sale. **The Advisory Committee, however, agrees with the finding of the Board of Auditors that the purchase of the building could have been conducted in a more transparent manner (ibid., paras. 83 and 86). The Committee trusts that in future, real estate investment transactions will be conducted in the same transparent manner as those relating to equity investments. The Committee also endorses the view of the Board of Auditors that the Investment Manual and other guidelines of the Investment Management Service of the Pension Fund should be amended prior to transactions being undertaken rather than retroactively.**

8. The Advisory Committee was informed that efforts had been initiated for a restructured Investment Management Service, including a thorough review of its current policies, procedures and practices. To that end, a comprehensive study has started, building on the findings and recommendations of previous audits and reviews (see also A/58/725, paras. 7-13). The Committee was informed that the procedures of the Investment Management Service adhered to industry standards and that its staff complied with ethical standards established by the Association for Investment Management and Research, now called the CFA Institute (ibid., para. 15).

9. The Advisory Committee was also informed that, as suggested by both the internal auditors and the United Nations Board of Auditors, the Fund planned to change the structure of the custodial arrangements of the Fund. At present, the assets of the Fund are held in custody in various depositories in countries in which the Fund has investments and are registered in the name of the United Nations on behalf of the Pension Fund. The assets are further segregated from other assets held by three regional custodians. A master record keeper of the Fund is responsible for consolidating the accounting records and management reports provided by the custodians. As the contracts of the master record keeper and the custodians expire early next year, the Investment Management Service is seeking an arrangement with one master record keeper/custodian instead of the current configuration. The selection process for the new master record keeper/custodian has been initiated.

IV. Investments Committee

10. Article 20 of the regulations of the Fund provides that members of the Investments Committee shall be appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee on Administrative and Budgetary Questions, subject to confirmation by the General Assembly. The Secretary-General informed the Pension Board and the Advisory Committee that two long-serving members had informed him that they would no longer be available to serve on the Committee and that another member of the Investments Committee

had submitted his resignation in July, with effect from December 2004. The Secretary-General also conveyed to the Board and the Advisory Committee the name of a member of the Investments Committee whom he intended to propose to the Assembly for reappointment for an additional three-year term, the names of two new regular members proposed for appointment for three-year terms beginning on 1 January 2005 and the name of an ad hoc member proposed for appointment as a regular member to fill the remainder of the term of the member who had submitted his resignation, which is due to expire on 31 December 2006. The Advisory Committee has written in this regard to the Secretary-General to convey its concurrence.

11. The Advisory Committee was informed that the role, responsibility and functions of the Investments Committee had been reviewed, the terms of reference had been prepared and criteria for the membership had been specified. **In agreement with the views of the Pension Board, and taking into account the Fund's policy of broad diversification of its investments by currency, type of asset class and geographical area, the Committee encourages the Secretary-General to appoint, as members of the Investments Committee, individuals from various regions of the world who have extensive experience with investments of the various asset classes included in the portfolio of the Fund.**

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

12. The Pension Board examined and approved the financial statements and related data on the operations of the Fund for the biennium ended 31 December 2003 and considered the report of the Board of Auditors on the accounts and operations of the Fund (report of the Pension Board,[1] para. 5). The Committee notes that the information presented in the summary of the operations of the Fund (ibid., paras. 13-15) does not include figures for total expenditures for benefits, administration and investment costs.

13. The report of the Board of Auditors[2] covers matters that in its opinion should be brought to the attention of the Pension Board and of the General Assembly (see para. 8 of that report). The Advisory Committee notes from paragraphs 11 and 12 of the report that as at May 2004, out of 27 recommendations made by the Board of Auditors for the biennium ended 31 December 2001, 11 recommendations had been only partially implemented and 9 had not been implemented. The Committee was informed that some of the recommendations not yet implemented by the Fund related to the streamlining of the Fund's banking methods and procedures. Those recommendations will be implemented after the new banking arrangements become fully operational in early 2005. **The Advisory Committee shares the concern of the Board of Auditors and stresses the need to comply fully and in a timely manner with the recommendations of the Board of Auditors, as approved by the General Assembly.**

14. The internal audit arrangements of the Pension Fund are discussed in paragraphs 111-117 of the report of the Pension Board.[1] The Advisory Committee notes that, taking into account the observations contained in the Committee's report to the General Assembly at its fifty-seventh session (A/57/490, para. 26), the Board of Auditors carried out an assessment of the capacity and professional expertise

required by the Office of Internal Oversight Services in order to provide internal audit services to the administrative and investment activities of the Pension Fund in accordance with commonly accepted industry standards for the audit of pension funds. The Committee notes the steps taken towards resolving the problem of internal audit arrangements of the Fund, as set out in paragraphs 114-143 of the report of the Board of Auditors.[2] The Advisory Committee notes that the Pension Board has welcomed the new spirit of cooperation and working arrangements between the Office of Internal Oversight Services and the Pension Fund. The Advisory Committee was provided with a copy of the Internal Audit Charter of the Fund, as approved by the Pension Board.

15. In a related matter, the Board of Auditors recommended that the Pension Fund establish an ethics compliance officer function (ibid., para. 113). The Advisory Committee notes that, in agreement with the recommendation of the external auditors, a proposal for appropriate staffing will be submitted to the Standing Committee in 2005 as part of the Fund's 2006-2007 budget proposal (see report of the Pension Board,[1] para. 122). Furthermore, the Board of Auditors noted in paragraph 127 of its report[2] that the internationally recognized standards of the Institute of International Auditors had been adopted by the Office of Internal Oversight Services. They require that the auditors be free of interference in determining the scope of internal audit, but that the internal audit function should report to and receive functional guidance from an audit committee, as well as senior management.

16. The Board of Auditors pointed out that the Fund did not have an audit committee and that the Pension Board was not structured to act in this capacity because of its size, its composition and the frequency of its meetings. In the opinion of the Board of Auditors, such a committee could have prevented or solved past difficulties. Thus, the Board of Auditors, in paragraphs 128 and 129 of its report,[2] has recommended the establishment of an audit committee under article 49 (a) of the Fund's Regulations, taking into account paragraph 6, on governance review, of General Assembly resolution 57/278 A of 20 December 2002. The Advisory Committee notes from paragraph 116 of the report of the Pension Board[1] that the Board deferred taking a decision on the establishment of an audit committee and that the Standing Committee will re-examine the issue in 2005 on the basis of study to be prepared by the secretariat of the Fund on the desirability, possible terms of reference and all other relevant aspects of such a committee. **The Advisory Committee believes that should the Pension Board recommend the establishment of an audit committee, it should be composed of members with relevant experience in internal audit in other United Nations entities and other pension plans.**

VI. Benefit provisions of the Fund

17. Benefit provisions of the Fund are discussed in paragraphs 142-199 of the report of the Pension Board.[1] The Advisory Committee notes that the Pension Board concurred with the recommendation of the Committee of Actuaries to exercise prudence in the use of the actuarial surplus. **The Committee also agrees with this view.** Taking into account the positive results of the actuarial valuation, the Pension Board agreed to recommend to the General Assembly two measures representing a total actuarial cost of about 0.15 per cent of pensionable remuneration, thus

maintaining a margin of about 1.0 per cent as a cushion against future actuarial and financial fluctuations (see ibid., paras. 146-149). **The Committee agrees with the recommendations of the Pension Board regarding those proposals, as discussed further below.**

18. **The Advisory Committee agrees with the first measure proposed by the Pension Board that the General Assembly approve a phased approach in the elimination of the 1.5 per cent reduction in the first consumer price index adjustments due after retirement (ibid., paras 11 (a) and 146-147).**

19. **The Advisory Committee also agrees with the second recommendation of the Pension Board that the Pension Adjustment System be amended to provide for an adjustable minimum guarantee on the local-currency track of 80 per cent of the United States dollar-track amount, with effect from 1 April 2005, on a prospective basis only. This measure would have an estimated actuarial cost of 0.005 per cent of pensionable remuneration (ibid., paras. 11 (a), 149 and 182).**

VII. Revised budget estimates for the biennium 2004-2005

20. The Pension Board considered the revised budget estimates for the biennium 2004-2005 and approved a request for additional resources in the amount of $5,340,700 for construction costs ($3,600,000) and acquisition of furniture and equipment ($1,500,000) for the Fund's new office accommodations and for general temporary assistance ($240,700) relating to additional workload due to the implementation of the recommendations on benefit provision adjustments. Funds in the amount of $5,100,000 approved for 2002-2003 for renovation work and the acquisition of furniture and equipment for the Fund's new office accommodations were not spent in 2002-2003, as the lease and arrangements for the new office were not concluded during the period (see ibid., para. 134). **The Advisory Committee agrees with the recommendation of the Pension Board that the General Assembly approve additional resources in the amount of $5,340,700 for the biennium 2004-2005 for administrative costs of the Fund. The revised estimates for total administrative costs of the Fund would amount to $41,011,800 for the biennium 2004-2005 (ibid., para. 11 (c)).**

21. The Advisory Committee notes from paragraph 109 of the report of the Pension Board[1] that members of the Board have asked about the recent increases in administrative costs. The Committee also notes that the Board of Auditors, in paragraphs 91-93 of its report,[2] has indicated that bank charges related to operations still appear as investment costs, although they are more properly considered as administrative costs. Total administrative costs amounted to $18.1 million in the biennium 2000-2001. The revised estimates for 2004-2005 would amount to $41.0 million, as indicated above (see ibid., para. 88). **The Committee remains concerned about the upward trend in administrative expenditures of the Fund and intends to revert to the matter in the context of its examination of the administrative budget proposal of the Fund for the biennium 2006-2007.**

VIII. Other matters

22. Among the other matters considered and recommended in the report of the Pension Board[1] for approval by the General Assembly are the following:

(a) Approval of the revised transfer agreement concluded two years ago between the Pension Fund and the Organization for Security and Cooperation in Europe, which would supersede, effective 1 January 2005, the current transfer agreement between the two pension plans (paras. 11 (d) and 211-213);

(b) Approval of the proposed new transfer agreement between the Pension Fund and the World Trade Organization, to replace and supersede the existing agreement, with effect from 1 January 2005 (paras. 11 (e) and 217);

(c) Approval of the admission of the Inter-Parliamentary Union as a member of the Pension Fund, subject to the Fund's Secretary/Chief Executive Officer confirming to the General Assembly that the Union has fully satisfied all conditions for membership in the Fund (paras. 11 (f) and 224);

(d) Approval of the proposed new transfer agreements between the Pension Fund and the Universal Postal Union and the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization.[5]

The Advisory Committee agrees with the recommendations of the Pension Board.

23. The Committee was informed, upon request, that the Committee of Actuaries had examined the proposed transfer agreements with the Organization for Security and Cooperation in Europe and the World Trade Organization, as well as the application for a new membership by the Inter-Parliamentary Union and concluded that they did not entail any additional actuarial costs to the Fund. The Committee was informed that when a new organization joined the Pension Fund as a member organization, its staff entered the Fund only as from the date on which the organization joined; thus, the staff are absorbed within the large, overall risk pool composed of all the Pension Fund participants, without any actuarial impact or consequences. Agreements can be negotiated by the Fund with new member organizations for the recognition of past service performed by the staff joining the Pension Fund, but only on the basis of the payment of full actuarial costs (as determined by the Fund's consulting actuary and the Committee of Actuaries). **The Advisory Committee recommends that the General Assembly approve the recommendations of Pension Board.**

24. The Advisory Committee notes from paragraphs 200-206 of the report of the Pension Board[1] that the Board also considered the issue of its size and composition and the size and composition of its Standing Committee. It requested that the matter be further studied and that a progress report be submitted to the Standing Committee in 2005 and a full report to the Board in 2006.

Notes

[1] To be issued as *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 9* (A/59/9).

[2] Ibid., annex XI.

[3] *Official Records of the General Assembly, Fifty-seventh Session, Supplement No. 9* (A/59/9).

[4] For example: $26.3 billion at 27 March 2000; $19.6 billion at 9 October 2002; $27.1 billion at 17 February 2004; $26.6 billion at 31March 2004; $26.2 billion at 1 September 2004.

[5] To be issued as *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5, addendum 1* (A/59/9/Add.1).

Annex

Evolution of the actuarial deficit (surplus) of the United Nations Joint Staff Pension Fund since 1976

Valuation date	Regular valuation economic assumptions[a]	Required rate of contribution[b]	Deficit (surplus): As a percentage of pensionable remuneration	Deficit (surplus): Amount (millions of US dollars)	Deficit (surplus): As percentage of projected liabilities
31 December 1976[c]	3.5/7.5/3	19.95	(1.05)[d]	(225.0)	3.0
31 December 1978	3.5/7.5/3	21.37	0.37[d]	121.7	1.4
31 December 1980	6.5/9/6	27.82	6.82[d]	5 315.7	22.01
31 December 1982	6.5/9/6				
(a) Before changes on 1 January 1983		29.41	8.41[d]	7 057.6	25.6
(b) After changes on 1 January 1983		25.79	4.79[d]	4 018.4	16.4
31 December 1984	6.5/9/6				
(a) Before changes on 1 January 1984 and 1 January 1985		25.94	4.94[d]	4 490.6	16.5
(b) After changes on 1 January 1984 and 1 January 1985		24.76	3.01[e]	2 734.3	10.4
31 December 1986	6.5/9/6	26.15	4.40[e]	3 187.2	13.2
31 December 1988	6.5/9/6	26.21	3.71[f]	3 133.4	10.9
31 December 1990	6.5/9/6	24.27	0.57[g]	641.0	1.8
31 December 1993	6.5/9/6	25.19	1.49[g]	1 857.1	4.3
31 December 1995	5.5/8.5/5, with 1.9 per cent cost of two-track system	25.16	1.46[g]	1 688.7	4.0
31 December 1997	(same as 1995)	23.34	(0.36)[g]	(417.3)	1.0
31 December 1999	(same as 1995)	19.45	(4.25)[g]	(5 278.6)	11.5
31 December 2001	(same as 1995)	20.78	(2.92)[g]	(4 284.4)	8.0
31 December 2003	4.5/7.5/4, with 1.9 per cent cost of two-track system	22.56	(1.14)[g]	(1 949.6)	3.1

[a] Since 1978, valuations have been carried out on a fully dynamic basis, that is, inflation is assumed to continue indefinitely in the future. The three economic assumptions (expressed as percentages) are: annual increase in pensionable remuneration; nominal interest rate; and annual inflation rate.
[b] Percentage of pensionable remuneration.
[c] Estimated result, showing a surplus, had the 1976 valuation been carried out on a fully dynamic basis.
[d] Difference from contribution rate of 21 per cent.
[e] Difference from contribution rate of 21.75 per cent.
[f] Difference from contribution rate of 22.50 per cent.
[g] Difference from contribution rate of 23.70 per cent.